SHANGHAI COMMERCIAL BANK



2013
ANNUAL REPORT

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CORPORATE PROFILE

Established in November 1950, Shanghai Commercial Bank (the 'Bank') is one of the renowned local Chinese banks in Hong Kong and has a niche market position in the corporate and trade finance sectors.

The Bank has always been pursuing the motto of its founder, Mr. Kwang-pu Chen, to 'Serve the Community'. The Bank's slogan of 'For Personalized Service' and 'All in a Family' denotes the Bank's devotion to providing personalized services to its clients and promoting a harmonious relationship among its staff members.

The Bank offers a comprehensive range of retail and corporate banking services and products including deposits, securities trading, credit cards, wealth management services and corporate and personal loans.

In addition to 44 branches in Hong Kong, the Bank has a global network of overseas branches in San Francisco, Los Angeles, New York and London. In Mainland China, the Bank has established a branch presence in Shenzhen and Shanghai.

FIVE-YEAR FINANCIAL SUMMARY

	2013	2012	2011	2010	2009
FOR THE YEAR (IN HK$ MILLION)					
Net interest income	2,206	1,925	1,982	1,893	1,735
Other operating income	1,144	1,061	1,057	1,251	1,159
Operating expenses	1,143	992	884	1,040	1,264
Operating profit	2,182	2,034	2,174	2,020	1,572
Profit before other comprehensive income attributable to equity holders	1,785	1,648	1,798	1,701	1,336
Dividend	880	820	860	860	800
AT YEAR END (IN HK$ MILLION)					
Shareholders' funds	20,438	19,251	18,022	17,114	16,034
Total assets	143,071	137,187	126,978	118,642	112,910
Total deposits	113,641	110,682	103,097	95,463	91,489
Total loans and advances	62,371	53,977	55,480	51,028	44,340
FINANCIAL RATIOS					
Capital adequacy ratio*	19.6%	18.0%	18.3%	18.9%	19.3%
Liquidity ratio	55.3%	60.7%	46.9%	50.6%	54.8%
Loan to deposit ratio**	54.9%	48.8%	53.8%	57.1%	52.0%
Dividend to profit before other comprehensive income payout ratio	49.3%	49.7%	47.8%	50.6%	59.9%
Return on average assets	1.3%	1.2%	1.5%	1.5%	1.2%

* The capital adequacy ratio for Year 2013 is calculated in accordance with the Banking (Capital) Rules effective from 1 January 2013. (The capital adequacy ratios for Year 2009 to Year 2012 were calculated in accordance with the then prevailing capital adequacy requirements.)

** Loan to deposit ratios for Year 2011 to Year 2013 are stated based on total loans and advances including trade financing loans to total deposits. (Year 2009 to Year 2010 were stated based on total loans and advances, trade bills and holdings of debt securities issued by corporations to total deposits.)

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Sixty-third Annual General Meeting of the Members of the Bank will be held at its Registered Office, 35/F., Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong on Thursday, 8th May 2014 at 10:00 a.m. to transact the following business:

(1) To receive and consider the audited financial statements and the Reports of the Directors and of the Auditor for the year ended 31st December 2013;
(2) To declare Dividend in respect of the year 2013;
(3) To elect Directors;
(4) To approve the payment of Directors' fees for the year ended 31st December 2013;
(5) To re-appoint Auditor and to authorise the Directors to fix their remuneration.

A Member entitled to attend and vote at the Meeting is entitled to appoint a proxy to attend and vote instead of him. A proxy need not also be a Member.

The Register of Members of the Bank will be closed from Wednesday, 30th April 2014 to Thursday, 8th May 2014, both days inclusive.

By Order of the Board
May Yuen-ling Kwok
Corporate Secretary

Hong Kong, 22nd January 2014

BOARD OF DIRECTORS



Front row from left to right

Mr. Richard Jason Lloyd Yorke, Mr. Lincoln Chu Kuen Yung, Mr. Hung-ching Yung, Mr. Stephen Ching Yen Lee, Madam Ning Li Ming.

Back row from left to right

Mr. Edward Kawah Chu, Dr. Richard Lee, Mr. David Sek-chi Kwok, Mr. Johnson Mou Daid Cha, Mr. Chen Yih Pin, Mr. Gordon Che Keung Kwong.



Mr. David Allen Hoyt



Mr. Fan Yifei

 # Lincoln Chu Kuen Yung*, JP, FHKIB*
Chairman & Non-executive Director

^ David Sek-chi Kwok*, FHKIB, FCIB*
Managing Director & Chief Executive

 # Hung-ching Yung*, JP*

*** Dr. Richard Lee**

*** Johnson Mou Daid Cha**
(Dr. Lam Chat Yu, Alternate)

 # Stephen Ching Yen Lee

^ Edward Kawah Chu

 # David Allen Hoyt
(John Van Antwerp Rindlaub, Alternate)

 # Chen Yih Pin
(Yi-Jen Chiou, Alternate) (resigned on 6th March 2013)
(John Con-sing Yung, Alternate) (appointed on 6th March 2013)

*** Gordon Che Keung Kwong**

 # Ning Li Ming
(Ye Jun, Alternate)

 # Richard Jason Lloyd Yorke
(Ignatius Wooi-kean Choong, Alternate)

 # Fan Yifei
(Li Jian Guo, Alternate)

^ Executive Directors
* Independent Non-executive Directors
# Non-executive Directors

MANAGEMENT

EXECUTIVES

Managing Director & Chief Executive	David Sek-chi Kwok	
Alternate Chief Executives	Edward Kawah Chu Paul Kun-kow Wong	
Assistant General Managers	Hon-ming Mak Burton Chi-shan Cheng Stephen Siu-fung Lee Frank Shui-sang Jin Danny Kong-keung Tsang	
Senior Managers	Francis Yue-cheong Wong Wendy Li-chien Weng Blanche Oi-hung Chan Jerome Chee-keong Goh	Annie Wai-yu Cheung Stephen Wing-hing Lai Michael Yiu-wing Fung Jenny Chui-yeung Chau
Managers	Eric Kai-chiu Fok Tim Yuen Man-kue Lee Denis Man-heung Wong Kai-wah Poon	Nap-man Cheung Steve Wai-fan Tong Matthew Wai-hung Law Jason Chin-keung Law Vicky Yuen-tung Wan

OVERSEAS BRANCHES

Los Angeles Branch	
Executive Vice President & Manager	Ching-hsing Kao
New York Branch	
Senior Vice President & Manager	Timothy Kam-tim Chan
San Francisco Branch	
Senior Vice President & Manager	Philip She-hoi Lee
London Branch	
Manager	Frederick Yan Chu

MAINLAND BRANCHES

Shenzhen Branch	
Manager	Vincent Chi-wing Man
Shanghai Branch	
Manager	Lydia Li-ying Chen

DIRECTORS

MR. LINCOLN CHU KUEN YUNG, JP, FHKIB

Aged 68. Chairman and Non-executive Director. Mr. Yung was appointed a Director of the Bank since September 1998 and was elected Chairman in December 2007. He has been a Director of The Shanghai Commercial & Savings Bank, Ltd. since March 1991, where he served as Managing Director from 1994 to 2004. He is currently the Chairman of Paofoong Insurance Company (Hong Kong) Limited, the Deputy Managing Director of Nanyang Holdings Limited and is also an Independent Non-executive Director of Tai Ping Carpets International Limited. Mr. Yung has extensive experience in the textile industry, banking and investment. He was a member of the Basic Law Consultative Committee (from 1985 to 1990) and has been involved in various government committees. He is a Fellow of The Hong Kong Institute of Bankers.

MR. DAVID SEK-CHI KWOK, FHKIB, FCIB

Aged 60. Managing Director and Chief Executive of the Bank. Joined the Bank in October 1971. Appointed a Director in October 2001. General Manager since July 2004, and Managing Director and Chief Executive since October 2007.

MR. HUNG-CHING YUNG, JP

Aged 91. Appointed a Director of the Bank in March 1973. Managing Director of Nanyang Holdings Limited. Chairman of The Shanghai Commercial & Savings Bank, Ltd. A Director of Paofoong Insurance Company (Hong Kong) Limited and The Wing On Enterprises, Limited.

DR. RICHARD LEE

Aged 76. Appointed a Director of the Bank in April 2001. Honorary Chairman of TAL Apparel Limited and a Director of Jardine Matheson Holdings Limited, Hongkong Land Holdings Limited and Mandarin Oriental International Limited.

MR. JOHNSON MOU DAID CHA

Aged 62. Appointed a Director of the Bank in September 2001. Director of Mingly Corporation, HKR International Limited, Hanison Construction Holdings Limited and China International Capital Corporation Limited. Member of the Council, Finance Committee and Investment Sub-committee of The Chinese University of Hong Kong.

MR. STEPHEN CHING YEN LEE

Aged 67. Appointed a Director of the Bank in June 2004. Managing Director of The Shanghai Commercial & Savings Bank, Ltd., Great Malaysia Textile Investments Private Limited. Chairman of Singapore Airlines Limited and NTUC Income Insurance Co-Operative Limited. Director of CapitaLand Limited and COFCO Corporation (China).

MR. EDWARD KAWAH CHU

Aged 58. Assistant General Manager of the Bank. Joined the Bank in December 1979. Appointed a Director in February 2005. Alternate Chief Executive since October 2007.

MR. DAVID ALLEN HOYT

Aged 58. Appointed a Director of the Bank in April 2006. Senior Executive Vice President, Wholesale Banking, Wells Fargo & Company.

MR. CHEN YIH PIN

Aged 74. Appointed a Director of the Bank in April 2006 and had served as an Alternate Director of the Bank from June 2004 to April 2006. Resident Managing Director of The Shanghai Commercial & Savings Bank, Ltd.

MR. GORDON CHE KEUNG KWONG

Aged 64. Appointed a Director of the Bank in August 2008. Chairman of the Audit Committee of the Bank since January 2009. A fellow member of the Institute of Chartered Accountants in England and Wales, and the Hong Kong Institute of Certified Public Accountants. An Independent Non-executive Director of a number of locally listed companies, including Chow Tai Fook Jewellery Group Limited, NWS Holdings Limited, Henderson Land Development Company Limited, and China COSCO Holdings Company Limited.

MADAM NING LI MING

Aged 64. Appointed a Director of the Bank in July 2009. Director of Shanghai United International Investment Limited. An Independent Non-executive Director of Shenergy Company Limited. Chairman of Sino-US United MetLife Insurance Company Limited.

MR. RICHARD JASON LLOYD YORKE

Aged 46. Appointed a Director of the Bank in June 2011. Executive Vice President & Group Head International, Wells Fargo Bank, N.A. A Director of Wells Fargo International Banking Corporation and Wells Fargo Bank International, Ireland.

MR. FAN YIFEI

Aged 49. Appointed a Director of the Bank in May 2012. Chairman of Bank of Shanghai. Director of Shanghai United International Investment Limited, and Executive Vice President of China Investment Corporation.

MR. IGNATIUS WOOI-KEAN CHOONG

Aged 52. Served as an Alternate Director of the Bank since January 1997. Appointed an Alternate Director to Mr. Richard Jason Lloyd Yorke in April 2012. Director, Wells Fargo Bank, N.A.

DR. LAM CHAT YU

Aged 62. Appointed an Alternate Director to Mr. Johnson Mou Daid Cha in May 2002. He has more than 30 years of experience in asset management and technology investment in Silicon Valley, California and Asia. He is a Director of Mingly Corporation.

MR. YE JUN

Aged 41. Served as an Alternate Director of the Bank since July 2009. Appointed an Alternate Director to Madam Ning Li Ming in May 2012. Director of Bank of Shanghai, Shanghai United International Investment Limited and Sino-US United MetLife Insurance Company Limited.

MR. LI JIAN GUO

Aged 50. Served as an Alternate Director of the Bank since August 2009. Appointed an Alternate Director to Mr. Fan Yifei in May 2012. Vice President of Bank of Shanghai. Director of Shanghai United International Investment Limited.

MR. JOHN VAN ANTWERP RINDLAUB

Aged 69. Appointed an Alternate Director to Mr. David Allen Hoyt in April 2012. Executive Vice President and Asia Regional President, Wells Fargo Bank, N.A. Director of Wells Fargo International Banking Corporation.

MR. JOHN CON-SING YUNG

Aged 45. Appointed an Alternate Director to Mr. Chen Yih Pin in March 2013. Director, Executive Vice President and Chief Information Officer of The Shanghai Commercial & Savings Bank, Ltd. Director of Nanyang Holdings Limited.

SENIOR MANAGEMENT

MR. DAVID SEK-CHI KWOK

(Biographical details are set out on page 8)

MR. EDWARD KAWAH CHU

(Biographical details are set out on page 9)

MR. PAUL KUN-KOW WONG

Aged 62. Assistant General Manager & Chief of Treasury of the Bank. Joined the Bank in February 1974. Alternate Chief Executive since August 2012.

MR. HON-MING MAK

Aged 62. Assistant General Manager & Chief of Corporate Banking of the Bank. Joined the Bank in March 1971.

MR. BURTON CHI-SHAN CHENG

Aged 52. Assistant General Manager & Chief of Information Technology & Operations of the Bank. Rejoined the Bank in August 1996.

MR. STEPHEN SIU-FUNG LEE

Aged 47. Assistant General Manager & Chief of Retail Banking of the Bank. Joined the Bank in March 2010.

MR. FRANK SHUI-SANG JIN

Aged 56. Assistant General Manager & Chief of General Administration of the Bank. Joined the Bank in May 2010.

MR. DANNY KONG-KEUNG TSANG

Aged 55. Assistant General Manager & Chief of Legal, Compliance & Risk Management of the Bank. Joined the Bank in May 2008.

MS. WENDY LI-CHIEN WENG

Aged 44. Chief Financial Controller of the Bank. Joined the Bank in May 2012.

MR. MICHAEL YIU-WING FUNG

Aged 56. Chief Auditor of the Bank. Joined the Bank in September 1982.

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The 14th Tripartite Annual Conference
第十四屆滬港台“上海銀行”業務研討會

The Bank hosted the 14th Tripartite Annual Conference in November 2013 in Hong Kong bringing together the leaders, experts and banking professionals from Bank of Shanghai in Mainland China and The Shanghai Commercial and Savings Bank in Taiwan to exchange ideas and knowledge. A series of meetings and seminars were also organized throughout the year. The Bank will continue to leverage on and strengthen this strong alliance platform to drive further growth and capture more business opportunities in the Greater China region.

本銀行於二零一三年十一月在香港主辦第十四屆滬港台“上海銀行”業務研討會，匯聚中國內地上海銀行及台灣上海商業儲蓄銀行的領導、專家及銀行業專才，彼此交流意見及分享知識。我們在年內亦先後舉辦一系列會議及座談會。我們將繼續透過這個強大的策略夥伴平台，推動業務增長，開拓大中華區的商機。







Previous Conference Themes (2000-2012)
過往業務研討會主題（2000-2012年）

2000年 迎接入世 加強合作 共同發展

2001年 總結經驗 展望未來 再創商機

2002年 加強交流 促進合作 共創三贏

2003年 乘勢而上 加強合作 共謀發展

2004年 緊密合作 突顯聯盟 再創商機

2005年 務實創新 優勢互補 掌握契機

2006年 開拓創新 融通智慧 合作共贏

2007年 合作無間 迸發創意 共建佳績

2008年 同心協力 創新價值 拓展商機

2009年 融匯才智 互惠共榮 創贏未來

2010年 互動參與 長遠發展 邁向國際

2011年 合作創新 通路造富 全球發展

2012年 創新驅動 共謀發展 攜手並進











Product Promotion Campaigns
產品推廣活動

Diverse product portfolio remained key to our strategy for sustainable growth. In 2014, we will continue to actively develop and launch more new products tailored to meet our customer needs.

本銀行以維持產品多元化作為策略重點，藉此帶動業務持續增長。在二零一四年，我們將積極研發及推出更多新產品，配合不同的客戶需要。





Enhanced Online and Mobile Banking Platforms
提升網上及流動銀行服務平台

The Bank continues to enhance its online and mobile banking platforms to provide greater convenience to customers. In 2013, we introduced consolidated electronic bill presentment and payment services, enhanced online shopping offers, mobile applications and etc.

本銀行繼續提升網上及流動銀行服務平台，為客戶提供更多服務渠道。在二零一三年，我們推出了綜合電子賬單及繳費服務，並增加網上購物優惠，及提升銀行手機程式等。



Hong Kong Life Top Producers Convention 2013
香港人壽傑出業務代表會議 2013

In March 2013, the Bank was awarded the Kangaroo Award 1 Star Honour Award for its excellence in sales performance at the Hong Kong Life Top Producers Convention 2013 held in Sydney, Australia.

本銀行於二零一三年三月在澳洲悉尼舉辦的香港人壽傑出業務代表會議中，憑藉傑出的銷售表現而獲得「星級跳躍一星榮譽大獎」。





HKIB Outstanding Financial Management Planner Awards 2013
香港銀行學會「2013傑出財富管理師大獎」

Our Bank staff were presented with the Outstanding Financial Management Planner Awards 2013 by HKIB for their excellence in financial planning and wealth management profession.

本銀行員工憑藉卓越的財務計劃及專業財富管理知識，獲香港銀行學會頒發「2013傑出財富管理師大獎」。



Dress for Success
穿出成功之道

The Bank's uniform collection from past to present was showcased on runway at the HKIB 50th Anniversary Celebration Dinner in October 2013.

本銀行於二零一三年十月香港銀行學會所舉辦的五十周年晚宴上，展示歷年的經典制服。







Recognitions
屢獲殊榮

The Bank won The Hong Kong General Chamber of Small and Medium Business "Best SME's Partner Award" for the third consecutive year and the Capital Weekly "Cross-strait Banking Services Award" for the second consecutive year. Both of these awards reconfirm the success of our professional and personalized banking services. The Bank was also awarded the Metro Finance "Hong Kong Leaders' Choice 2014 - Excellent Brand of Cross Border Banking Services Award."

本銀行於二零一三年連續三年獲香港中小型企業總商會頒發「中小企業最佳拍檔獎」及連續第二年獲《資本壹週》頒發「兩岸三地銀行服務大獎」，再一次肯定我們專業且貼心的銀行服務。本銀行亦同時獲新城財經台頒發「香港企業領袖品牌2014 － 卓越跨境銀行服務品牌獎」。

MESSAGE TO SHAREHOLDERS

In 2013, Shanghai Commercial Bank (the 'Bank') reported a consolidated net profit after tax of HK$1,787.9 million, representing an increase of 8.3% or HK$136.4 million, as compared with the previous year. The anticipation of the eventual tapering of quantitative easing in the U.S. affected the mark-to-market valuation of the Bank's debt investment portfolio. The total comprehensive income attributable to equity holders at year end of HK$2,006.5 million was 3.9% or HK$82.3 million lower than that of 2012. On a year-on-year basis, total loans and advances increased by 15.6% while total customer deposits increased by 2.7%. Loan-to-deposit ratio increased from 48.8% to 54.9%. Net interest margin improved by 13 basis points to 1.68% and net interest income increased by 14.6%. Net fee and commission income increased by 11.5% due mainly to increase in securities brokerage income. In 2013, the Bank continued to maintain a strong capital adequacy ratio at 19.6% at the year end and a comfortable liquidity ratio at 55.3% for the year. The return on average total assets and average equity were 1.3% and 9.0% respectively, and the cost-to-income ratio was 34.1%, as compared to 33.2% in 2012.

Trade financing, property related lending and providing financial solutions to Small and Medium Enterprises ("SMEs") customers continue to be the focus of the Bank. We endeavour to expand our customer base both locally and in the Greater China region through broadened product range, quality service and the use of varied distribution channels to support the provision of one-stop tailor-made financial and banking services. More resources will be allocated to further promote mobile and internet banking with the aim to attract the younger generation and to increase cross-selling opportunities.

Our operations in Mainland China will remain one of the key focuses of the Bank. Following the establishment of the Shanghai Branch in January 2013, we are making preparation for a presence in the China (Shanghai) Pilot Free Trade Zone. The Bank will continue to leverage on the alliance with Bank of Shanghai in Mainland China and our parent, The Shanghai Commercial & Savings Bank, Ltd. in Taiwan for further growth and new business opportunities.

The completion of the state of the art Head Office Building is expected to be in 2016. Upon its completion, it will become a landmark in Central and will promote the Bank's image.

We are saddened by the passing away of Sir Run Run Shaw on 7th January 2014. Sir Run Run served on the Board from August 1980 to September 2001. He made invaluable contributions and we derived great benefit from his wise counsel. We welcome Mr. John Con-sing Yung, Executive Vice President & Chief Information Officer of The Shanghai Commercial & Savings Bank, Ltd. in Taiwan, who joined our Board, as an Alternate Director to Mr. Y. P. Chen, in March 2013.

On behalf of the Board, we would like to express our sincere thanks to our loyal customers for their patronage and continued support, to our staff for their hard work and commitment. The outlook for 2014 is uncertain but we look forward to it with expectation.

Lincoln Chu Kuen Yung
Chairman

David Sek-Chi Kwok
Managing Director & Chief Executive

Hong Kong, 13th March 2014

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

Principal activities

Shanghai Commercial Bank Limited (the 'Bank') and its subsidiary companies (together, the 'Group') are engaged in the provision of banking and related financial services.

Profit and appropriations

The Group's profit for the year after taxation and other comprehensive income less non-controlling interests is set out in the consolidated statement of changes in equity on pages 34 and 35.

The Directors recommend the payment of a final dividend of HK$44 per ordinary share totalling HK$880,000,000.

Other reserves

Movements in the other reserves of the Group and the Bank during the year are set out in Note 33 to the consolidated financial statements.

Donations

During the year donations made by the Bank and its subsidiary companies for charitable and other purposes amounted to HK$2,605,000.

Properties and equipment

Details of the movements in properties and equipment of the Group and the Bank are shown in Note 25 to the consolidated financial statements.

Directors

The Directors of the Bank during the year and up to the date of this report were:

Hung-ching Yung

Lincoln Chu Kuen Yung

Dr. Richard Lee

Johnson Mou Daid Cha
(Dr. Lam Chat Yu, Alternate)

David Sek-chi Kwok

Stephen Ching Yen Lee

Edward Kawah Chu

David Allen Hoyt
(John Van Antwerp Rindlaub, Alternate)

Chen Yih Pin
(Yi-Jen Chiou, Alternate) (resigned on 6th March 2013)
(John Con-sing Yung, Alternate) (appointed on 6th March 2013)

Gordon Che Keung Kwong

Ning Li Ming
(Ye Jun, Alternate)

Richard Jason Lloyd Yorke
(Ignatius Wooi-kean Choong, Alternate)

Fan Yifei
(Li Jian Guo, Alternate)

In accordance with Article 104(A) of the Bank's Articles of Association, Dr. Richard Lee, Mr. Stephen Ching Yen Lee, Mr. Edward Kawah Chu and Mr. David Allen Hoyt shall retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Directors' interests

No contracts of significance in relation to the Group's business to which the Bank, its subsidiary companies, its fellow subsidiaries or its holding companies 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.

At no time during the year were the Bank, its subsidiaries, its fellow subsidiaries or its holding companies a party to any arrangement to enable the Directors and Chief Executive of the Bank (including their spouse and children under 18 years of age) to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Bank or its associated corporation.

Management contracts

No substantial contracts concerning the management and administration of the whole or any substantial part of the business of the Bank were entered into or existed during the year.

Financial disclosures

The Bank has followed the disclosure requirements set out in the 'Banking (Disclosure) Rules' and the 'Guideline on the Application of the Banking (Disclosure) Rules' under the Supervisory Policy Manual issued by the Hong Kong Monetary Authority ('HKMA'). The Bank has complied with the capital requirements related to capital base and capital adequacy ratio stipulated by the HKMA.

Compliance with the Corporate Governance Code and Corporate Governance Report

The Directors of the Bank acknowledge their responsibility for preparing the consolidated financial statements that give a true and fair view of the state of affairs of the Bank and the Group in accordance with the statutory requirements and applicable accounting standards. According to Article 123 of the Bank's Articles of Association, the Bank adopts the guidelines set out in the Code of Best Practice contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ('Code of Best Practice'). The Code of Best Practice has eventually developed into the present form known as The Corporate Governance Code and Corporate Governance Report which became effective commencing from 1st April 2012. After taking into consideration the individual circumstances of the Bank, which is a private company, the Board of Directors of the Bank has adopted those provisions in the Code on Corporate Governance Practices that are relevant to the Bank.

Auditor

The consolidated financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board
Lincoln Chu Kuen Yung
Chairman

Hong Kong, 13th March 2014

Shanghai Commercial Bank Limited (the 'Bank') and its subsidiary companies (together, the 'Group') are committed to promoting good corporate governance to safeguard the interests of the shareholders, depositors and other relevant stakeholders. The Corporate Governance Code and Corporate Governance Report ('The Code', effective from 1st April 2012) as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Ltd. (the 'Listing Rules') is applicable to financial reports covering the financial period which ends after 31st December 2012. During the financial year ended 31st December 2013, the Board of Directors (the 'Board') of the Bank, after taking into consideration the individual circumstances of the Bank, as a private company, has adopted those provisions that are relevant to the Bank.

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

Directors' securities transactions

This Code provision is not applicable to the Bank. The Board or Directors have not adopted Code provision A.6.4 in relation to the setting up of written guidelines for relevant employees in respect of their dealings in the Bank's securities as the Bank's shares are not publicly listed.

Board of Directors

The Board is responsible for the operations and the financial soundness of the Bank and all Directors should act bona fide in the interest of the Bank, and on an informed and prudent basis, in accordance with applicable laws, regulations and supervisory standards. The written Terms of Reference of the Board clearly state that such duties vest in the Board as per relevant sections in the Articles of Association of the Bank, and the Board should adhere to the standards set out in the Code, and to follow the standards set out in the codes and guidelines as may from time to time be issued by the HKMA. The Board shall establish specialised committees of the Board for the supervision of major functional areas and to delegate the powers of the Board to these committees.

The Board comprises of thirteen Directors, including eight Non-Executive Directors, two Executive Directors and three Independent Non-Executive Directors. The Directors are accountable for ensuring that the operations and functions are discharged by the management in a prudent, professional and competent manner. One of the Independent Non-Executive Directors possesses the appropriate professional accounting qualifications or related financial management expertise as required under the Listing Rules.

The Board meets regularly to review and approve objectives, strategies, business plans and annual budgets and to review the actual performance against these plans and budgets, material investments in new projects, policies, procedures and controls to manage various types of risks with which it is faced, and etc. All Directors have access to board papers and related materials which are provided in a timely manner. The Company Secretary keeps the minutes of Board meetings.

The Bank has maintained insurance coverage for its Directors and officers.

Five physical board meetings were held in 2013. Attendance of individual Directors is listed below:

Non-Executive Directors	Attendance
Mr. Lincoln Chu Kuen Yung – Chairman of the Board	5/5
Mr. Hung-ching Yung	5/5
Mr. Stephen Ching Yen Lee	4/5
Mr. David Allen Hoyt (Mr. John Van Antwerp Rindlaub, Alternate)	3/5
Mr. Chen Yih Pin (Mr. Yi-Jen Chiou, Alternate up to 6 March 2013 when Mr. John Con-sing Yung appointed as Alternate Director to Mr. Chen)	5/5
Madam Ning Li Ming (Mr. Ye Jun, Alternate)	5/5
Mr. Richard Jason Lloyd Yorke (Mr. Ignatius Wooi-kean Choong, Alternate)	5/5
Mr. Fan Yifei (Mr. Li Jian Guo, Alternate)	5/5

Board of Directors (Continued)

Five physical board meetings were held in 2013. Attendance of individual Directors is listed below: (Continued)

Executive Directors	Attendance
Mr. David Sek-chi Kwok – Managing Director & Chief Executive	5/5
Mr. Edward Kawah Chu	5/5

Independent Non-Executive Directors	Attendance
Dr. Richard Lee	5/5
Mr. Johnson Mou Daid Cha (Dr. Lam Chat Yu, Alternate)	5/5
Mr. Gordon Che Keung Kwong	5/5

The Board has not adopted Code provision A.6.6 in relation to the Directors' disclosure of the number and nature of offices they held in public companies or organisations and other significant commitments, as well as the time involved as it is considered not applicable to the Bank for the time being but the matter would be evaluated whenever necessary.

Directors' continuous professional development

The Directors of the Bank had participated in various forms of professional training during the year. In accordance with the letter issued by the HKMA on 14th August 2013, the Bank had filed a summary of training records participated by each Director with the HKMA on 28th January 2014.

Executive Committee

The Bank has established an Executive Committee with specific written Terms of Reference which deal clearly with its authority and duties to operate as a general management committee under the direct authority of the Board to review the management and performance of the Bank. The Committee consists of two Executive Directors, and three Non-Executive Directors whom all are representatives from each of the three substantial shareholders.

A total of twelve monthly meetings were held in 2013. Attendance of individual Directors is listed below:

	Attendance
Mr. David Sek-chi Kwok – Chairman	12/12
Mr. Hung-ching Yung	12/12
Mr. David Allen Hoyt (Mr. John Van Antwerp Rindlaub, Alternate)	12/12
Madam Ning Li Ming	12/12
Mr. Edward Kawah Chu	12/12

Auditor's Remuneration

For the year ended 31st December 2013, fees payable to the auditors of the Group for (a) general audit and (b) non-statutory audit as well as other services amounted to HK$6,273,000 and HK$5,385,000 respectively.

Audit Committee

The Bank has established an Audit Committee with specific written Terms of Reference which deal clearly with its authority and duties to consider the nature and scope of audit reviews, as well as to review the Bank's financial statements, the findings of both internal and external auditors and the effectiveness of the internal control systems of the Bank. The Committee consists of one Non-Executive Director and two Independent Non-Executive Directors.

The Committee met four times in 2013. Attendance of individual Directors is listed below:

	Attendance
Mr. Gordon Che Keung Kwong - Chairman	4/4
Mr. Lincoln Chu Kuen Yung	3/4
Dr. Richard Lee	3/4

Remuneration Committee

The Bank has established a Remuneration Committee with specific written Terms of Reference which deal clearly with its authority and duties to oversee the implementation of a sound remuneration policy including the recommendations to the Board on the remuneration of the Directors and senior management of the Bank. In doing so, independent professional advice may be sought if considered necessary. No Director or any of his / her associates is involved in deciding his / her own remuneration. The Committee consists of one Non-Executive Director and two Independent Non-Executive Directors.

The Committee met twice in 2013. Attendance of individual Directors is listed below:

	Attendance
Mr. Hung-ching Yung – Chairman	2/2
Dr. Richard Lee	2/2
Mr. Johnson Mou Daid Cha	2/2

The Board has not adopted Code provision B.1.5 in relation to the detail disclosure of any remuneration payable to members of senior management by band in the Bank's annual reports as it is considered not applicable to the Bank for the time being but the matter would be evaluated whenever necessary.

Nomination Committee

The Bank has established a Nomination Committee with specific written Terms of Reference which deal clearly with its authority and duties to review the structure, size, composition of the Board, to identify, consider and select individuals qualified for recommendations to the Board for their appointments, re-appointment and succession planning as Directors and senior management in order to complement the Bank's business strategies. The Committee consists of one Non-Executive Director and two Independent Non-Executive Directors.

The Committee met twice in 2013. Attendance of individual Directors is listed below:

	Attendance
Mr. Lincoln Chu Kuen Yung – Chairman	2/2
Dr. Richard Lee	2/2
Mr. Johnson Mou Daid Cha	2/2

Risk Management Committee

The Bank has established a Risk Management Committee with specific written Terms of Reference which deal clearly with its authority and duties to oversee the various aspects of risk management on an integrated basis, to review and make recommendations to the Board on the risk management strategies as well as the risk tolerance and risk appetite of the Bank. The Committee consists of one Non-Executive Director and two Independent Non-Executive Directors.

The Committee was set up in August 2013 by the Board and met once in 2013. Attendance of the individual Directors is listed below:

	Attendance
Mr. Lincoln Chu Kuen Yung – Chairman	1/1
Mr. Johnson Mou Daid Cha	1/1
Mr. Gordon Che Keung Kwong	1/1

Delegation by the Board

In addition to the Executive Committee, Audit Committee, Remuneration Committee, Nomination Committee and Risk Management Committee as described above, the Board has also established the following key specialized committees, each of which has specific written Terms of Reference in order to ensure that they discharge their functions properly and their meeting minutes shall be sent to all members of the Board for review.

Delegation by the Board (Continued)

Information on these committees is set out below:

(a) Asset and Liability Committee
The Asset and Liability Committee meets at least monthly to oversee the Bank's operations relating to interest rate risk, liquidity risk, foreign exchange risk and etc. and in particular to ensure that the Bank has adequate funds to meet its obligations. The members of the Asset and Liability Committee are Mr. David Sek-chi Kwok (Chairman), Mr. Edward Kawah Chu, Mr. Paul Kun-kow Wong, Mr. Burton Chi-shan Cheng, Mr. Stephen Siu-fung Lee, Mr. Frank Shui-sang Jin, Mr. Hon-ming Mak, Mr. Danny Kong-keung Tsang, Mr. Francis Yue-cheong Wong, Ms. Wendy Li-chien Weng and Ms. Blanche Oi-hung Chan.

(b) Credit Committee
The Credit Committee meets at least monthly to ensure that the Bank's credit policies are adequate and lending activities are conducted in accordance with established policies and relevant laws and regulations. The Credit Committee is also responsible for establishing credit policies, monitoring loan portfolio quality, ensuring compliance with statutory and internal lending limits, and evaluating credit applications and making credit decisions. The members of the Credit Committee are Mr. David Sek-chi Kwok (Chairman), Mr. Edward Kawah Chu, Mr. Paul Kun-kow Wong, Mr. Stephen Siu-fung Lee, Mr. Frank Shui-sang Jin, Mr. Hon-ming Mak, Mr. Danny Kong-keung Tsang and Mr. Sau-man Hui.

(c) Operational Risk Management Committee
The Operational Risk Management Committee meets at least bi-monthly to establish and to review operational risk management policies, processes and procedures for managing operational risk in all of the Bank's material products, activities, processes and systems. The Operational Risk Management Committee is also responsible for overseeing the identification, assessment, monitoring and control of operational risk exposures. The members of the Operational Risk Management Committee are Mr. David Sek-chi Kwok (Chairman), Mr. Edward Kawah Chu, Mr. Paul Kun-kow Wong, Mr. Burton Chi-shan Cheng, Mr. Stephen Siu-fung Lee, Mr. Frank Shui-sang Jin, Mr. Hon-ming Mak, Mr. Danny Kong-keung Tsang, Mr. Francis Yue-cheong Wong, Mr. Michael Yiu-wing Fung and Ms. Blanche Oi-hung Chan.

Directors' Responsibility Statement

The Directors acknowledge their responsibility for preparing the financial statements of the Group in accordance with statutory requirements and applicable accounting standards. The Group's annual results and interim results are announced in a timely manner.

The independent auditor's report states the auditor's reporting responsibilities.

Company Secretary

The Company Secretary ensures that board procedures are followed and is responsible for advising the Board on governance matters and facilitating the induction and professional development of Directors.

Shareholders' Rights

As the Bank is a private company comprising of four shareholders, the Chairman of the Board is committed to maintaining a constant communication with the shareholders in order to ensure they have fair and timely access to the Bank's information. In this regard, the Board has not adopted Code provision E.1.4 in relation to the setting up of shareholders' communication policy as it is considered not applicable for the time being but the matter would be evaluated whenever necessary.

Hong Kong, 13th March 2014

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SHANGHAI COMMERCIAL BANK LIMITED

(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Shanghai Commercial Bank Limited (the 'Bank') and its subsidiaries (together, the 'Group') set out on pages 28 to 132, which comprise the consolidated and company statements of financial position as at 31st December 2013, and the consolidated and company income statements, the consolidated and company statements of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows 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 and to report our opinion 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 judgment, 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 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 Bank's and the Group's profits and cash flows of the Group 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.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 13th March 2014

CONSOLIDATED INCOME STATEMENT

(All amounts in HK dollar thousands unless otherwise stated)

	Note	Year ended 31st December 2013	2012
Interest income	6	3,204,276	2,980,614
Interest expense	6	(998,676)	(1,055,811)
Net interest income		2,205,600	1,924,803
Fee and commission income	7	727,296	655,385
Fee and commission expense	7	(36,362)	(35,986)
Net fee and commission income		690,934	619,399
Dividend income	8	36,869	29,986
Net trading income	9	142,366	143,867
Net losses from disposal of equipment		(517)	(296)
Net gains from disposal of available-for-sale investments		174,655	177,488
Other operating income	10(a)	77,573	66,596
Net earned insurance premium	10(b)	44,945	38,784
Net insurance claims incurred and movement in policyholders' liabilities	10(b)	(22,496)	(14,499)
Operating expenses	11	(1,143,399)	(991,518)
Impairment losses on available-for-sale investments		–	(6,187)
(Charge)/reversal of impairment losses on loans and advances to customers	13	(24,314)	45,436
Operating profit		2,182,216	2,033,859
Share of net profits of joint ventures		31,692	38,498
Profit before income tax		2,213,908	2,072,357
Income tax expense	14	(426,009)	(420,895)
Profit for the year		1,787,899	1,651,462
Attributable to:			
Equity holders of the Bank		1,784,643	1,648,303
Non-controlling interests		3,256	3,159
		1,787,899	1,651,462
Dividend			
Final dividend proposed after the end of the reporting period	16	880,000	820,000

The notes on pages 38 to 132 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in HK dollar thousands unless otherwise stated)

	Note	Year ended 31st December 2013	2012
Profit for the year		**1,787,899**	1,651,462
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		**20,066**	3,278
Net gains/ (losses) on available-for-sale investments			
Fair value changes on available-for-sale investments taken to equity		**415,238**	698,674
Exchange differences on translation of available-for-sale investments		**780**	(3,185)
Fair value changes transferred to income statement on disposal of available-for-sale investments		**(174,655)**	(177,488)
Impairment losses transferred from investment revaluation reserve to income statement	33	**–**	6,187
Deferred income tax	31	**(39,824)**	(86,540)
Share of investment revaluation reserve of joint ventures	33	**(101)**	419
Other comprehensive income for the year		**221,504**	441,345
Total comprehensive income for the year		**2,009,403**	2,092,807
Attributable to:			
Equity holders of the Bank		**2,006,462**	2,088,769
Non-controlling interests		**2,941**	4,038
		2,009,403	2,092,807

The notes on pages 38 to 132 are an integral part of these consolidated financial statements.

INCOME STATEMENT

(All amounts in HK dollar thousands unless otherwise stated)

	Note	Year ended 31st December 2013	2012
Interest income	6	3,176,336	2,947,235
Interest expense	6	(999,174)	(1,056,653)
Net interest income		2,177,162	1,890,582
Fee and commission income	7	711,845	644,266
Fee and commission expense	7	(29,478)	(30,452)
Net fee and commission income		682,367	613,814
Dividend income	8	79,739	70,681
Net trading income	9	142,771	143,881
Net losses from disposal of equipment		(510)	(292)
Net gains from disposal of available-for-sale investments		175,578	178,248
Other operating income	10(a)	89,196	74,185
Operating expenses	11	(1,133,122)	(976,951)
Impairment losses on available-for-sale investments		–	(6,187)
(Charge)/reversal of impairment losses on loans and advances to customers	13	(24,314)	45,436
Profit before income tax		2,188,867	2,033,397
Income tax expense	14	(424,565)	(419,253)
Profit for the year		1,764,302	1,614,144
Dividend			
Final dividend proposed after the end of the reporting period	16	880,000	820,000

The notes on pages 38 to 132 are an integral part of these consolidated financial statements.

STATEMENT OF COMPREHENSIVE INCOME

(All amounts in HK dollar thousands unless otherwise stated)

	Note	Year ended 31st December 2013	2012
Profit for the year		**1,764,302**	1,614,144
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		**20,097**	3,509
Net gains/ (losses) on available-for-sale investments			
Fair value changes on available-for-sale investments taken to equity		**416,643**	697,100
Exchange differences on translation of available-for-sale investments		**780**	(3,185)
Fair value changes transferred to income statement on disposal of available-for-sale investments		**(175,578)**	(178,248)
Impairment losses transferred from investment revaluation reserve to income statement	33	**–**	6,187
Deferred income tax	31	**(39,904)**	(86,106)
Other comprehensive income for the year		**222,038**	439,257
Total comprehensive income for the year		**1,986,340**	2,053,401

The notes on pages 38 to 132 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(All amounts in HK dollar thousands unless otherwise stated)

	Note	As at 31st December 2013	2012
ASSETS			
Cash and balances with banks	17	25,396,151	29,889,669
Placements with and loans and advances to banks	18	23,266,965	19,627,668
Loans and advances to customers	19(a)	62,093,205	53,715,110
Financial assets held for trading	20	368,882	349,763
Derivative financial instruments	21	73,485	51,446
Investment securities:			
– Available-for-sale	22	25,472,136	26,958,980
– Held-to-maturity	23	2,484,874	2,496,830
Investments in joint ventures	24(a)	234,456	219,865
Properties and equipment	25	2,424,014	2,339,324
Investment properties	26	92,495	137,145
Deferred income tax assets	31	50,430	45,487
Other assets	27	1,113,762	1,355,881
TOTAL ASSETS		143,070,855	137,187,168
LIABILITIES			
Deposits and balances from banks		7,108,798	5,545,795
Deposits from customers	28	113,641,193	110,681,915
Derivative financial instruments	21	61,805	39,891
Other liabilities	29	1,282,470	1,257,107
Provisions	30	93,064	87,309
Current income tax liabilities		141,000	56,762
Deferred income tax liabilities	31	240,543	205,410
TOTAL LIABILITIES		122,568,873	117,874,189
EQUITY			
CAPITAL AND RESERVES ATTRIBUTABLE TO THE EQUITY HOLDERS			
Share capital	32	2,000,000	2,000,000
Retained earnings			
– Proposed final dividend		880,000	820,000
– Others		8,365,499	7,465,990
Other reserves	33	9,192,221	8,965,268
		20,437,720	19,251,258
Non-controlling interests in equity		64,262	61,721
TOTAL EQUITY		20,501,982	19,312,979
TOTAL EQUITY AND LIABILITIES		143,070,855	137,187,168

Approved and authorised for issue by the Board of Directors on 13th March 2014.

Lincoln Chu Kuen Yung
Chairman

Hung-ching Yung
Director

Gordon Che Keung Kwong
Director

David Sek-chi Kwok
Managing Director & Chief Executive

The notes on pages 38 to 132 are an integral part of these consolidated financial statements.

STATEMENT OF FINANCIAL POSITION

(All amounts in HK dollar thousands unless otherwise stated)

	Note	As at 31st December 2013	2012
ASSETS			
Cash and balances with banks	17	25,396,105	29,889,662
Placements with and loans and advances to banks	18	23,266,965	19,627,668
Loans and advances to customers	19(a)	62,093,205	53,715,110
Financial assets held for trading	20	353,028	348,189
Derivative financial instruments	21	73,485	51,446
Investment securities:			
– Available-for-sale	22	25,356,844	26,912,083
– Held-to-maturity	23	407,061	403,620
Investments in joint ventures	24(a)	116,000	116,000
Investments in and loans to subsidiaries	24(b)	2,471,452	2,408,166
Properties and equipment	25	2,034,255	2,009,388
Investment properties	26	32,571	32,999
Deferred income tax assets	31	50,276	45,487
Other assets	27	635,424	932,634
TOTAL ASSETS		142,286,671	136,492,452
LIABILITIES			
Deposits and balances from banks		7,108,798	5,545,795
Deposits from customers	28	113,641,193	110,681,915
Derivative financial instruments	21	61,805	39,891
Other liabilities	29	758,579	799,614
Provisions	30	92,209	86,833
Current income tax liabilities		140,577	56,381
Deferred income tax liabilities	31	240,522	205,375
TOTAL LIABILITIES		122,043,683	117,415,804
EQUITY			
CAPITAL AND RESERVES ATTRIBUTABLE TO THE EQUITY HOLDERS			
Share capital	32	2,000,000	2,000,000
Retained earnings			
– Proposed final dividend		880,000	820,000
– Others		8,170,182	7,289,812
Other reserves	33	9,192,806	8,966,836
		20,242,988	19,076,648
TOTAL EQUITY AND LIABILITIES		142,286,671	136,492,452

Approved and authorised for issue by the Board of Directors on 13th March 2014.

Lincoln Chu Kuen Yung
Chairman

Hung-ching Yung
Director

Gordon Che Keung Kwong
Director

David Sek-chi Kwok
Managing Director & Chief Executive

The notes on pages 38 to 132 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts in HK dollar thousands unless otherwise stated)

	Note	Attributable to equity holders			Non-controlling interests	Total equity
		Share capital	Other reserves	Retained earnings		
Balance as at 1st January 2012		2,000,000	8,493,399	7,529,090	58,563	18,081,052
Profit for the year		–	–	1,648,303	3,159	1,651,462
Other comprehensive income						
Fair value gains, net of tax:						
– available-for-sale investments	33	–	611,559	–	575	612,134
Currency translation differences	33	–	3,125	(3,032)	–	93
Share of investment revaluation reserve of joint ventures	33	–	419	–	–	419
Realised on disposal of available-for-sale investments	33	–	(177,792)	–	304	(177,488)
Impairment losses on available-for-sale investments	33	–	6,187	–	–	6,187
Total other comprehensive income		–	443,498	(3,032)	879	441,345
Transfer from retained earnings	33	–	28,371	(28,371)	–	–
Dividend relating to 2011		–	–	(860,000)	(880)	(860,880)
Balance as at 31st December 2012		2,000,000	8,965,268	8,285,990	61,721	19,312,979

	Note	Attributable to equity holders			Non-controlling interests	Total equity
		Share capital	Other reserves	Retained earnings		
Balance as at 1st January 2013		**2,000,000**	**8,965,268**	**8,285,990**	**61,721**	**19,312,979**
Profit for the year		–	–	1,784,643	3,256	1,787,899
Other comprehensive income						
Fair value gains, net of tax:						
– available-for-sale investments	33	–	375,914	–	(500)	375,414
Currency translation differences	33	–	16,890	3,956	–	20,846
Share of investment revaluation reserve of joint ventures	33	–	(101)	–	–	(101)
Realised on disposal of available-for-sale investments	33	–	(174,840)	–	185	(174,655)
Total other comprehensive income		–	217,863	3,956	(315)	221,504
Transfer from retained earnings	33	–	9,090	(9,090)	–	–
Dividend relating to 2012		–	–	(820,000)	(400)	(820,400)
Balance as at 31st December 2013		**2,000,000**	**9,192,221**	**9,245,499**	**64,262**	**20,501,982**

	Year ended 31st December	
	2013	2012
Proposed dividend in retained earnings	**880,000**	820,000

The notes on pages 38 to 132 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(All amounts in HK dollar thousands unless otherwise stated)

	Year ended 31st December	
	2013	2012
Cash flows from operating activities		
Profit before income tax	2,213,908	2,072,357
Share of net profits of joint ventures	(31,692)	(38,498)
Charge/(reversal) of impairment losses on loans and advances to customers	24,314	(45,436)
Impairment losses on available-for-sale investments	–	6,187
Depreciation expenses	64,107	52,385
Net losses from disposal of equipment	517	296
Net gains from disposal of available-for-sale investments	(174,655)	(177,488)
Amortisation of held-to-maturity and available-for-sale investments	53,372	43,360
Interest income on held-to-maturity and available-for-sale investments	(701,508)	(768,914)
Dividend income	(36,869)	(29,986)
Hong Kong profits tax paid	(202,524)	(223,524)
Overseas tax paid	(138,363)	(127,317)
Cash flows from operating activities before changes in operating assets and liabilities	1,070,607	763,422
Changes in operating assets and liabilities:		
– Net (increase)/ decrease in cash and balances with banks with original maturity beyond three months	(1,835,789)	1,718,037
– Net decrease/ (increase) in placements with and loans and advances to banks with original maturity beyond three months	591,029	(5,333,562)
– Net (increase)/ decrease in financial assets held for trading	(19,119)	94,474
– Net (increase)/ decrease in derivative financial instruments	(125)	13,330
– Net (increase)/ decrease in loans and advances to customers	(8,403,021)	1,525,934
– Net decrease in other assets	231,497	235,642
– Net increase in deposits and balances from banks	1,563,003	1,213,995
– Net increase in deposits from customers	2,959,278	7,584,719
– Net increase in other liabilities and provisions	31,118	41,456
Net cash flows from operating activities	(3,811,522)	7,857,447

	Note	Year ended 31st December 2013	2012
Cash flows from investing activities			
Interest received on held-to-maturity and available-for-sale investments		743,073	741,773
Dividends received on available-for-sale investments		36,869	28,524
Dividends received from joint ventures		17,000	8,360
Purchases of properties and equipment		(101,736)	(259,191)
Purchases of investment properties		(2,155)	(219,658)
Proceeds from sale of equipment		38	291
Purchases of available-for-sale investments		(8,692,860)	(15,473,240)
Purchases of held-to-maturity investments		(760,135)	(241,367)
Proceeds from sale and redemption of available-for-sale investments		10,037,207	11,300,362
Proceeds from redemption of held-to-maturity investments		750,314	487,367
Net cash flows from investing activities		2,027,615	(3,626,779)
Cash flows from financing activities			
Dividend paid to the equity holders		(820,000)	(860,000)
Dividend paid to non-controlling interests		(400)	(880)
Net cash flows from financing activities		(820,400)	(860,880)
Net (decrease)/ increase in cash and cash equivalents		(2,604,307)	3,369,788
Cash and cash equivalents at beginning of the year		29,946,065	26,648,821
Effect of exchange rate changes on cash and cash equivalents		505,326	(72,544)
Cash and cash equivalents at end of the year	34	27,847,084	29,946,065
Cash flows from operating activities and investing activities included:			
Interest received		3,181,817	2,974,774
Interest paid		(974,479)	(998,216)

The notes on pages 38 to 132 are an integral part of these consolidated financial statements.

1 GENERAL INFORMATION

Shanghai Commercial Bank Limited (the 'Bank') and its subsidiary companies (together, the 'Group') are engaged in the provision of banking and related financial services in Hong Kong, United States, United Kingdom and the People's Republic of China.

The Bank is a financial institution incorporated in Hong Kong. The address of its registered office is 35/F., Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong.

These consolidated financial statements are presented in thousands of units of Hong Kong Dollars (HK$'000), unless otherwise stated. These consolidated financial statements were approved for issue by the Board of Directors on 13th March 2014.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group and the financial statements of the Bank have been prepared in accordance with Hong Kong Financial Reporting Standards ('HKFRSs') issued by the Hong Kong Institute of Certified Public Accountants ('HKICPA'). The consolidated financial statements of the Group and the financial statements of the Bank have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale investments, financial assets designated at fair value, financial assets held for trading and derivative financial instruments at fair value.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

(a) The following standards, amendments and interpretations, which became effective in 2013, are relevant to the Group:

HKAS 1 (Amendment) 'Financial statements presentation – Presentation of items of other comprehensive income' is effective for the accounting period beginning on or after 1st July 2012. The amendments require an entity to classify items within other comprehensive income under two categories: (i) items which may be reclassified to profit or loss in the future and (ii) items which would never be reclassified to profit or loss. The adoption of the amendment only affects the disclosure of the consolidated statement of comprehensive income.

HKFRS 7 (Amendment) 'Financial instruments: Disclosures - Offsetting financial assets and financial liabilities' is effective for the accounting period beginning on or after 1st January 2013. This amendment requires an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32 'Financial instruments: Presentation'. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with HKAS 32. The additional disclosures under the HKFRS 7 (Amendment) are disclosed in note 36.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

(a) The following standards, amendments and interpretations, which became effective in 2013, are relevant to the Group: (Continued)

HKFRS 10 'Consolidated financial statements' is effective for the accounting period beginning on or after 1st January 2013. The standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The standard does not have impact on the Group's financial statements as there is no change in the number of subsidiaries consolidated by the Bank as a result of the effective of HKFRS 10.

HKFRS 11 'Joint arrangements' is effective for accounting period beginning on or after 1st January 2013. HKFRS 11 classifies joint arrangements as either joint operations (combining the existing concepts of jointly controlled assets and jointly controlled operations) or joint ventures (equivalent to the existing concept of a jointly controlled entity). Joint operation is a joint arrangement whereby the parties that have joint control have rights to the assets and obligations for the liabilities. Joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. HKFRS 11 requires the use of equity method of accounting for interests in joint ventures thereby eliminating the proportionate consolidation method. The determination of as to whether a joint arrangement is a joint operation or a joint venture is based on the parties' rights and obligations under the arrangement, with the existence of a separate legal vehicle no longer being the key factor. HKFRS 11 does not have material impact to the Group as the Group accounts for its interest in joint ventures using equity method.

HKFRS 12 'Disclosures of interests in other entities' is effective for the accounting period on or after 1st January 2013. HKFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The new disclosure requirement under HKFRS 12 in respect of investment in joint ventures is disclosed in note 24(a) to the Group's financial statements.

HKFRS 13 'Fair value measurement' is effective for the accounting period beginning on or after 1st January 2013. HKFRS 13 establishes a single source of guidance for all fair value measurements required or permitted by HKFRSs. It clarifies the definition of fair value as an exit price, which is defined as a price at which an orderly transaction to sell the asset or transfer the liability would take place between market participants at the measurement date under market conditions, and enhances disclosures about fair value measurement. HKFRS 13 also includes additional disclosure requirements in respect of fair value hierarchy and fair value estimation. The additional disclosures are disclosed in note 3.4 to the Group's financial statements.

HKAS 19 (Revised 2011) 'Employee benefits' is effective for the accounting period beginning on or after 1st January 2013. Retrospective application is required with certain exceptions. The amendments require the recognition of changes in the defined benefit obligation and in plan assets when those changes occur, eliminating the corridor approach and accelerating the recognition of past service costs. Changes in the defined benefit obligation and in plan assets are disaggregated into three components: service costs, net interest on the net defined benefit liabilities or assets and re-measurements of the net defined benefit liabilities or assets. The revised standard does not have significant impact on the Group's financial statements as the defined benefit plan operated by the Group is not material.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

(a) The following standards, amendments and interpretations, which became effective in 2013, are relevant to the Group: (Continued)

HKAS 27 (Revised 2011) 'Separate financial statements' has been amended for the issuance of HKFRS 10 but retains the current guidance for separate financial statements. HKAS 27 (Revised 2011) is effective for the accounting period beginning on or after 1st January 2013. The revised standard does not have significant impact on the Group's financial statements.

HKAS 28 (Revised 2011) 'Investments in associates and joint ventures' has been amended for conforming changes based on the issuance of HKFRS 10 and HKFRS 11. HKAS 28 (Revised 2011) is effective for the accounting period beginning on or after 1st January 2013. The revised standard does not have significant impact on the Group's financial statements.

(b) The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1st January 2013. The Group did not early-adopt these new or amended standards in 2013.

HKFRS 9 'Financial instruments', mandatory effective date is dependent on International Financial Reporting Standard 9 'Financial instruments' ('IFRS9'), which is being reviewed by International Accounting Standards Board ('IASB'). The standard addresses the classification, measurement and recognition of financial assets and financial liabilities. HKFRS 9 was issued in November 2009 and October 2010. It replaces the parts of HKAS 39 that relate to the classification and measurement of financial instruments. HKFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the HKAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The HKICPA also issued amendments to HKFRS 9 in December 2013 which brings into effect a substantial overhaul of hedge accounting models. The Group will consider the impact of the amendments / changes to HKFRS 9 when IFRS 9's review is completed by the IASB.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

(b) The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1st January 2013. The Group did not early-adopt these new or amended standards in 2013. (Continued)

Amendments to HKFRS 10 'Consolidated financial statements – Investment entities' is effective for the accounting period beginning on or after 1st January 2014. The amendments give relief from consolidation to those parents which meet certain criteria as set out in the amendments. Such parents are referred to as 'investment entities' in the amendments, and typical examples of these entities include private equity organisations, venture capital organisations, etc. Under the amendments, investment entities are prohibited from consolidating their subsidiaries, instead, they are required to carry their subsidiaries at fair value through profit or loss ('FVTPL'). The only subsidiaries that fall outside the FVTPL requirements are those subsidiaries which provide services which relate to the investment entity's investment activities. Such service subsidiaries would still need to be consolidated by the investment entity. The exemption from consolidation is only applicable to parents who qualify as investment entities in their own right. It does not carry upwards to parents higher up the group if those higher parents are not themselves investment entities. In such cases, the higher parents would have to consolidate all entities that it controls, including those controlled through an investment entity subsidiary. HKFRS 12 and HKAS 27 (2011) are also amended as a result of these amendments. The amendments are not expected to have significant impact on the Group.

HKAS 32 (Amendment) 'Financial instruments: Presentation - offsetting financial assets and financial liabilities' is effective for the accounting period beginning on or after 1st January 2014. The amendment addresses inconsistencies in current practice when applying the offsetting criteria and clarifies the meaning of 'currently has a legally enforceable right of set-off'; and the application of offsetting criteria to some gross settlement systems (such as central clearing house systems) that may be considered equivalent to net settlement. The Group is considering the financial impact of the amendment.

Amendments to HKAS 36 'Impairment of assets', the amendments remove certain disclosures of the recoverable amount of cash-generating units which had been included in HKAS 36 by the issue of HKFRS 13. The amendments are effective for the accounting period on or after 1st January 2014 and the amendments are not expected to have significant impact on the Group.

HK(IFRIC) Int-21 'Levies' is effective for the accounting period beginning on or after 1st January 2014. This interpretation sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to pay a levy and when should a liability be recognised. The Group is not currently subject to significant levies so the impact on the Group is not material.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Consolidation

The consolidated financial statements include the financial statements of the Bank and all its subsidiaries made up to 31st December 2013.

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, 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. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(c) Joint ventures

A joint venture is an arrangement whereby the Group and other parties contractually agree to share control of the arrangement and have right to the net assets of the arrangement. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in thousands of units of Hong Kong Dollars (HK$'000), which is the Bank's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions that are transactions denominated, or that require settlement, in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary items denominated in foreign currency are translated with the closing rate as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at exchange rates at statement of financial position dates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

All foreign exchange gains and losses recognised in the income statement are presented net in the income statement within the corresponding item. Foreign exchange gains and losses on other comprehensive income items are presented in other comprehensive income within the corresponding item.

In the case of changes in the fair value of monetary assets denominated in foreign currency classified as available-for-sale, a distinction is made between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security.

Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount, except impairment, are recognised in other comprehensive income.

Translation differences on non-monetary financial instruments, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary financial instruments, such as equities classified as available-for-sale investments, are included in other comprehensive income.

(c) Group companies and overseas branches

The results and financial positions of all the Group's entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange differences are recognised in other comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Foreign currency translation (Continued)

(c) Group companies and overseas branches (Continued)

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, are taken to other comprehensive income. When a foreign operation is disposed of, or partially disposed of, such exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.4 Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised within 'interest income' and 'interest expense' in the income statement using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense 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, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument, 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.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.5 Fee and commission income and expense

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group retained no part of the loan package for itself or retained a part at the same effective interest rate as the other participants. Commissions and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party - such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses - are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Asset management fees related to investment funds are recognised rateably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

2.6 Dividend income

Dividends are recognised in the income statement when the entity's right to receive payment is established.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Leases

(a) Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating lease (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(b) Finance lease

Leasehold land classified as finance lease commences amortisation from the time when the land interest becomes available for its intended use. Amortisation on leasehold land classified as finance lease and depreciation on those assets is calculated using the straight-line method to allocate their cost over their estimated useful lives. Interest in leasehold land is amortised on a straight-line basis over the unexpired period of the lease term.

2.8 Properties and equipment

(a) Land and bank premises

Land and buildings comprise mainly branches and offices. Leasehold land classified as finance lease and buildings are stated at historical cost, which includes expenditure that is directly attributable to the acquisition of the items, less accumulated depreciation and impairment losses. Depreciation of land and buildings is provided annually by charging a sum sufficient to write down the cost of the land and buildings systematically. The land is depreciated over the lease term. The depreciation of the buildings is based on management's appraisal of their conditions, which includes estimations of the remaining useful lives, which are not expected to exceed 40 years.

Interest in freehold land is stated at cost and included as properties and equipment on the statement of financial position.

(b) Furniture, fittings and equipment

Furniture, fittings and equipment are stated at historical cost less accumulated depreciation and impairment losses. Depreciation of furniture, fittings and equipment other than computer equipment is calculated to write off the cost of the assets over their estimated useful lives on a reducing balance basis at a rate of 25% in the year of addition and at 20% per annum thereafter. Computer equipment is depreciated on a straight line basis over four years.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

(c) Property under development

Leasehold land for property under development is stated at historical cost, less accumulated depreciation and impairment losses, and development expenditure is stated at the aggregate amount of costs incurred up to the date of completion. For depreciation of leasehold land for properties under development, please refer to Note 2.8(a) above.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.22). The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains or losses on disposals are determined by comparing proceeds and the carrying amount of the relevant assets and are recognised in the income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Financial assets

2.9.1 Classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and financial assets designated at fair value through profit or loss upon initial recognition.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of recent actual pattern of short-term profit-making. Derivatives are also categorised as held for trading unless they are designated as hedging instruments. Financial assets held for trading consist of debt instruments, including money-market paper, traded corporate and bank loans, and equity instruments, as well as financial assets with embedded derivatives. They are recognised in the consolidated statement of financial position as 'Financial assets held for trading'.

Financial instruments included in this category are recognised initially at fair value; transaction costs are taken directly to the consolidated income statement. Gains and losses arising from changes in fair value are included directly in the consolidated income statement and are reported as 'Net trading income'. Interest income and expense and dividend income on financial assets held for trading are included in 'Net trading income. The instruments are derecognised when the rights to receive cash flows have expired or the Group has transferred substantially all the risks and rewards of ownership and the transfer qualifies for derecognition.

The Group designates certain financial assets upon initial recognition as at fair value through profit or loss (fair value option). This designation cannot subsequently be changed. According to HKAS 39, the fair value option is only applied when the following conditions are met:

(i) the application on the fair value option reduces or eliminates an accounting mismatch that would otherwise arise; or

(ii) the financial assets are part of a portfolio of financial instruments which is risk managed and reported to senior management on a fair value basis; or

(iii) the financial assets consist of debt hosts and embedded derivatives that must be separated.

Financial assets for which the fair value option is applied are recognised in the consolidated statement of financial position as 'Financial assets designated at fair value'. Fair value changes relating to financial assets designated at fair value through profit or loss are recognised in 'Net income from financial instruments designated at fair value through profit or loss'.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Financial assets (Continued)

2.9.1 Classification (Continued)

(b) 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: (i) those that the entity intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; (ii) those that the entity upon initial recognition designates as available-for-sale; or (iii) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables are initially recognised at fair value which is the cash given originally to purchase the loan including any transaction costs and measured subsequently at amortised cost using the effective interest rate method. Loans and receivables are reported in the statement of financial position as placements with and loans and advances to banks or customers. Interest on loans is included in the income statement and is reported as interest income. In the case of an impairment, it is reported as a deduction from the carrying value of the loans and advances to banks and customers and recognised in the income statement as impairment losses on loans and advances to banks and customers, as appropriate.

(c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity, other than:

(i) those that the Group upon initial recognition designates as at fair value through profit or loss;

(ii) those that the Group designates as available-for-sale investments; and

(iii) those that meet the definition of loans and receivables.

They are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method. They are derecognised when the rights to receive cash flows have expired.

Interest on held-to-maturity investments is included in the income statement and is reported as interest income. In the case of an impairment, it has been reported as a deduction from the carrying value of the investment and recognised in the income statement as impairment charges on held-to-maturity investments.

(d) Available-for-sale investments

Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. Available-for-sale investments consist mainly of debt and equity investments.

Available-for-sale investments are initially recognised at fair value which is the cash given including any transaction costs and measured subsequently at fair value with gains and losses been recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial assets are derecognised. If an available-for-sale investment is determined to be impaired the cumulative gain or loss previously recognised in the statement of comprehensive income is recognised in the income statement. However, interest is calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available-for-sale investments are recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement as 'Dividend income' when the Group's right to receive payment is established.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Financial assets (Continued)

2.9.2 Reclassification of financial assets

The Group may choose to reclassify a non-derivative trading financial asset out of the held for trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading or available-for-sale investments categories if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity investments categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

On reclassification of a financial asset out of the 'at fair value through profit or loss' category all embedded derivatives are re-assessed and, if necessary, separately accounted for.

2.9.3 Recognition and measurement

Regular-way purchases and sales of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale investments are recognised on trade-date - the date on which the Group commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

Available-for-sale investments and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. They are presented within 'net trading income' (for financial assets that are held for trading), and within 'net income from financial instruments designated at fair value through profit or loss' (for financial assets that are designated at fair value through profit or loss). Gains and losses arising from changes in the fair value of available-for-sale investments are recognised directly in other comprehensive income, until the financial asset is derecognised or impaired. At this time the cumulative gain or loss previously recognised in the equity is recognised in the income statement. However, interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available-for-sale investments are recognised in the income statement.

2.10 Offsetting financial instruments

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral; and
- Downgrading below investment grade level.

The estimated period between a loss occurring and its identification is determined by local management for each identified portfolio. In general, the periods used vary between 3 months and 12 months; in exceptional cases, longer periods are warranted.

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.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Impairment of financial assets (Continued)

(a) Assets carried at amortised cost (Continued)

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowances for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

(b) Assets classified as available-for-sale investments

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the group uses the criteria set out in (a) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale investments, the cumulative loss - measured as the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss on that investment previously recognised in the income statement - is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale investments increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

2.12 Financial liabilities

Financial liabilities are classified into two categories: financial liabilities at fair value through profit or loss and other financial liabilities. All financial liabilities are classified at inception and recognised initially at fair value.

(a) Financial liabilities at fair value through profit or loss

This category has two sub-categories: financial liabilities held for trading, and those designated at fair value through profit or loss at inception.

A financial liability is classified as held for trading if it is incurred principally for the purpose of repurchasing in the short term. It is carried at fair value and any gains and losses from changes in fair value are recognised in the income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Financial liabilities (Continued)

(a) Financial liabilities at fair value through profit or loss (Continued)

A financial liability is typically classified as fair value through profit or loss at inception if it meets the following criteria:

(i) The designation eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring the financial liabilities or recognising the gains and losses on them on different bases; or

(ii) Part of a group of financial liabilities, that are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis, are designated at fair value through profit or loss; or

(iii) Financial instruments, such as debt securities issued, containing one or more embedded derivatives significantly modify the cash flows, are designated at fair value through profit or loss.

Financial liabilities designated as at fair value through profit or loss are designated as such at inception. Financial liabilities designated at fair value through profit or loss are carried at fair value and any gains and losses from changes in fair value are recognised in the income statement.

(b) Other financial liabilities

Other financial liabilities are recognised initially at fair value net of transaction costs incurred. Other financial liabilities are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the other financial liabilities using the effective interest method.

2.13 Determination of fair value

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on major exchanges and broker quotes from Bloomberg and Reuters.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs (for example, LIBOR yield curve, FX rates, volatilities and counterparty spreads) existing at the dates of the statement of financial position.

The Group uses widely recognised valuation models for determining fair values of non-standardised financial instruments of lower complexity, such as options or interest rate and currency swaps. For these financial instruments, inputs into models are generally market-observable.

For more complex instruments, the Group uses developed models, which are usually based on valuation methods and techniques generally recognised as standard within the industry. Valuation models are used primarily to value derivatives transacted in the over-the-counter market, unlisted debt securities (including those with embedded derivatives) and other debt instruments for which markets were or have become illiquid. Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 Determination of fair value (Continued)

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions the Group holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors including model risks, liquidity risk and counterparty risk. Based on the established fair value model governance policies, and related controls and procedures applied, management believes that these valuation techniques are necessary and appropriate to fairly state the values of financial instruments carried at fair value in the statement of financial position. Price data and parameters used in the measurement procedures applied are generally reviewed carefully and adjusted, if necessary, particularly in view of the current market developments.

In cases when the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at cost less impairment. The fair value for loans and receivables as well as liabilities to banks and customers are determined using a present value model on the basis of contractually agreed cash flows, taking into account credit quality, liquidity and costs.

The fair values of contingent liabilities and irrevocable loan commitments correspond to their carrying amounts.

2.14 Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

2.15 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Group's entities operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from depreciation of properties and equipment, revaluation of certain financial assets and liabilities including derivative contracts, provisions for pensions and other post-retirement benefits and tax losses carried forward; and, in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Current and deferred income tax (Continued)

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and joint ventures, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not be reversed in the foreseeable future.

Deferred tax related to fair value re-measurement of available-for-sale investments, which are charged or credited to other comprehensive income, is also credited or charged to other comprehensive income and is subsequently recognised in the income statement together with the deferred gain or loss upon disposal.

2.16 Employee benefits

(a) Retirement benefit costs

The Group operates three retirement benefit schemes comprising of a defined contribution scheme, a Mandatory Provident Fund Scheme and a defined benefit scheme that are available to the Group's employees. However, the principal schemes that the Group contributes to are the defined contribution scheme and the Mandatory Provident Fund Scheme. The assets of the Group's Mandatory Provident Fund Scheme, the defined contribution scheme and the defined benefit scheme are held separately from those of the Group in independently administered funds.

The Group's contributions to the defined contribution scheme and the Mandatory Provident Fund Scheme are charged to the income statement.

The defined benefit scheme is funded by payments from the Group by taking recommendations of independent qualified actuaries. The defined benefit costs are assessed using the Attained Age Method and the cost of providing the benefit is charged to the income statement so as to spread the regular cost over the service lives of employees in accordance with the advice of qualified actuaries, who value the scheme once every three years.

(b) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. Employee entitlements to sick leave and maternity leave are recognised when the absences occur.

(c) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed: a termination when the entity has a detailed formal plan to terminate the employment of current employees without possibility of withdrawal or when the entity recognises costs for a restructuring that is within the scope of HKAS 37 and involves payment of termination benefits. In the case of an offer made to encourage voluntary redundancy the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if that party controls, jointly controls or has significant influence over the Group; is a member of the same financial reporting group, such as parents, subsidiaries and fellow subsidiaries; is an associate or a joint venture of the Group or parent reporting group; is a key management personnel of the Group or parents, or where the Group and the party are subject to common control. Related parties may be individuals or entities.

2.18 Investment properties

Property that is held for long-term rental yields or for capital appreciation or both is classified as investment property. Investment properties are land and office buildings. Investment properties are measured at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost of investment properties using the straight-line method over the unexpired period of the lease term for land and the shorter of the leases or 40 years for buildings.

2.19 Repossessed assets

Repossessed collateral assets are recorded as 'Repossessed assets' and reported in 'Other assets' and the relevant loans are derecognised. The repossessed collateral assets are measured at the lower of carrying amount and fair value less cost to sell.

2.20 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition including cash, balances with banks, placements with and loans and advances to banks, treasury bills and certificates of deposit that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.21 Fiduciary activities

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

2.22 Impairment of investment in subsidiaries, joint ventures and non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

2.24 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with HKAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of management. The fee income earned is recognised on a straight-line basis over the life of the guarantee.

Any increase in the liability relating to guarantees is reported in the income statement within other operating expenses.

3 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

The Group has in place policies and procedures for the identification, measurement, control and monitoring of credit, liquidity, market, interest rate, foreign exchange and operational risks. One of the major functions of the Board of Directors is to ensure that the Group establishes policies, procedures and controls to manage the various types of risk it faces. The Board of Directors has delegated its powers to the Risk Management Committee, the Executive Committee, the Asset and Liability Committee, the Credit Committee and the Operational Risk Management Committee for the supervision of major functional areas. Senior management is always watchful for changes in economic, political and market conditions in which the Group operates and the inherent risks the Group faces.

The Risk Management Department is responsible for monitoring the overall risk management of the Group's operations, except for credit risk, which is managed by the Credit Committee. Reconciliation procedures are also in place to ensure that the systems capture all necessary data. Prior to implementation of any new product or service, various analyses, testing, development and planning will be performed and its proposal will be endorsed by the Product Development Supervisory Committee before submission to the management for approval. All of the above arrangements ensure that the risk management processes are operating effectively.

Supporting the Audit Committee, the Audit Department performs regular audits to ensure compliance with the policies and procedures.

3.1 Credit risk

The Group takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Group by failing to discharge an obligation. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Group's portfolio, could result in losses that are different from those provided for at the end of the reporting period.

The Group has in place effective credit review, monitoring and control systems including an effective loan classification system that identify, monitor, and determine loan loss provisions in a timely manner. Management therefore carefully manages the exposure to credit risk.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product, industry sector and by country are approved annually by the Board of Directors.

The exposure to any one counterparty including banks and brokers is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. The Group has in place effective monitoring and control systems to identify, monitor and address problem credits in an accurate and timely manner. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees. The Group further mitigates credit risk by entering into netting arrangements with counterparties such as banks with which it undertakes credit activities.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (Continued)

3.1.1 Risk limit control and mitigation policies

(a) Collateral

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these methods is the taking of security for funds advanced, which is a common practice. The Group implements guidelines on the acceptability of specific classes of collateral for credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable; and
- Charges over bank deposits and financial instruments such as debt securities and equities.

In addition to the above, the Group will also seek for guarantee where appropriate. To minimise credit loss, the Group will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances which are partially secured or unsecured.

(b) Derivatives

The Group maintains strict control limits on net open derivatives positions (i.e. the difference between purchase and sale contracts), by both amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. assets where their fair values are positive), which in relation to derivatives is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Group requires margin deposits from counterparties.

(c) Credit-related commitments

The Group has issued credit related commitments including guarantees and letters of credit. These instruments carry similar credit risk as loans. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit - which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties - carry the same credit risk as loans. Documentary and commercial letters of credit - which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions - are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (Continued)

3.1.2 Impairment and provisioning policies

The Group has established effective control systems that enable the Group to identify, monitor and determine loan loss provisions in a timely manner. Policies and procedures are in place to ensure the aggregate amount of individually and collectively assessed loan loss provisions are adequate to absorb estimated credit losses in the loan portfolio. The table below shows the percentage of the Group's on-balance sheet items relating to loans and advances and the associated impairment allowances for each of the Group's internal loan classification categories:

The Group and the Bank

	2013		2012	
	Loans and advances (%)	Impairment allowances (%)	Loans and advances (%)	Impairment allowances (%)
1 – pass	97.10	0.39	96.82	0.40
2 – special mention	2.30	0.45	2.34	0.53
3 – sub-standard	0.52	4.33	0.74	7.30
4 – doubtful	0.06	25.88	0.06	23.92
5 – loss	0.02	71.22	0.04	58.24
	100.00		100.00	

Grade 1 'Pass' represents loans for which borrowers are current in meeting commitments and full repayment of interest and principal is not in doubt.

Grade 2 'Special mention' represents loans with significant deficiencies and potential weakness such that if adverse conditions persist, ultimate loss for the Bank may occur.

Grade 3 'Sub-standard' represents loans in which borrowers are displaying a definable weakness that is likely to jeopardise repayment. These loans include rescheduled loans and loans where some loss of principal or interest is possible after taking into account the net realisable value of security.

Grade 4 'Doubtful' represents loans which collection in full is improbable and the Group expects to sustain a loss of interest and/or principal after taking into account the net realisable value of security.

Grade 5 'Loss' represents loans which considered as uncollectible after exhausting all collection efforts such as realisation of collateral, initiation of legal proceedings and need to be fully or partially written off.

The credit review, monitoring and control systems assist management to determine whether objective evidence of impairment exists under HKAS 39, based on the following criteria set out by the Group:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral.

The Group's policy requires the review of individual financial assets that are above materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the loss incurred at the end of the reporting period on a case-by-case basis. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous assets that are individually below materiality thresholds; and (ii) losses that have been incurred but have not yet been identified, by using the available historical experience and management judgment.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (Continued)

3.1.3 Maximum exposure to credit risk before collateral held or other credit enhancements

The Group

	Maximum exposure	
	2013	2012
Credit risk exposures relating to on-balance sheet assets are as follows:		
Balances with banks	21,003,486	13,064,838
Placements with and loans and advances to banks	23,266,965	19,627,668
Loans and advances to customers:		
Loans to individuals:		
– Overdrafts	875,596	561,215
– Credit cards	271,742	315,880
– Term loans and others	6,006,268	4,978,534
– Mortgages	7,475,107	6,934,623
Loans to corporate entities:		
– Large corporate customers and others	40,257,726	34,356,686
– Small and medium size enterprises (SME)	7,206,766	6,568,172
Financial assets held for trading:		
– Debt securities	177,704	206,967
Derivative financial instruments	73,485	51,446
Investment securities:		
– available-for-sale debt securities	23,156,613	25,370,282
– held-to-maturity debt securities	2,484,874	2,496,830
Other assets	1,113,762	1,355,881
Credit risk exposures relating to off-balance sheet items are as follows:		
– Financial guarantees	2,606,879	2,207,870
– Off-balance sheet commitments and other credit related contingent liabilities	46,998,621	41,448,553
At 31st December	182,975,594	159,545,445

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (Continued)

3.1.3 Maximum exposure to credit risk before collateral held or other credit enhancements (Continued)

The Bank

	Maximum exposure	
	2013	2012
Credit risk exposures relating to on-balance sheet assets are as follows:		
Balances with banks	21,003,446	13,064,838
Placements with and loans and advances to banks	23,266,965	19,627,668
Loans and advances to customers:		
Loans to individuals:		
– Overdrafts	875,596	561,215
– Credit cards	271,742	315,880
– Term loans and others	6,006,268	4,978,534
– Mortgages	7,475,107	6,934,623
Loans to corporate entities:		
– Large corporate customers and others	40,257,726	34,356,686
– Small and medium size enterprises (SME)	7,206,766	6,568,172
Financial assets held for trading:		
– Debt securities	177,704	206,967
Derivative financial instruments	73,485	51,446
Investment securities:		
– available-for-sale debt securities	23,041,321	25,329,782
– held-to-maturity debt securities	407,061	403,620
Other assets	635,424	932,634
Credit risk exposures relating to off-balance sheet items are as follows:		
– Financial guarantees	2,606,879	2,207,870
– Off-balance sheet commitments and other credit related contingent liabilities	46,965,344	41,459,033
At 31st December	180,270,834	156,998,968

The above tables represent a worst case scenario of credit risk exposures to the Group and the Bank as at 31st December 2013 and 2012, without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts. For letters of guarantee issued, the maximum exposure to credit risk is the maximum amount that the bank could be required to pay if the guarantees are called upon. For off-balance sheet commitments and other credit related contingent liabilities that are irrevocable over the life of the respective facilities or revocable in the event of a significant adverse change, the maximum exposure to credit risk is disclosed as the full amount of the committed facilities.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (Continued)

3.1.3 Maximum exposure to credit risk before collateral held or other credit enhancements (Continued)

Credit risk mitigation, collateral and other credit enhancements

The Group uses a variety of techniques to reduce the credit risk arising from its lending activities. Enforceable legal documentation establishes the Group's direct, irrevocable and unconditional recourse to any collateral, security or other credit enhancements provided.

The table below describes the nature of collateral held and their financial effect by class of financial asset:

Balances and placements with and loans and advances to banks	These exposures are generally considered to be low risk due to the nature of the counterparties. Collateral is generally not sought on these balances.
Securities lending	The Group has in place general guidelines on maximum loan to value ratio under securities lending. The loans and advances under securities lending are fully secured by the securities pledged.
Loans and advances	These exposures are secured, partially secured or unsecured depending on the type of collateral and type of facilities offered to customers. The major types of collateral taken include residential properties, other properties, bank deposits, stocks and shares and wealth management products. Recognised guarantees are also employed by the Group for credit enhancement. As at 31st December 2013, the collateral coverage of advances to customers is 86% (2012: 85%). As at 31st December 2013, 89% (2012: 89%) of the trade bills are bankers' acceptance under letters of credit.
Trading debt securities	These exposures are carried at fair value which reflects the credit risk. No collateral is sought directly from the issuer or the counterparty; however this may be implicit in the terms of the instrument.
Derivative financial instruments	Master netting agreements are typically used to enable the effects of derivative assets and liabilities with the same counterparty to be offset when measuring these exposures.
Available-for-sale debt securities	The exposures are subject to approved counterparty limit and country limit and under close monitoring in accordance with relevant policies of the Group. Impairment assessment is also conducted periodically.
Held-to-maturity debt securities	The exposures are subject to approved counterparty limit and country limit and under close monitoring in accordance with relevant policies of the Group. Impairment assessment is also conducted periodically.
Contingent liabilities and commitments	The components and nature of contingent liabilities and commitments are disclosed in Note 35. Regarding the commitments that are unconditionally cancellable without prior notice, the Group would withdraw the credit facilities extended to borrowers in case their credit quality deteriorates. Accordingly, these commitments do not expose the Group to significant credit risk.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (Continued)

3.1.4 Loans and advances

Loans and advances are summarised as follows:

The Group and the Bank

	2013	2012
Neither past due nor impaired	60,607,328	52,197,723
Past due but not impaired	1,387,248	1,325,586
Impaired	376,718	453,767
Gross	62,371,294	53,977,076
Less: impairment allowances	(278,089)	(261,966)
Net	62,093,205	53,715,110

The total impairment allowances for loans and advances is HK$278,089,000 (2012: HK$261,966,000) of which HK$34,002,000 (2012: HK$48,484,000) represents the individual impairment allowances and the remaining amount of HK$244,087,000 (2012: HK$213,482,000) represents the collective impairment allowances. Further information of the impairment allowances for loans and advances to customers is provided in Note 19.

(a) Loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the policies and procedures adopted by the Group.

The Group and the Bank As at 31st December 2013

	Individuals				Corporate entities		
	Overdrafts	Credit cards	Term loans and others	Mortgages	Large corporate customers and others	SME	Total loans and advances to customers
Grades:							
1 – pass	829,948	262,803	5,881,910	7,175,775	38,508,087	6,793,348	59,451,871
2 – special mention	38,817	7,446	63,917	130,956	609,040	305,281	1,155,457
Total	868,765	270,249	5,945,827	7,306,731	39,117,127	7,098,629	60,607,328

The Group and the Bank As at 31st December 2012

	Individuals				Corporate entities		
	Overdrafts	Credit cards	Term loans and others	Mortgages	Large corporate customers and others	SME	Total loans and advances to customers
Grades:							
1 – pass	537,040	311,445	4,835,311	6,604,963	32,605,522	6,191,015	51,085,296
2 – special mention	18,544	7,301	81,825	134,244	639,134	231,379	1,112,427
Total	555,584	318,746	4,917,136	6,739,207	33,244,656	6,422,394	52,197,723

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (Continued)

3.1.4 Loans and advances (Continued)

(b) Loans and advances past due but not impaired

Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

The Group and the Bank As at 31st December 2013

	Individuals				
	Overdrafts	Credit cards	Term loans and others	Mortgages	Total
Past due up to 30 days	–	4,671	46,494	130,151	181,316
Past due 30 – 60 days	2,806	448	616	8,285	12,155
Past due 60 – 90 days	–	82	1,665	1,942	3,689
Past due over 90 days	–	–	14,285	1,532	15,817
Total	2,806	5,201	63,060	141,910	212,977

	Corporate entities		
	Large corporate customers and others	SME	Total
Past due up to 30 days	955,838	108,232	1,064,070
Past due 30 – 60 days	44,383	5,011	49,394
Past due 60 – 90 days	53,124	5,381	58,505
Past due over 90 days	2,146	156	2,302
Total	1,055,491	118,780	1,174,271

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (Continued)

3.1.4 Loans and advances (Continued)

(b) Loans and advances past due but not impaired (Continued)

The Group and the Bank As at 31st December 2012

	Individuals				
	Overdrafts	Credit cards	Term loans and others	Mortgages	Total
Past due up to 30 days	–	1,549	42,177	133,875	177,601
Past due 30 – 60 days	528	367	882	20,049	21,826
Past due 60 – 90 days	–	151	–	18,706	18,857
Past due over 90 days	–	–	12,278	–	12,278
Total	528	2,067	55,337	172,630	230,562

	Corporate entities		
	Large corporate customers and others	SME	Total
Past due up to 30 days	943,269	117,169	1,060,438
Past due 30 – 60 days	13,702	20,255	33,957
Past due 60 – 90 days	–	629	629
Past due over 90 days	–	–	–
Total	956,971	138,053	1,095,024

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (Continued)

3.1.4 Loans and advances (Continued)

(c) Loans and advances overdue for more than 3 months

(i) Gross amount of overdue loans and advances

The Group and the Bank

	2013		2012	
		% of gross loans and advances to customers		% of gross loans and advances to customers
Gross loans and advances which have been overdue for:				
– six months or less but over three months	40,574	0.07	57,386	0.11
– one year or less but over six months	7,176	0.01	15,835	0.03
– over one year	144,793	0.23	158,601	0.29
	192,543	0.31	231,822	0.43

(ii) Value of collateral held and impairment allowances against overdue loans and advances

The Group and the Bank

	2013	2012
	Overdue loans and advances	Overdue loans and advances
Outstanding amount	192,543	231,822
Current market value of collateral	279,068	363,651
Covered portion by collateral	170,704	210,010
Uncovered portion by collateral	21,839	21,812
Individually assessed impairment allowances	30,316	29,893

Collateral held against such loans and advances mainly include mortgages over properties.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (Continued)

3.1.4 Loans and advances (Continued)

(d) Individually impaired loans and advances

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is HK$376,718,000 (2012: HK$453,767,000).

The breakdown of the gross amount of individually impaired loans and advances by class, along with the fair value of related collateral held by the Group as security, are as follows:

The Group and the Bank

	2013		2012	
	Individually impaired loans and advances	Fair value of collateral	Individually impaired loans and advances	Fair value of collateral
Individuals				
– Overdrafts	7,755	38,526	7,646	28,529
– Credit cards	4,665	–	4,462	–
– Term loans and others	21,373	52,404	27,927	76,910
– Mortgages	55,325	175,950	49,648	144,362
Corporate entities				
– Large corporate customers and others	266,237	367,443	325,614	427,673
– SME	21,363	46,556	38,470	85,175
Total	376,718	680,879	453,767	762,649
% of total loans and advances to customers	0.60		0.84	
Impairment allowances	34,002		48,484	

(e) Rescheduled loans and advances net of amounts included in loans and advances overdue for more than 3 months

The Group and the Bank

	2013		2012	
		% of gross loans and advances to customers		% of gross loans and advances to customers
Rescheduled loans and advances	14,189	0.02	205,314	0.38

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (Continued)

3.1.5 Debt securities

The table below presents an analysis of debt securities by rating agency designation for the respective issues as at 31st December, based on Standard & Poor's ratings or their equivalent. In the absence of issue rating, the debt securities are reported as unrated, though most of the issuers of these debt securities have issuer ratings from the rating agencies.

The Group As at 31st December 2013

	Financial assets held for trading	Available-for-sale investments	Held-to-maturity investments	Total
AAA	–	132,134	2,112,820	2,244,954
AA- to AA+	177,704	3,494,342	209,781	3,881,827
A- to A+	–	4,152,192	162,273	4,314,465
Lower than A-	–	1,489,284	–	1,489,284
Unrated	–	13,888,661	–	13,888,661
Total	177,704	23,156,613	2,484,874	25,819,191

The Group As at 31st December 2012

	Financial assets held for trading	Available-for-sale investments	Held-to-maturity investments	Total
AAA	–	371,160	2,292,164	2,663,324
AA- to AA+	189,381	4,658,052	–	4,847,433
A- to A+	17,586	4,309,177	204,666	4,531,429
Lower than A-	–	1,686,312	–	1,686,312
Unrated	–	14,345,581	–	14,345,581
Total	206,967	25,370,282	2,496,830	28,074,079

The Bank As at 31st December 2013

	Financial assets held for trading	Available-for-sale investments	Held-to-maturity investments	Total
AAA	–	132,134	38,990	171,124
AA- to AA+	177,704	3,483,965	209,781	3,871,450
A- to A+	–	4,131,316	158,290	4,289,606
Lower than A-	–	1,489,284	–	1,489,284
Unrated	–	13,804,622	–	13,804,622
Total	177,704	23,041,321	407,061	23,626,086

The Bank As at 31st December 2012

	Financial assets held for trading	Available-for-sale investments	Held-to-maturity investments	Total
AAA	–	371,160	202,951	574,111
AA- to AA+	189,381	4,647,528	–	4,836,909
A- to A+	17,586	4,309,177	200,669	4,527,432
Lower than A-	–	1,686,312	–	1,686,312
Unrated	–	14,315,605	–	14,315,605
Total	206,967	25,329,782	403,620	25,940,369

There were no overdue debt securities in the year of 2013 (2012: Nil).

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (Continued)

3.1.6 Repossessed asset

During the year, the Group and the Bank had not obtained assets by taking possession of collateral held as security (2012: HK$5,742,000).

As at 31st December 2012, the fair value of the repossessed asset of the Group and the Bank amounted to HK$6,380,000.

Repossessed asset is sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. Repossessed asset is classified in the statement of financial position within 'Other assets'.

3.1.7 Concentration of risks of financial assets with credit risk exposure

(a) Geographical sectors

The following table breaks down the Group's main credit exposures at their carrying amounts, as categorised by geographical region as of 31st December 2013 and 2012. For this table, the Group has allocated exposures to regions based on the country of domicile of its counterparties.

The Group As at 31st December 2013

	Hong Kong	Asia Pacific excluding Hong Kong	North and South America	Europe	Middle East and Africa	Total
Balances with banks	10,232,008	12,231,712	81,607	2,368,697	44	24,914,068
Placements with and loans and advances to banks	10,493,562	11,700,580	–	1,072,823	–	23,266,965
Loans and advances to customers:						
Loans to individuals:						
– Overdrafts	867,419	7,713	–	464	–	875,596
– Credit cards	268,952	2,790	–	–	–	271,742
– Term loans and others	4,919,084	366,031	714,836	6,317	–	6,006,268
– Mortgages	6,448,364	278,124	573,930	174,689	–	7,475,107
Loans to corporate entities:						
– Large corporate customers and others	28,098,385	1,909,633	10,047,639	202,069	–	40,257,726
– SME	6,440,066	636,686	130,014	–	–	7,206,766
Financial assets held for trading – debt securities	–	–	177,704	–	–	177,704
Derivative financial instruments	46,304	9	1,501	25,671	–	73,485
Investment securities – debt securities	9,022,196	11,254,773	5,189,169	175,349	–	25,641,487
Other assets	1,090,135	2,798	19,440	1,389	–	1,113,762
	77,926,475	38,390,849	16,935,840	4,027,468	44	137,280,676

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (Continued)

3.1.7 Concentration of risks of financial assets with credit risk exposure (Continued)

(a) Geographical sectors (Continued)

The Group As at 31st December 2012

	Hong Kong	Asia Pacific excluding Hong Kong	North and South America	Europe	Middle East and Africa	Total
Balances with banks	20,637,323	5,871,232	158,480	2,866,666	25	29,533,726
Placements with and loans and advances to banks	7,586,081	10,159,937	–	1,881,650	–	19,627,668
Loans and advances to customers:						
Loans to individuals:						
– Overdrafts	549,544	10,607	594	470	–	561,215
– Credit cards	312,171	3,709	–	–	–	315,880
– Term loans and others	4,018,576	189,709	763,578	6,671	–	4,978,534
– Mortgages	5,559,953	149,983	441,113	783,085	489	6,934,623
Loans to corporate entities:						
– Large corporate customers and others	23,666,429	1,516,598	8,863,608	310,051	–	34,356,686
– SME	5,581,745	719,896	266,531	–	–	6,568,172
Financial assets held for trading – debt securities	–	17,711	189,256	–	–	206,967
Derivative financial instruments	29,110	349	835	21,152	–	51,446
Investment securities – debt securities	10,276,757	11,553,433	5,522,265	514,657	–	27,867,112
Other assets	1,333,512	1,464	19,878	1,027	–	1,355,881
	79,551,201	30,194,628	16,226,138	6,385,429	514	132,357,910

The Bank As at 31st December 2013

	Hong Kong	Asia Pacific excluding Hong Kong	North and South America	Europe	Middle East and Africa	Total
Balances with banks	10,231,968	12,231,712	81,607	2,368,697	44	24,914,028
Placements with and loans and advances to banks	10,493,562	11,700,580	–	1,072,823	–	23,266,965
Loans and advances to customers:						
Loans to individuals:						
– Overdrafts	867,419	7,713	–	464	–	875,596
– Credit cards	268,952	2,790	–	–	–	271,742
– Term loans and others	4,919,084	366,031	714,836	6,317	–	6,006,268
– Mortgages	6,448,364	278,124	573,930	174,689	–	7,475,107
Loans to corporate entities:						
– Large corporate customers and others	28,098,385	1,909,633	10,047,639	202,069	–	40,257,726
– SME	6,440,066	636,686	130,014	–	–	7,206,766
Financial assets held for trading – debt securities	–	–	177,704	–	–	177,704
Derivative financial instruments	46,304	9	1,501	25,671	–	73,485
Investment securities – debt securities	6,923,585	11,198,230	5,151,218	175,349	–	23,448,382
Other assets	611,797	2,798	19,440	1,389	–	635,424
	75,349,486	38,334,306	16,897,889	4,027,468	44	134,609,193

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (Continued)

3.1.7 Concentration of risks of financial assets with credit risk exposure (Continued)

(a) Geographical sectors (Continued)

The Bank As at 31st December 2012

	Hong Kong	Asia Pacific excluding Hong Kong	North and South America	Europe	Middle East and Africa	Total
Balances with banks	20,637,323	5,871,232	158,480	2,866,666	25	29,533,726
Placements with and loans and advances to banks	7,586,081	10,159,937	–	1,881,650	–	19,627,668
Loans and advances to customers:						
Loans to individuals:						
– Overdrafts	549,544	10,607	594	470	–	561,215
– Credit cards	312,171	3,709	–	–	–	315,880
– Term loans and others	4,018,576	189,709	763,578	6,671	–	4,978,534
– Mortgages	5,559,953	149,983	441,113	783,085	489	6,934,623
Loans to corporate entities:						
– Large corporate customers and others	23,666,429	1,516,598	8,863,608	310,051	–	34,356,686
– SME	5,581,745	719,896	266,531	–	–	6,568,172
Financial assets held for trading – debt securities	–	17,711	189,256	–	–	206,967
Derivative financial instruments	29,110	349	835	21,152	–	51,446
Investment securities – debt securities	8,195,735	11,522,331	5,504,810	510,526	–	25,733,402
Other assets	910,265	1,464	19,878	1,027	–	932,634
	77,046,932	30,163,526	16,208,683	6,381,298	514	129,800,953

(b) Industry sectors

The following table breaks down the Group's main credit exposures at their carrying amounts, as categorised by the industry sectors of its counterparties.

For the analysis of balances with banks and placements with and loans and advances to banks, refer to Notes 17 and 18 respectively.

For the analysis of investment securities - debt securities by issuers, refer to Notes 22 and 23.

The Group and the Bank As at 31st December 2013

	Manufacturing	Real estate	Wholesale and retail trade	Import and export trade	Other industries	Individuals	Total
Loans and advances to customers:							
Loans to individuals:							
– Overdrafts	–	–	–	–	–	875,596	875,596
– Credit cards	–	–	–	–	–	271,742	271,742
– Term loans and others	–	–	–	–	–	6,006,268	6,006,268
– Mortgages	–	–	–	–	–	7,475,107	7,475,107
Loans to corporate entities:							
– Large corporate customers and others	2,525,651	16,237,939	1,742,787	9,019,925	10,731,424	–	40,257,726
– SME	688,484	2,529,078	299,122	870,588	2,819,494	–	7,206,766
	3,214,135	18,767,017	2,041,909	9,890,513	13,550,918	14,628,713	62,093,205

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (Continued)

3.1.7 Concentration of risks of financial assets with credit risk exposure (Continued)

(b) Industry sectors (Continued)

The Group and the Bank As at 31st December 2012

	Manufacturing	Real estate	Wholesale and retail trade	Import and export trade	Other industries	Individuals	Total
Loans and advances to customers:							
Loans to individuals:							
– Overdrafts	–	–	–	–	–	561,215	561,215
– Credit cards	–	–	–	–	–	315,880	315,880
– Term loans and others	–	–	–	–	–	4,978,534	4,978,534
– Mortgages	–	–	–	–	–	6,934,623	6,934,623
Loans to corporate entities:							
– Large corporate customers and others	2,207,441	12,545,673	1,238,010	7,334,349	11,031,213	–	34,356,686
– SME	724,570	2,577,210	304,568	795,093	2,166,731	–	6,568,172
	2,932,011	15,122,883	1,542,578	8,129,442	13,197,944	12,790,252	53,715,110

3.2 Market risk

Market risk is the risk that interest rates, foreign exchange rates, equity or commodity prices will move relative to positions taken, resulting in profits or losses. In the ordinary course of business, the Group enters into various types of financial instruments, mainly forward exchange contracts, that mainly comprise transactions initiated for the Group's own account. The Group's positions are managed by the Treasury Department under the limits and guidelines laid down in the foreign exchange risk management policy and policy on allocating transactions of financial instruments to the trading, non-trading or investment book approved by the Executive Committee. The Risk Management Department is responsible for monitoring the transactions to ensure the activities are within the relevant limits and guidelines.

3.2.1 Market risk measurement techniques

The measuring procedures and limit system used for market risk management have been approved by the Executive Committee. Limits on notional, stop loss and sensitivity are set for trading positions which are marked-to-market daily. The transactions included in the trading book as at 31st December 2013 and 2012 for the Group and the Bank are not significant.

Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress testing is tailored to the business and typically uses scenario analysis. The results of the stress tests are reviewed by management, the Asset and Liability Committee, the Executive Committee, the Risk Management Committee and the Board of Directors.

3.2.2 Market risk sensitivity summary for 2013 and 2012

The Group uses different types of derivatives to manage foreign exchange and interest rate sensitivity primarily by hedging its underlying positions. The types of derivatives used by the Group include forward exchange rate and interest rate contracts which are typically made over-the-counter and are managed within limits approved by the Executive Committee. The policy on the use of derivatives is reviewed by the Executive Committee and recommended changes and amendments are submitted to the Board for consideration.

Interest rate risk

As at 31st December 2013, if market interest rates had been 100 basis points higher (2012: 100 basis points higher) with other variables held constant, profit before tax for the year would have been HK$94,560,000 higher (2012: HK$59,314,000 lower). Available-for-sale investment revaluation shown as other comprehensive income would have been reduced by HK$219,865,000 (2012: reduced by HK$79,944,000).

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Market risk (Continued)

3.2.2 Market risk sensitivity summary for 2013 and 2012 (Continued)

Foreign exchange risk

As at 31st December 2013, over 90% (2012: over 90%) of the net on-balance sheet position of the Group were denominated in HKD and USD, and these two currencies were closely pegged, there is immaterial foreign exchange risk arising from the translation of foreign-currency denominated financial assets and financial liabilities into HKD.

3.2.3 Foreign exchange risk

Foreign exchange risk is the risk that the holding of foreign currencies will affect the Group's position as a result of a change in foreign currency exchange rates. The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Group's foreign exchange risk arises primarily from currency exposures originated by the Group's commercial banking businesses. The foreign exchange risk is managed by the Treasury Department and monitored by management and the Asset and Liability Committee within position limits set in the foreign exchange risk management policy approved by the Executive Committee. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. The table below summarises the Group's exposure to foreign currency exchange rate risk as at 31st December. Included in the table are the Group's financial instruments at carrying amounts, categorised by currency.

Concentrations of currency risk: on- and off-balance sheet financial instruments.

The Group As at 31st December 2013

	HKD	USD	RMB	Other	Total
Assets					
Cash and balances with banks	8,301,239	4,494,810	7,516,830	5,083,272	25,396,151
Placements with and loans and advances to banks	6,689,216	8,183,070	8,217,570	177,109	23,266,965
Loans and advances to customers	36,721,299	21,131,441	2,436,979	1,803,486	62,093,205
Financial assets held for trading	15,854	353,028	–	–	368,882
Derivative financial instruments	–	320	35,701	37,464	73,485
Investment securities:					
– Available-for-sale	11,267,082	9,926,214	414,437	3,864,403	25,472,136
– Held-to-maturity	2,073,935	410,939	–	–	2,484,874
Total	65,068,625	44,499,822	18,621,517	10,965,734	139,155,698
Liabilities					
Deposits and balances from banks	2,711,838	3,228,335	916,125	252,500	7,108,798
Deposits from customers	52,357,244	34,017,804	16,850,226	10,415,919	113,641,193
Derivative financial instruments	–	339	32,522	28,944	61,805
Other liabilities	889,996	326,568	40,505	25,401	1,282,470
Total	55,959,078	37,573,046	17,839,378	10,722,764	122,094,266
Net on-balance sheet position	9,109,547	6,926,776	782,139	242,970	17,061,432
Credit commitments	30,311,899	15,135,122	1,782,787	1,421,160	48,650,968

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Market risk (Continued)

3.2.3 Foreign exchange risk (Continued)

The Group As at 31st December 2012

	HKD	USD	RMB	Other	Total
Assets					
Cash and balances with banks	18,466,485	4,766,911	2,193,185	4,463,088	29,889,669
Placements with and loans and advances to banks	1,020,690	10,014,359	8,074,566	518,053	19,627,668
Loans and advances to customers	32,805,997	17,336,954	1,998,464	1,573,695	53,715,110
Financial assets held for trading	11,101	320,951	17,711	–	349,763
Derivative financial instruments	–	2,346	30,208	18,892	51,446
Investment securities:					
– Available-for-sale	11,442,249	10,299,495	861,756	4,355,480	26,958,980
– Held-to-maturity	2,089,318	407,512	–	–	2,496,830
Total	65,835,840	43,148,528	13,175,890	10,929,208	133,089,466
Liabilities					
Deposits and balances from banks	2,633,847	2,339,146	211,915	360,887	5,545,795
Deposits from customers	53,079,149	34,751,288	12,326,921	10,524,557	110,681,915
Derivative financial instruments	–	2,096	27,805	9,990	39,891
Other liabilities	872,582	273,192	35,272	76,061	1,257,107
Total	56,585,578	37,365,722	12,601,913	10,971,495	117,524,708
Net on-balance sheet position	9,250,262	5,782,806	573,977	(42,287)	15,564,758
Credit commitments	27,672,745	14,265,762	619,457	670,908	43,228,872

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Market risk (Continued)

3.2.3 Foreign exchange risk (Continued)

The Bank As at 31st December 2013

	HKD	USD	RMB	Other	Total
Assets					
Cash and balances with banks	8,301,193	4,494,810	7,516,830	5,083,272	25,396,105
Placements with and loans and advances to banks	6,689,216	8,183,070	8,217,570	177,109	23,266,965
Loans and advances to customers	36,721,299	21,131,441	2,436,979	1,803,486	62,093,205
Financial assets held for trading	–	353,028	–	–	353,028
Derivative financial instruments	–	320	35,701	37,464	73,485
Investment securities:					
– Available-for-sale	11,151,790	9,926,214	414,437	3,864,403	25,356,844
– Held-to-maturity	–	407,061	–	–	407,061
Total	62,863,498	44,495,944	18,621,517	10,965,734	136,946,693
Liabilities					
Deposits and balances from banks	2,711,838	3,228,335	916,125	252,500	7,108,798
Deposits from customers	52,357,244	34,017,804	16,850,226	10,415,919	113,641,193
Derivative financial instruments	–	339	32,522	28,944	61,805
Other liabilities	366,103	326,568	40,505	25,403	758,579
Total	55,435,185	37,573,046	17,839,378	10,722,766	121,570,375
Net on-balance sheet position	7,428,313	6,922,898	782,139	242,968	15,376,318
Credit commitments	30,311,899	15,135,122	1,782,787	1,421,160	48,650,968

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Market risk (Continued)

3.2.3 Foreign exchange risk (Continued)

The Bank As at 31st December 2012

	HKD	USD	RMB	Other	Total
Assets					
Cash and balances with banks	18,466,478	4,766,911	2,193,185	4,463,088	29,889,662
Placements with and loans and advances to banks	1,020,690	10,014,359	8,074,566	518,053	19,627,668
Loans and advances to customers	32,805,997	17,336,954	1,998,464	1,573,695	53,715,110
Financial assets held for trading	9,527	320,951	17,711	–	348,189
Derivative financial instruments	–	2,346	30,208	18,892	51,446
Investment securities:					
– Available-for-sale	11,395,352	10,299,495	861,756	4,355,480	26,912,083
– Held-to-maturity	–	403,620	–	–	403,620
Total	63,698,044	43,144,636	13,175,890	10,929,208	130,947,778
Liabilities					
Deposits and balances from banks	2,633,847	2,339,146	211,915	360,887	5,545,795
Deposits from customers	53,079,149	34,751,288	12,326,921	10,524,557	110,681,915
Derivative financial instruments	–	2,096	27,805	9,990	39,891
Other liabilities	414,946	273,169	35,229	76,270	799,614
Total	56,127,942	37,365,699	12,601,870	10,971,704	117,067,215
Net on-balance sheet position	7,570,102	5,778,937	574,020	(42,496)	13,880,563
Credit commitments	27,672,745	14,265,762	619,457	670,908	43,228,872

3.2.4 Interest rate risk

Interest rate risk is the risk that the Group's position may be adversely affected by a change of market interest rates. The Group's interest rate risk arises primarily from the timing differences in the repricing of interest bearing assets, liabilities and commitments (repricing risk) as well as change of market rates or pricing indices at different time or by different amounts for different financial instruments (basis risk). The primary objective of interest rate risk management is to limit the potential adverse effects of interest rate movement on net interest income by closely monitoring the net repricing gap of the Group's assets and liabilities. The interest rate risk is managed by the Treasury Department and monitored by management and the Asset and Liability Committee under the limits and guidelines laid down in the interest rate risk management policy approved by the Executive Committee.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Market risk (Continued)

3.2.4 Interest rate risk (Continued)

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily by management.

The table below summarises the Group's exposure to interest rate risks. It includes the Group's financial instruments at carrying amounts (non-derivatives), categorised by the earlier of contractual re-pricing (for example floating rate notes) or maturity dates.

The Group As at 31st December 2013

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and balances with banks	20,640,913	–	–	–	–	4,755,238	25,396,151
Placements with and loans and advances to banks	–	11,395,256	11,772,800	–	–	98,909	23,266,965
Loans and advances to customers	50,773,244	5,750,343	4,631,686	766,897	–	171,035	62,093,205
Financial assets held for trading	–	–	–	80,510	96,435	191,937	368,882
Derivative financial instruments	–	–	–	–	–	73,485	73,485
Investment securities:							
– Available-for-sale	3,146,358	9,430,997	1,518,076	6,399,127	2,492,838	2,484,740	25,472,136
– Held-to-maturity	3,878	277,632	350,145	1,848,667	–	4,552	2,484,874
Investments in joint ventures	–	–	–	–	–	234,456	234,456
Properties and equipment	–	–	–	–	–	2,424,014	2,424,014
Investment properties	–	–	–	–	–	92,495	92,495
Deferred income tax assets	–	–	–	–	–	50,430	50,430
Other assets	500,574	–	–	–	–	613,188	1,113,762
Total assets	75,064,967	26,854,228	18,272,707	9,095,201	2,589,273	11,194,479	143,070,855
Liabilities							
Deposits and balances from banks	6,069,089	1,015,297	–	–	–	24,412	7,108,798
Deposits from customers	62,415,219	23,273,073	17,057,488	684,412	5,022	10,205,979	113,641,193
Derivative financial instruments	–	–	–	–	–	61,805	61,805
Other liabilities	252,960	–	–	–	–	1,029,510	1,282,470
Provisions	–	–	–	–	–	93,064	93,064
Current income tax liabilities	–	–	–	–	–	141,000	141,000
Deferred income tax liabilities	–	–	–	–	–	240,543	240,543
Total liabilities	68,737,268	24,288,370	17,057,488	684,412	5,022	11,796,313	122,568,873
Total interest repricing gap	6,327,699	2,565,858	1,215,219	8,410,789	2,584,251	(601,834)	20,501,982

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Market risk (Continued)

3.2.4 Interest rate risk (Continued)

The Group As at 31st December 2012

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and balances with banks	12,730,646	–	–	–	–	17,159,023	29,889,669
Placements with and loans and advances to banks	–	9,342,615	10,210,669	–	–	74,384	19,627,668
Loans and advances to customers	44,950,061	5,064,469	3,462,434	79,187	–	158,959	53,715,110
Financial assets held for trading	1,574	–	17,578	89,470	98,875	142,266	349,763
Derivative financial instruments	–	–	–	–	–	51,446	51,446
Investment securities:							
– Available-for-sale	3,276,548	9,305,382	883,778	9,249,658	2,165,189	2,078,425	26,958,980
– Held-to-maturity	38,756	297,112	500,041	1,357,796	295,151	7,974	2,496,830
Investments in joint ventures	–	–	–	–	–	219,865	219,865
Properties and equipment	–	–	–	–	–	2,339,324	2,339,324
Investment properties	–	–	–	–	–	137,145	137,145
Deferred income tax assets	–	–	–	–	–	45,487	45,487
Other assets	255,727	–	496,687	–	–	603,467	1,355,881
Total assets	61,253,312	24,009,578	15,571,187	10,776,111	2,559,215	23,017,765	137,187,168
Liabilities							
Deposits and balances from banks	4,804,921	710,056	–	–	–	30,818	5,545,795
Deposits from customers	62,785,331	21,715,835	16,484,775	301,891	–	9,394,083	110,681,915
Derivative financial instruments	–	–	–	–	–	39,891	39,891
Other liabilities	285,082	–	–	–	–	972,025	1,257,107
Provisions	–	–	–	–	–	87,309	87,309
Current income tax liabilities	–	–	–	–	–	56,762	56,762
Deferred income tax liabilities	–	–	–	–	–	205,410	205,410
Total liabilities	67,875,334	22,425,891	16,484,775	301,891	–	10,786,298	117,874,189
Total interest repricing gap	(6,622,022)	1,583,687	(913,588)	10,474,220	2,559,215	12,231,467	19,312,979

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Market risk (Continued)

3.2.4 Interest rate risk (Continued)

The Bank As at 31st December 2013

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and balances with banks	20,640,875	–	–	–	–	4,755,230	25,396,105
Placements with and loans and advances to banks	–	11,395,256	11,772,800	–	–	98,909	23,266,965
Loans and advances to customers	50,773,244	5,750,343	4,631,686	766,897	–	171,035	62,093,205
Financial assets held for trading	–	–	–	80,510	96,435	176,083	353,028
Derivative financial instruments	–	–	–	–	–	73,485	73,485
Investment securities:							
– Available-for-sale	3,146,358	9,430,997	1,508,076	6,311,214	2,476,917	2,483,282	25,356,844
– Held-to-maturity	–	77,544	235,202	92,994	–	1,321	407,061
Investments in joint ventures	–	–	–	–	–	116,000	116,000
Investments in and loans to subsidiaries	–	–	–	–	–	2,471,452	2,471,452
Properties and equipment	–	–	–	–	–	2,034,255	2,034,255
Investment properties	–	–	–	–	–	32,571	32,571
Deferred income tax assets	–	–	–	–	–	50,276	50,276
Other assets	500,574	–	–	–	–	134,850	635,424
Total assets	75,061,051	26,654,140	18,147,764	7,251,615	2,573,352	12,598,749	142,286,671
Liabilities							
Deposits and balances from banks	6,069,089	1,015,297	–	–	–	24,412	7,108,798
Deposits from customers	62,415,219	23,273,073	17,057,488	684,412	5,022	10,205,979	113,641,193
Derivative financial instruments	–	–	–	–	–	61,805	61,805
Other liabilities	252,960	–	–	–	–	505,619	758,579
Provisions	–	–	–	–	–	92,209	92,209
Current income tax liabilities	–	–	–	–	–	140,577	140,577
Deferred income tax liabilities	–	–	–	–	–	240,522	240,522
Total liabilities	68,737,268	24,288,370	17,057,488	684,412	5,022	11,271,123	122,043,683
Total interest repricing gap	6,323,783	2,365,770	1,090,276	6,567,203	2,568,330	1,327,626	20,242,988

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Market risk (Continued)

3.2.4 Interest rate risk (Continued)

The Bank As at 31st December 2012

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and balances with banks	12,730,646	–	–	–	–	17,159,016	29,889,662
Placements with and loans and advances to banks	–	9,342,615	10,210,669	–	–	74,384	19,627,668
Loans and advances to customers	44,950,061	5,064,469	3,462,434	79,187	–	158,959	53,715,110
Financial assets held for trading	–	–	17,578	89,470	98,875	142,266	348,189
Derivative financial instruments	–	–	–	–	–	51,446	51,446
Investment securities:							
– Available-for-sale	3,276,548	9,295,373	879,792	9,224,447	2,165,189	2,070,734	26,912,083
– Held-to-maturity	38,756	77,514	46,709	238,518	–	2,123	403,620
Investments in joint ventures	–	–	–	–	–	116,000	116,000
Investments in and loans to subsidiaries	–	–	–	–	–	2,408,166	2,408,166
Properties and equipment	–	–	–	–	–	2,009,388	2,009,388
Investment properties	–	–	–	–	–	32,999	32,999
Deferred income tax assets	–	–	–	–	–	45,487	45,487
Other assets	255,727	–	496,687	–	–	180,220	932,634
Total assets	61,251,738	23,779,971	15,113,869	9,631,622	2,264,064	24,451,188	136,492,452
Liabilities							
Deposits and balances from banks	4,804,921	710,056	–	–	–	30,818	5,545,795
Deposits from customers	62,785,331	21,715,835	16,484,775	301,891	–	9,394,083	110,681,915
Derivative financial instruments	–	–	–	–	–	39,891	39,891
Other liabilities	285,082	–	–	–	–	514,532	799,614
Provisions	–	–	–	–	–	86,833	86,833
Current income tax liabilities	–	–	–	–	–	56,381	56,381
Deferred income tax liabilities	–	–	–	–	–	205,375	205,375
Total liabilities	67,875,334	22,425,891	16,484,775	301,891	–	10,327,913	117,415,804
Total interest repricing gap	(6,623,596)	1,354,080	(1,370,906)	9,329,731	2,264,064	14,123,275	19,076,648

3.3 Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfill commitments to lend. The Group's liquidity is managed by the Treasury Department and monitored by management and the Asset and Liability Committee in accordance with the guidelines and procedures laid down in the liquidity management policy approved by the Board of Directors, which has regard to a variety of factors, including liquidity ratio, loan to deposit ratio, liquidity cushion, maturity mismatch profile, diversity and stability of the deposit base and ability to borrow in the interbank market to ensure that both the funding liquidity and market liquidity are properly handled. An adequate stock of high quality liquid assets is being maintained at all times, in order to enable the Group to meet deposit withdrawals, to repay interbank borrowings, and to make new loans and investments as and when required in a timely and cost effective manner under both normal business conditions and emergency situations.

3.3.1 Liquidity risk management process

The Group's liquidity management process, as carried out within the Group and monitored by management, includes:

– Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers. The Group maintains an active presence in global money markets to enable this to happen;

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Liquidity risk (Continued)

3.3.1 Liquidity risk management process (Continued)

– Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
– Monitoring statement of financial position liquidity ratios against internal and regulatory requirements; and
– Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets (Notes 3.3.4).

Management also monitors unmatched medium-term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees.

The Group also conducts stress tests regularly, including institution-specific crisis scenario, general market crisis scenario and the combined scenario of both crises to assess the potential liquidity risk under stressed market conditions with minimum survival period defined in accordance with the Hong Kong Monetary Authority's Supervisory Policy Manual LM-2 'Sound Systems and Controls for Liquidity Risk Management' and formulates a contingency funding plan to set the strategy for dealing with liquidity problems and the procedures for making up cash flow deficits in emergency situations.

3.3.2 Maturity analysis

The table below analyses the Group's assets and liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date.

The Group As at 31st December 2013

	Repayable on demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Indefinite	Total
Assets								
Cash and balances with banks	9,751,870	15,644,281	–	–	–	–	–	25,396,151
Placements with and loans and advances to banks	–	–	11,693,651	11,573,314	–	–	–	23,266,965
Loans and advances to customers	5,197,926	4,227,159	5,745,406	11,437,683	19,185,855	15,922,458	376,718	62,093,205
Financial assets held for trading	–	190	190	380	80,509	96,435	191,178	368,882
Derivative financial instruments	–	7,231	31,749	33,686	819	–	–	73,485
Investment securities:								
– Available-for-sale	–	243,259	750,666	3,667,865	15,505,878	2,986,191	2,318,277	25,472,136
– Held-to-maturity	–	3,895	279,550	352,761	1,848,668	–	–	2,484,874
Investments in joint ventures	–	–	–	–	–	–	234,456	234,456
Properties and equipment	–	–	–	–	100,466	2,288,071	35,477	2,424,014
Investment properties	–	–	–	–	–	92,495	–	92,495
Deferred income tax assets	–	–	–	–	50,430	–	–	50,430
Other assets	26,958	1,004,704	4,353	36,040	37,588	–	4,119	1,113,762
Total assets	14,976,754	21,130,719	18,505,565	27,101,729	36,810,213	21,385,650	3,160,225	143,070,855
Liabilities								
Deposits and balances from banks	597,174	5,513,783	170,660	827,181	–	–	–	7,108,798
Deposits from customers	43,303,526	29,119,512	23,339,511	17,188,428	690,216	–	–	113,641,193
Derivative financial instruments	–	7,347	24,847	29,082	529	–	–	61,805
Other liabilities	56,380	912,657	56,466	256,967	–	–	–	1,282,470
Provisions	–	92,919	–	–	–	145	–	93,064
Current income tax liabilities	–	–	–	141,000	–	–	–	141,000
Deferred income tax liabilities	–	–	–	–	240,543	–	–	240,543
Total liabilities	43,957,080	35,646,218	23,591,484	18,442,658	931,288	145	–	122,568,873
Net liquidity gap	(28,980,326)	(14,515,499)	(5,085,919)	8,659,071	35,878,925	21,385,505	3,160,225	20,501,982

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Liquidity risk (Continued)

3.3.2 Maturity analysis (Continued)

The Group As at 31st December 2012

	Repayable on demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Indefinite	Total
Assets								
Cash and balances with banks	18,849,630	11,040,039	–	–	–	–	–	29,889,669
Placements with and loans and advances to banks	–	–	9,377,750	10,249,918	–	–	–	19,627,668
Loans and advances to customers	4,787,957	3,905,186	4,565,616	8,901,648	16,734,488	14,820,215	–	53,715,110
Financial assets held for trading	–	228	359	18,034	89,471	98,875	142,796	349,763
Derivative financial instruments	–	12,611	15,635	22,852	348	–	–	51,446
Investment securities:								
– Available-for-sale	–	833,447	1,452,423	2,680,537	17,691,760	2,709,361	1,591,452	26,958,980
– Held-to-maturity	–	38,757	223,133	504,861	1,435,010	295,069	–	2,496,830
Investments in joint ventures	–	–	–	–	–	–	219,865	219,865
Properties and equipment	–	–	–	–	109,483	2,194,372	35,469	2,339,324
Investment properties	–	–	–	–	–	137,145	–	137,145
Deferred income tax assets	–	–	–	–	45,487	–	–	45,487
Other assets	50,620	728,063	10,221	38,698	524,160	2,619	1,500	1,355,881
Total assets	23,688,207	16,558,331	15,645,137	22,416,548	36,630,207	20,257,656	1,991,082	137,187,168
Liabilities								
Deposits and balances from banks	460,364	4,258,603	–	–	826,828	–	–	5,545,795
Deposits from customers	41,812,290	30,185,812	21,775,249	16,605,543	303,021	–	–	110,681,915
Derivative financial instruments	–	9,748	11,873	18,192	78	–	–	39,891
Other liabilities	68,949	835,894	65,064	287,200	–	–	–	1,257,107
Provisions	–	87,215	–	–	–	94	–	87,309
Current income tax liabilities	–	–	–	56,762	–	–	–	56,762
Deferred income tax liabilities	–	–	–	–	205,410	–	–	205,410
Total liabilities	42,341,603	35,377,272	21,852,186	16,967,697	1,335,337	94	–	117,874,189
Net liquidity gap	(18,653,396)	(18,818,941)	(6,207,049)	5,448,851	35,294,870	20,257,562	1,991,082	19,312,979

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Liquidity risk (Continued)

3.3.2 Maturity analysis (Continued)

The Bank As at 31st December 2013

	Repayable on demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Indefinite	Total
Assets								
Cash and balances with banks	9,751,824	15,644,281	–	–	–	–	–	25,396,105
Placements with and loans and advances to banks	–	–	11,693,651	11,573,314	–	–	–	23,266,965
Loans and advances to customers	5,197,926	4,227,159	5,745,406	11,437,683	19,185,855	15,922,458	376,718	62,093,205
Financial assets held for trading	–	190	190	380	80,509	96,435	175,324	353,028
Derivative financial instruments	–	7,231	31,749	33,686	819	–	–	73,485
Investment securities:								
– Available-for-sale	–	242,369	749,373	3,657,489	15,417,912	2,971,424	2,318,277	25,356,844
– Held-to-maturity	–	17	78,266	235,783	92,995	–	–	407,061
Investments in joint ventures	–	–	–	–	–	–	116,000	116,000
Investments in and loans to/ (deposits from) subsidiaries (net)	147,187	(72,956)	232,476	110,179	1,844,788	16,613	193,165	2,471,452
Properties and equipment	–	–	–	–	106,489	1,908,768	18,998	2,034,255
Investment properties	–	–	–	–	–	32,571	–	32,571
Deferred income tax assets	–	–	–	–	50,276	–	–	50,276
Other assets	26,958	533,924	3,520	32,250	38,772	–	–	635,424
Total assets	15,123,895	20,582,215	18,534,631	27,080,764	36,818,415	20,948,269	3,198,482	142,286,671
Liabilities								
Deposits and balances from banks	597,174	5,513,783	170,660	827,181	–	–	–	7,108,798
Deposits from customers	43,303,526	29,119,512	23,339,511	17,188,428	690,216	–	–	113,641,193
Derivative financial instruments	–	7,347	24,847	29,082	529	–	–	61,805
Other liabilities	56,380	390,936	56,072	255,191	–	–	–	758,579
Provisions	–	92,209	–	–	–	–	–	92,209
Current income tax liabilities	–	–	–	140,577	–	–	–	140,577
Deferred income tax liabilities	–	–	–	–	240,522	–	–	240,522
Total liabilities	43,957,080	35,123,787	23,591,090	18,440,459	931,267	–	–	122,043,683
Net liquidity gap	(28,833,185)	(14,541,572)	(5,056,459)	8,640,305	35,887,148	20,948,269	3,198,482	20,242,988

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Liquidity risk (Continued)

3.3.2 Maturity analysis (Continued)

The Bank As at 31st December 2012

	Repayable on demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Indefinite	Total
Assets								
Cash and balances with banks	18,849,623	11,040,039	–	–	–	–	–	29,889,662
Placements with and loans and advances to banks	–	–	9,377,750	10,249,918	–	–	–	19,627,668
Loans and advances to customers	4,787,957	3,905,186	4,565,616	8,901,648	16,734,488	14,820,215	–	53,715,110
Financial assets held for trading	–	228	359	18,034	89,471	98,875	141,222	348,189
Derivative financial instruments	–	12,611	15,635	22,852	348	–	–	51,446
Investment securities:								
– Available-for-sale	–	833,377	1,441,791	2,676,477	17,666,022	2,709,361	1,585,055	26,912,083
– Held-to-maturity	–	38,757	1,303	47,528	316,032	–	–	403,620
Investments in joint ventures	–	–	–	–	–	–	116,000	116,000
Investments in and loans to/ (deposits from) subsidiaries (net)	(744,813)	(101,946)	47,049	977,188	1,689,363	348,165	193,160	2,408,166
Properties and equipment	–	–	–	–	115,998	1,874,399	18,991	2,009,388
Investment properties	–	–	–	–	–	32,999	–	32,999
Deferred income tax assets	–	–	–	–	45,487	–	–	45,487
Other assets	50,620	311,910	9,637	35,479	524,988	–	–	932,634
Total assets	22,943,387	16,040,162	15,459,140	22,929,124	37,182,197	19,884,014	2,054,428	136,492,452
Liabilities								
Deposits and balances from banks	460,364	4,258,603	–	–	826,828	–	–	5,545,795
Deposits from customers	41,812,290	30,185,812	21,775,249	16,605,543	303,021	–	–	110,681,915
Derivative financial instruments	–	9,748	11,873	18,192	78	–	–	39,891
Other liabilities	68,949	394,789	62,085	273,791	–	–	–	799,614
Provisions	–	86,833	–	–	–	–	–	86,833
Current income tax liabilities	–	–	–	56,381	–	–	–	56,381
Deferred income tax liabilities	–	–	–	–	205,375	–	–	205,375
Total liabilities	42,341,603	34,935,785	21,849,207	16,953,907	1,335,302	–	–	117,415,804
Net liquidity gap	(19,398,216)	(18,895,623)	(6,390,067)	5,975,217	35,846,895	19,884,014	2,054,428	19,076,648

3.3.3 Funding approach

Sources of liquidity are regularly reviewed by management to maintain a wide diversification by currency, geography, provider, product and term.

3.3.4 Non-derivative financial liabilities and assets held for managing liquidity risk

The table below presents the cash flows payable by the Group under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the end of the reporting period. The amounts disclosed in the table are the contractual undiscounted cash flow, whereas the Group manages the liquidity risk based on a different basis, but they do not result in a significantly different analysis.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Liquidity risk (Continued)

3.3.4 Non-derivative financial liabilities and assets held for managing liquidity risk (Continued)

The Group As at 31st December 2013

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities						
Deposits and balances from banks	6,116,449	174,522	828,859	–	–	7,119,830
Deposits from customers	72,505,506	23,454,595	17,469,134	743,508	–	114,172,743
Other liabilities	969,037	56,466	256,967	–	–	1,282,470
Total	79,590,992	23,685,583	18,554,960	743,508	–	122,575,043
Assets held for managing liquidity risk	35,396,995	18,917,050	28,615,214	41,391,749	27,317,016	151,638,024

The Group As at 31st December 2012

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities						
Deposits and balances from banks	4,719,854	2,169	6,560	843,272	–	5,571,855
Deposits from customers	72,023,298	21,829,923	16,751,514	334,203	–	110,938,938
Other liabilities	895,838	47,056	206,162	–	–	1,149,056
Total	77,638,990	21,879,148	16,964,236	1,177,475	–	117,659,849
Assets held for managing liquidity risk	39,521,779	15,848,576	23,623,209	40,361,474	23,056,290	142,411,328

The Bank As at 31st December 2013

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities						
Deposits and balances from banks	6,116,449	174,522	828,859	–	–	7,119,830
Deposits from customers	72,505,506	23,454,595	17,469,134	743,508	–	114,172,743
Other liabilities	447,316	56,072	255,191	–	–	758,579
Total	79,069,271	23,685,189	18,553,184	743,508	–	122,051,152
Assets held for managing liquidity risk	35,391,760	18,713,329	28,485,336	39,537,792	27,285,551	149,413,768

The Bank As at 31st December 2012

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities						
Deposits and balances from banks	4,719,854	2,169	6,560	843,272	–	5,571,855
Deposits from customers	72,023,298	21,829,923	16,751,514	334,203	–	110,938,938
Other liabilities	456,391	47,056	206,162	–	–	709,609
Total	77,199,543	21,879,148	16,964,236	1,177,475	–	117,220,402
Assets held for managing liquidity risk	39,521,772	15,848,576	23,623,209	40,361,474	23,056,290	142,411,321

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Liquidity risk (Continued)

3.3.4 Non-derivative financial liabilities and assets held for managing liquidity risk (Continued)

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash and balances with banks, placements with and loans and advances to banks, loans and advances to customers, investment securities and financial assets held for trading. In addition, debt securities can be pledged to secure liabilities, if necessary. The Group would also be able to meet unexpected net cash outflows by selling securities and accessing additional funding sources such as asset-backed markets.

The Group's policy defines the size and composition of liquidity cushion. The Group's liquidity cushion includes but not limited to high quality government securities such as Exchange Fund papers and the United States Treasuries.

3.3.5 Derivative liabilities

The table below analyses the Group's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. Contractual maturities are assessed to be essential for an understanding of the timing of the cashflows on all derivatives. Some of the Group's derivatives are subject to collateral requirements. Cash flows for those derivatives could occur earlier than the contractual maturity. The amounts disclosed in the table are the contractual undiscounted cash flows.

The Group and the Bank As at 31st December 2013

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Derivatives held for trading:						
Exchange rate contracts						
– Outflow	2,686,773	2,664,464	2,814,673	31,007	–	8,196,917
– Inflow	2,686,729	2,670,599	2,819,586	31,294	–	8,208,208

The Group and the Bank As at 31st December 2012

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Derivatives held for trading:						
Exchange rate contracts						
– Outflow	5,886,706	2,439,853	3,402,216	27,663	–	11,756,438
– Inflow	5,890,689	2,441,673	3,407,249	27,958	–	11,767,569

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Liquidity risk (Continued)

3.3.6 Off-balance sheet items

(a) Loan and other commitments

The dates of the contractual amounts of the Group's off-balance sheet instruments (Note 35(c)) that commit it to extend credit to customers and other facilities, are summarised in the table below.

(b) Acceptances and other financial facilities

Acceptances and other financial facilities, are also included below based on the conditions existing at the reporting date as to what contractual payments are required.

(c) Operating lease commitments

Where a group company is the lessee, the future minimum lease payments under non-cancellable operating leases, as disclosed in Note 35(b), are summarised in the table below.

(d) Capital commitments

Capital commitments for the acquisition of properties and equipment (Note 35(a)) are summarised in the table below.

The Group As at 31st December 2013

	No later than 1 year	1-5 years	Over 5 years	Total
Loan and other commitments	40,255,132	2,454,723	70,557	42,780,412
Guarantees, acceptances and other financial facilities				
– Acceptances	451,565	–	–	451,565
– Guarantees and standby letters of credit	2,379,350	224,127	3,402	2,606,879
– Documentary and commercial letters of credit	2,811,208	904	–	2,812,112
Operating lease commitments	105,436	147,540	4,300	257,276
Capital commitments	433,894	263,362	–	697,256
Total	46,436,585	3,090,656	78,259	49,605,500

The Group As at 31st December 2012

	No later than 1 year	1-5 years	Over 5 years	Total
Loan and other commitments	35,106,977	2,482,232	24,043	37,613,252
Guarantees, acceptances and other financial facilities				
– Acceptances	555,513	–	–	555,513
– Guarantees and standby letters of credit	1,974,529	225,871	7,470	2,207,870
– Documentary and commercial letters of credit	2,799,940	52,297	–	2,852,237
Operating lease commitments	97,416	157,896	–	255,312
Capital commitments	91,711	80,528	–	172,239
Total	40,626,086	2,998,824	31,513	43,656,423

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Liquidity risk (Continued)

3.3.6 Off-balance sheet items (Continued)

The Bank As at 31st December 2013

	No later than 1 year	1-5 years	Over 5 years	Total
Loan and other commitments	40,255,132	2,454,723	70,557	42,780,412
Guarantees, acceptances and other financial facilities				
– Acceptances	451,565	–	–	451,565
– Guarantees and standby letters of credit	2,379,350	224,127	3,402	2,606,879
– Documentary and commercial letters of credit	2,811,208	904	–	2,812,112
Operating lease commitments	107,992	157,764	6,004	271,760
Capital commitments	386,133	263,362	–	649,495
Total	46,391,380	3,100,880	79,963	49,572,223

The Bank As at 31st December 2012

	No later than 1 year	1-5 years	Over 5 years	Total
Loan and other commitments	35,106,977	2,482,232	24,043	37,613,252
Guarantees, acceptances and other financial facilities				
– Acceptances	555,513	–	–	555,513
– Guarantees and standby letters of credit	1,974,529	225,871	7,470	2,207,870
– Documentary and commercial letters of credit	2,799,940	52,297	–	2,852,237
Operating lease commitments	99,920	167,913	4,173	272,006
Capital commitments	88,309	77,716	–	166,025
Total	40,625,188	3,006,029	35,686	43,666,903

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.4 Fair value of financial assets and liabilities

(a) Financial instruments not measured at fair value

(i) Balances with banks and placements with and loans and advances to banks

Balances with banks and placements with and loans and advances to banks include inter-bank placements. The maturities of these financial assets are within one year. The carrying amount at statement of financial position approximates their fair value.

(ii) Loans and advances to customers

Loans and advances are stated net of impairment allowances. An insignificant portion of loans and advances to customers bears interest at fixed rate. The carrying amount at statement of financial position approximates their fair value.

(iii) Investment securities

The fair value for held-to-maturity securities is based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics. For the carrying value and fair value of held-to-maturity securities, please refer to Note 23. The fair value of held-to-maturity securities is classified under Level 1 (2013: HK$2,384,922,000, 2012: HK$2,557,121,000) and Level 2 (2013: HK$115,114,000, 2012: Nil) in the fair value hierarchy. Please refer to Note 3.4(b) for the definition of fair value hierarchy.

(iv) Deposits and balances from banks and deposits from customers

Substantially all the deposits and balances from banks and deposits from customers mature within one year from the statement of financial position date. Hence, the carrying amount at statement of financial position approximates their fair value.

(v) Loans to and balances with subsidiaries

Loans to subsidiaries are secured, interest free and have no fixed term of repayment. Balances with subsidiaries are unsecured, interest free and have no fixed term of repayment. The carrying amount at statement of financial position approximates their fair value.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.4 Fair value of financial assets and liabilities (Continued)

(b) Fair value hierarchy

Valuation governance

The Group has in place fair valuation policy to ensure adequate governance and control processes for the designation and valuation of financial instruments to be measured at fair value for financial reporting, risk management and regulatory capital purposes. The valuation process is conducted by control units independent of risk taking units.

The Group is to recognise transfers into and transfers out of fair value hierarchy levels as of that date of the event or change in circumstances that caused the transfer.

HKFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt securities on exchanges (for example, The Hong Kong Stock Exchange, The London Stock Exchange, The Frankfurt Stock Exchange and The New York Stock Exchange) and paper gold.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the OTC derivative contracts, unlisted equities securities and unlisted debt securities. The sources of input parameters such as HIBOR and LIBOR yield curves or counterparty credit risk are obtained from Bloomberg and Reuters.

Level 3 – Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.4 Fair value of financial assets and liabilities (Continued)

(b) Fair value hierarchy (Continued)

Recurring fair value measurement

The Group As at 31st December 2013	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
Debt securities	177,704	–	–	177,704
Equity securities	190,581	–	–	190,581
Others	597	–	–	597
Derivative financial instruments				
Currency forwards and swaps	–	73,485	–	73,485
Available-for-sale investments				
Debt securities	6,162,230	16,991,629	2,754	23,156,613
Equity securities	102,364	99,176	2,113,983	2,315,523
Total Assets	6,633,476	17,164,290	2,116,737	25,914,503
Derivative financial instruments				
Currency forwards and swaps	–	61,805	–	61,805
Total Liabilities	–	61,805	–	61,805

The Group As at 31st December 2012	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
Debt securities	206,842	125	–	206,967
Equity securities	134,140	–	–	134,140
Others	8,656	–	–	8,656
Derivative financial instruments				
Currency forwards and swaps	–	51,446	–	51,446
Available-for-sale investments				
Debt securities	7,669,160	17,698,368	2,754	25,370,282
Equity securities	115,323	–	1,473,375	1,588,698
Total Assets	8,134,121	17,749,939	1,476,129	27,360,189
Derivative financial instruments				
Currency forwards and swaps	–	39,891	–	39,891
Total Liabilities	–	39,891	–	39,891

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.4 Fair value of financial assets and liabilities (Continued)

(b) Fair value hierarchy (Continued)

The Bank As at 31st December 2013

	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
Debt securities	177,704	–	–	177,704
Equity securities	174,727	–	–	174,727
Others	597	–	–	597
Derivative financial instruments				
Currency forwards and swaps	–	73,485	–	73,485
Available-for-sale investments				
Debt securities	6,162,230	16,876,337	2,754	23,041,321
Equity securities	102,364	99,176	2,113,983	2,315,523
Total Assets	6,617,622	17,048,998	2,116,737	25,783,357
Derivative financial instruments				
Currency forwards and swaps	–	61,805	–	61,805
Total Liabilities	–	61,805	–	61,805

The Bank As at 31st December 2012

	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
Debt securities	206,842	125	–	206,967
Equity securities	132,566	–	–	132,566
Others	8,656	–	–	8,656
Derivative financial instruments				
Currency forwards and swaps	–	51,446	–	51,446
Available-for-sale investments				
Debt securities	7,669,160	17,657,868	2,754	25,329,782
Equity securities	108,926	-	1,473,375	1,582,301
Total Assets	8,126,150	17,709,439	1,476,129	27,311,718
Derivative financial instruments				
Currency forwards and swaps	–	39,891	–	39,891
Total Liabilities	–	39,891	–	39,891

There were no significant transfers of financial assets or liabilities between level 1 and level 2 fair value hierarchy classifications.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.4 Fair value of financial assets and liabilities (Continued)

(b) Fair value hierarchy (Continued)

Level 2 fair values of unlisted debt investments are determined based on quotes from brokers. The most significant input is discount rate of the instruments.

Level 2 fair values of unlisted equities securities are determined based on quoted prices for identical assets from over-the-counter market.

Level 2 fair values of currency forward and swap contracts are determined using forward exchange rates at the date of the statement of financial position, with the resulting value discounted back to present value.

Level 3 fair values of unlisted equities securities are determined based on latest price of identical assets between independent third parties. If no such information is available, management estimates the fair value based on comparable market data such as price to book ratio, price to earnings ratio etc.

If the change in the price to book ratio would be shifted by +/- 5% the impact on other comprehensive income would be increased/ decreased by HK$103,965,000, respectively.

The following table presents the changes in level 3 instruments for the years ended 31st December 2012 and 2013 respectively.

The Group and the Bank

	Available-for-sale investments		Total
	Equity securities	Debt securities	
At 1st January 2012	1,462,726	2,754	1,465,480
Total gains			
– Profit or loss	–	–	–
– Other comprehensive income	12,550	–	12,550
Purchases	1,302	–	1,302
Settlements	–	–	–
Exchange differences	(3,203)	–	(3,203)
At 31st December 2012	1,473,375	2,754	1,476,129
At 1st January 2013	**1,473,375**	**2,754**	**1,476,129**
Total gains			
– Profit or loss	**–**	**–**	**–**
– Other comprehensive income	**493,396**	**–**	**493,396**
Purchases	**248,334**	**–**	**248,334**
Settlements	**–**	**–**	**–**
Transfer to level 2	**(99,176)**	**–**	**(99,176)**
Exchange differences	**(1,946)**	**–**	**(1,946)**
At 31st December 2013	**2,113,983**	**2,754**	**2,116,737**

In year 2013, the Group transferred available-for-sale equity securities from Level 3 to Level 2 as a result of adoption of HKFRS 13 during the year as the fair value of such equity securities is based on quoted prices for identical assets obtained from over-the-counter market.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.5 Capital management

The Group's policy is to maintain a strong capital base to support the development of the Group's business and to ensure compliance with the statutory capital adequacy ratio requirement, a requirement used to assess the capital adequacy of banks. Capital is allocated to the various activities of the Group depending on the risk taken by each business division. Where the subsidiaries or branches are directly regulated by other regulators, they are required to maintain capital according to the rules of those regulators.

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of statement of financial position, are:

- To comply with the capital requirements under the Banking (Capital) Rules of the Banking Ordinance;
- 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;
- To support the Group's stability and growth;
- To allocate capital in an efficient and risk based approach to optimise risk adjusted return to the shareholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Group's management, employing techniques based on the Banking (Capital) Rules. The required information is filed with the Hong Kong Monetary Authority ('HKMA') on a quarterly basis.

The HKMA requires each bank or banking group to maintain a ratio of total regulatory capital to the risk-weighted asset (the capital adequacy ratio) at or above the minimum of 8%. In addition, those individual banking subsidiaries or similar financial institutions not incorporated in Hong Kong are also directly regulated and supervised by their local banking supervisors, which may differ from country to country. Subsidiaries of the Group are also subject to statutory capital requirements from other regulatory authorities, such as the Securities and Futures Commission.

The regulatory capital requirements are strictly observed when managing economic capital. The Group's regulatory capital is managed by its central Group Treasury and comprises two tiers:

- Tier 1 capital: share capital, general reserve, available-for-sale investment revaluation reserve and retained earnings; and
- Tier 2 capital: collective impairment allowances and regulatory reserve.

	2013	2012
Capital adequacy ratio	19.6%	18.0%
Tier 1 capital ratio / core capital ratio	19.0%	17.8%

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.6 Operational risk management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It is inherent in all material products, activities, processes and systems. The Operational Risk Management Committee oversees the Group's operational risk to ensure the operations are in accordance with the controls and procedures laid down in the operational risk management policy approved by the Executive Committee. The Risk Management Department is responsible for the central operational risk management function. Policies and procedures have been established to control exposures and to identify operational risk factors. Insurance policies are taken to mitigate unforeseeable operational risk. A Business Continuity Plan is established to ensure the Group's ability to operate on an ongoing basis and limit losses in the event of severe business disruption, particularly where the Group's physical, telecommunication, or information technology infrastructures have been damaged or made inaccessible.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

4.1 Critical accounting estimates and assumptions

The Group's financial statements and its financial results are influenced by accounting policies, assumptions, estimates, and management judgment which necessarily have to be made in the course of preparation of the consolidated financial statements.

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events.

Accounting policies and management's judgments for certain items are especially critical for the Group's results and financial situation due to their materiality in amount.

(i) Impairment allowances on loans and advances

The Group reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Impairment of available-for-sale investments

The Group follows the guidance of HKAS 39 to determine when available-for-sale investments are impaired. This determination requires judgment. In making this judgment, the Group evaluates among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIE (CONTINUED)

4.1 Critical accounting estimates and assumptions (Continued)

(iii) Held-to-maturity investments

The Group follows the guidance of HKAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale investments. The investments would therefore be measured at fair value not amortised cost.

(iv) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax and deferred tax assets and liabilities in the period in which such determination is made.

4.2 Critical judgments in applying the Group's accounting policies

Distinction between investment property and owner-occupied property

The Group determines whether a property qualifies as investment property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions can be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

5 BUSINESS ACTIVITIES ANALYSIS

(a) By business activities

The Group is engaged predominantly in banking and related financial activities. It comprises retail and corporate banking, trade finance, treasury and other classes of business.

Retail banking - incorporating banking services to private individuals such as current accounts, savings accounts, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.

Corporate banking - incorporating current accounts, deposits, overdrafts, loans and other credit facilities.

Trade finance - incorporating import and export bills services (including RMB business), invoice financing and invoice discounting.

Treasury - responsible for asset and liability management, managing the capital, liquidity, and the interest rate and foreign exchange positions of the Group.

The 'Others' business mainly comprises remittance, share dealing, provision of trustee, wealth management and insurance agency services.

For the purpose of assessing performance of business activity by class, the allocation of revenue, besides the direct revenue generated by the business, also includes the benefits of funding resources derived from the other businesses by way of internal fund transfer pricing mechanisms. Cost allocation is based on the direct cost incurred by the class of business and internal allocation of management overheads. Asset allocation is based on the assets directly attributable to the class of business and internal allocation of assets.

The Group 2013	Retail and corporate banking	Trade Finance	Treasury	Others	Total
Net interest income	1,524,273	126,255	552,506	2,566	2,205,600
Net fee and commission income	152,433	126,772	72	411,657	690,934
Net trading income	–	–	142,366	–	142,366
Net gains from disposal of available-for-sale investments	–	–	174,655	–	174,655
Profit before income tax	985,948	186,157	746,719	295,084	2,213,908
Operating assets	58,553,051	6,140,127	77,246,117	1,131,560	143,070,855
Charge/ (reversal) of impairment losses on loans and advances	47,785	(23,471)	–	–	24,314

5 BUSINESS ACTIVITIES ANALYSIS (CONTINUED)

(a) By business activities (Continued)

The Group 2012

	Retail and corporate banking	Trade Finance	Treasury	Others	Total
Net interest income	1,194,326	129,258	599,373	1,846	1,924,803
Net fee and commission income	142,257	128,115	214	348,813	619,399
Net trading income	–	–	143,867	–	143,867
Net gains from disposal of available-for-sale investments	–	–	177,488	–	177,488
Profit before income tax	793,728	200,764	818,396	259,469	2,072,357
Operating assets	51,006,522	5,156,030	79,951,564	1,073,052	137,187,168
(Reversal)/ charge of impairment losses on loans and advances/ available-for-sale investments	(23,831)	(21,605)	6,187	–	(39,249)

(b) By geographical activities

The geographical regions in this analysis are classified by the location of the principal operations of the branches and subsidiaries of the Bank. The basis of classification is different from Note 3.1.7(a) which is allocated based on the country of domicile of the counterparties.

The Group 2013

	Total assets	Total liabilities	Contingent liabilities and commitments	Total operating income	Profit before income tax	Capital expenditure
Hong Kong & Mainland China	130,137,743	113,428,242	45,069,708	2,938,153	1,906,543	101,729
Europe	2,071,377	2,006,991	108,033	31,682	13,604	261
America	10,861,735	7,133,640	3,473,227	380,094	293,761	1,901
Total	143,070,855	122,568,873	48,650,968	3,349,929	2,213,908	103,891

The Group 2012

	Total assets	Total liabilities	Contingent liabilities and commitments	Total operating income	Profit before income tax	Capital expenditure
Hong Kong & Mainland China	124,837,400	110,256,394	40,165,162	2,636,023	1,795,837	478,413
Europe	2,140,847	2,223,890	50,303	24,659	8,083	124
America	10,208,921	5,393,905	3,013,407	325,446	268,437	312
Total	137,187,168	117,874,189	43,228,872	2,986,128	2,072,357	478,849

6 NET INTEREST INCOME

Interest income

	The Group		The Bank	
	2013	2012	2013	2012
Cash and balances with banks	688,083	575,267	688,083	575,267
Investment securities				
– Available-for-sale	618,770	684,217	616,203	682,023
– Held-to-maturity	29,366	41,337	3,674	9,828
Loans and advances to customers	1,858,953	1,670,541	1,859,272	1,670,865
Others	9,104	9,252	9,104	9,252
	3,204,276	2,980,614	3,176,336	2,947,235

Interest expense

	The Group		The Bank	
	2013	2012	2013	2012
Deposits and balances from banks	36,565	18,804	36,565	18,804
Deposits from customers	958,666	1,033,455	959,164	1,034,297
Others	3,445	3,552	3,445	3,552
	998,676	1,055,811	999,174	1,056,653

Included within interest income

	The Group		The Bank	
	2013	2012	2013	2012
Interest income on listed investments	252,017	316,097	226,415	284,587
Interest income on unlisted investments	396,119	409,457	393,462	407,264
Interest income accrued on impaired financial assets	5,378	8,383	5,378	8,383

7 NET FEE AND COMMISSION INCOME

Fee and commission income

	The Group		The Bank	
	2013	2012	2013	2012
Commissions from bills	117,419	118,207	117,419	118,207
Nominees, custodian and securities brokerage commissions	235,697	193,487	209,558	172,911
Commissions from wealth management products	81,165	68,622	81,165	68,622
Commissions from remittance	53,726	53,361	53,726	53,361
Facility fees	116,873	85,743	116,873	85,743
Fees from credit cards	30,218	49,210	30,218	49,210
Commissions from retail banking	41,775	42,146	41,775	42,146
Commissions from insurance	41,369	33,801	56,273	46,754
Commissions from loans and advances	4,766	7,099	4,766	7,099
Trust and other commissions	4,288	3,709	72	213
	727,296	655,385	711,845	644,266

Fee and commission expense

	The Group		The Bank	
	2013	2012	2013	2012
Commissions on bills	3,496	3,223	3,496	3,223
Nominees, custodian and securities brokerage commissions paid	16,377	14,475	9,493	9,716
Commissions on retail banking	16,302	18,030	16,302	17,255
Fees on credit cards	128	116	128	116
Commissions on remittance	59	142	59	142
	36,362	35,986	29,478	30,452
Of which :				
Net fee and commission income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading nor designated at fair value				
– fee and commission income	269,276	260,259	269,276	260,259
– fee and commission expense	3,624	3,339	3,624	3,339
Net fee and commission income on trust and other fiduciary activities				
– fee and commission income	21,782	22,298	20,945	21,671

The Group provides custody, trustee and advisory services to third parties. Those assets that are held in a fiduciary capacity are not included in these financial statements.

8 DIVIDEND INCOME

	The Group		The Bank	
	2013	2012	2013	2012
Dividend income from investment securities				
– listed investments	1,316	3,076	1,316	2,511
– unlisted investments	35,553	26,910	35,553	26,910
	36,869	29,986	36,869	29,421
Dividend income from joint ventures				
– unlisted investments	–	–	17,000	8,360
Dividend income from subsidiary companies				
– unlisted investments	–	–	25,870	32,900
	36,869	29,986	79,739	70,681

9 NET TRADING INCOME

	The Group		The Bank	
	2013	2012	2013	2012
Foreign exchange	94,630	106,241	94,630	106,275
Interest rate instruments	828	15,650	828	15,650
Equities	53,734	19,587	54,139	19,567
Other trading income	(6,826)	2,389	(6,826)	2,389
	142,366	143,867	142,771	143,881

'Foreign exchange' net trading income includes gains and losses from spot and forward contracts, swaps and translated foreign currency assets and liabilities, which are not designated as qualifying hedging relationship. 'Interest rate instruments' trading income includes the results of trading in government securities, corporate debt securities and money market instruments. 'Equities' trading income includes the results of trading in equity securities in local and overseas markets.

10 OTHER INCOME

(a) Other operating income

	The Group		The Bank	
	2013	2012	2013	2012
Gross rental income from investment properties	848	1,612	2,068	2,340
Others	76,725	64,984	87,128	71,845
	77,573	66,596	89,196	74,185

The Group's direct operating expenses of HK$70,000 (2012: Nil) arising from investment properties that generated rental income were included in operating expenses.

The Bank's direct operating expenses of HK$347,000 (2012: HK$320,000) arising from investment properties that generated rental income were included in operating expenses.

(b) Net earned insurance premium

	The Group	
	2013	2012
Insurance premium revenue	58,817	48,278
Insurance premium ceded to reinsurers	(13,872)	(9,494)
	44,945	38,784

The related net insurance claims incurred and movement in policyholders' liabilities of HK$22,496,000 (2012: HK$14,499,000) was shown after netted off with the insurance claims and loss adjustment expenses recovered from reinsurers of HK$966,000 (2012: HK$1,504,000).

11 OPERATING EXPENSES

	The Group		The Bank	
	2013	2012	2013	2012
Auditor's remuneration				
Statutory audit services	6,273	5,482	5,721	4,972
Non-statutory audit and other services (Note a)	5,385	3,538	5,084	3,167
Advertising costs	22,913	19,892	22,642	19,559
Depreciation expenses	64,107	52,385	66,112	54,262
Employee benefit expenses				
Wages and salaries and other costs (Note b)	668,424	623,582	646,631	602,792
Pension costs - defined contribution schemes	48,438	35,035	47,531	34,252
Pension costs - defined benefit schemes	42	32	42	32
Premises and equipment expenses, excluding depreciation				
Rental of premises	108,678	102,544	111,493	105,512
Building expenses	7,019	8,315	7,019	8,315
Building management fee	10,579	10,250	10,331	9,996
Other operating expenses				
Computer rental and licence	14,465	13,636	14,187	13,369
Credit card business promotion	29,989	19,730	29,989	19,730
Credit card service fee	10,567	10,279	10,567	10,279
Insurance	5,205	8,341	10,085	9,195
Legal and consultancy	8,685	(2,241)	8,016	(3,133)
Postage	12,596	12,156	12,570	12,131
Printing and stationery	9,214	8,857	9,169	8,797
Repair and maintenance	18,130	16,914	27,184	24,777
Telephone and communications	27,163	26,353	25,597	24,902
Travelling and transportation	4,639	5,684	4,614	4,944
Water, heat and light	15,146	14,335	14,894	14,087
Others (Note c)	45,742	(3,581)	43,644	(4,986)
	1,143,399	991,518	1,133,122	976,951

Note a:

Included in the non-statutory audit and other services is the fee paid for the full scope audit of the Group's financial information for the group reporting to the ultimate holding company in Taiwan under its local statutory requirements.

Note b:

Employee benefit expenses include directors' emoluments. The number of employees of the Group as at 31st December 2013 was 1,648 (31st December 2012: 1,681).

Note c:

During the year, there were HK$13 million (2012: HK$41 million) recoveries arising from the realisation of collateral of Lehman related products and HK$3 million (2012: HK$13 million) reversal of provision in respect of other wealth management products and the related legal fees.

12 DIRECTORS' EMOLUMENTS

The Group and the Bank	2013	2012
Fees	5,100	3,234
Basic salaries, allowances and bonus	26,056	25,524
Contributions to pension schemes	1,395	860
	32,551	29,618

13 (CHARGE)/ REVERSAL OF IMPAIRMENT LOSSES ON LOANS AND ADVANCES TO CUSTOMERS

The Group and the Bank	2013	2012
Trade bills	(310)	516
Loans and advances to customers	(24,004)	44,920
	(24,314)	45,436
Net (charge)/ reversal of impairment losses		
– Individually assessed	5,691	43,947
– Collectively assessed	(30,005)	1,489
	(24,314)	45,436
Of which		
– new allowances	(65,965)	(73,294)
– releases	24,444	87,822
– recoveries	17,207	30,908
Net (charge)/ reversal to income statement	(24,314)	45,436

14 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2012: 16.5%) on the estimated assessable profits for the year. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the income statement represents:

	The Group		The Bank	
	2013	2012	2013	2012
Current income tax:				
– Hong Kong profits tax	295,498	281,063	293,988	279,648
– Overseas taxation	139,574	118,099	139,474	118,100
– (Over)/ under provisions in respect of prior years	(78)	7,701	–	7,473
Total current income tax	434,994	406,863	433,462	405,221
Deferred income tax:				
– Hong Kong deferred tax	(4,246)	15,288	(4,158)	15,290
– Overseas deferred tax	(4,739)	(1,256)	(4,739)	(1,258)
Total deferred income tax	(8,985)	14,032	(8,897)	14,032
Income tax expense	426,009	420,895	424,565	419,253

14 INCOME TAX EXPENSE (CONTINUED)

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the tax rates of the countries in which the Group operates as follows:

	The Group		The Bank	
	2013	2012	2013	2012
Profit before tax	2,213,908	2,072,357	2,188,867	2,033,397
Tax calculated at domestic tax rates applicable to profits in the respective countries	446,987	409,599	442,855	403,171
Tax effects of:				
Income not subject to tax	(23,737)	(23,418)	(20,749)	(18,058)
Expenses not deductible for tax purposes	3,077	27,632	2,699	27,286
Net effect of investments in partnerships	(240)	(619)	(240)	(619)
(Over)/ under provisions in respect of prior years	(78)	7,701	–	7,473
Tax expense	426,009	420,895	424,565	419,253

The income tax rate applicable to the majority of the Group and its subsidiaries' 2013 income is 16.5% (2012: 16.5%).

The Bank has entered into aircraft leverage lease arrangement, involving special purpose partnerships in which the Bank is the general partner. As at 31st December 2013, the unamortised carrying cost of the investments in such partnerships, which was included in 'Other assets', amounted to HK$491,837,000 (2012: HK$730,110,000). The Bank's tax benefit in these special purpose partnerships are amortised over the life of the individual partnerships.

15 INCOME TAX EFFECTS RELATING TO COMPONENTS OF OTHER COMPREHENSIVE INCOME

The Group

	2013			2012		
	Before-tax amount	Tax expense	Net-of-tax amount	Before-tax amount	Tax expense	Net-of-tax amount
Exchange differences on translation of foreign operations	20,066	–	20,066	3,278	–	3,278
Net fair value gains on available-for-sale investments	241,363	(39,824)	201,539	524,188	(86,540)	437,648
Share of investment revaluation reserve of joint ventures	(101)	–	(101)	419	–	419
Other comprehensive income for the year (net presentation)	261,328	(39,824)	221,504	527,885	(86,540)	441,345

The Bank

	2013			2012		
	Before-tax amount	Tax expense	Net-of-tax amount	Before-tax amount	Tax expense	Net-of-tax amount
Exchange differences on translation of foreign operations	20,097	–	20,097	3,509	–	3,509
Net fair value gains on available-for-sale investments	241,845	(39,904)	201,941	521,854	(86,106)	435,748
Other comprehensive income for the year (net presentation)	261,942	(39,904)	222,038	525,363	(86,106)	439,257

16 DIVIDEND

The dividend payable to equity holders of the Bank attributable to the previous financial years, approved and paid during the years ended 2013 and 2012 were HK$820,000,000 (HK$41 per share) and HK$860,000,000 (HK$43 per share) respectively. A dividend in respect of 2013 of HK$44 per share, amounting to a total dividend of HK$880,000,000 is to be proposed at the Annual General Meeting on 8th May 2014. These consolidated financial statements do not reflect this dividend payable.

The Bank		
	2013	2012
Dividend proposed to equity holders of the Bank attributable to the year		
Proposed final dividend of HK$44 (2012: HK$41) per ordinary share	880,000	820,000

17 CASH AND BALANCES WITH BANKS

	The Group		The Bank	
	2013	2012	2013	2012
Cash in hand	482,083	355,943	482,077	355,936
Balances with central banks and Hong Kong Monetary Authority	3,910,582	16,468,888	3,910,582	16,468,888
Balances with banks	21,003,486	13,064,838	21,003,446	13,064,838
	25,396,151	29,889,669	25,396,105	29,889,662

As at 31st December 2013, there was HK$1,500,000 (2012: HK$1,500,000) deposited in the name of the Director of Accounting Services Treasury Hong Kong placed by a subsidiary company of the Bank to comply with the statutory requirement.

As at 31st December 2013, there were HK$239,372,000 (2012: HK$230,734,000) of statutory deposits with the central banks in the countries the Group is operating the business for the purpose of complying with the statutory requirements of the countries.

As at 31st December 2013, HK$74,101,000 (2012: Nil) was deposited with designated banks in the People's Republic of China to comply with the local statutory requirement.

18 PLACEMENTS WITH AND LOANS AND ADVANCES TO BANKS

The Group and the Bank		
	2013	2012
Placements with banks maturing between one and twelve months	21,986,595	19,528,775
Loans and advances to banks maturing between one and twelve months	1,280,370	98,893
	23,266,965	19,627,668

As at 31st December 2013, HK$133,201,000 (2012: HK$130,958,000) was deposited with designated banks in the People's Republic of China to comply with the local statutory requirement. No impairment allowances were necessary to be provided for the placements with and loans and advances to banks.

19 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysis of loans and advances to customers

The Group and the Bank	2013	2012
Loans and advances to individuals		
– Overdrafts	879,326	563,758
– Credit cards	280,115	325,275
– Term loans and others	6,030,260	5,000,400
– Mortgages	7,503,966	6,961,485
Loans and advances to corporate entities		
– Large corporate customers and others	40,438,855	34,527,241
– SME	7,238,772	6,598,917
Gross loans and advances to customers	62,371,294	53,977,076
Less: impairment allowances		
– Individually assessed	(34,002)	(48,484)
– Collectively assessed	(244,087)	(213,482)
	62,093,205	53,715,110
Gross trade bills and other eligible bills, included within loans and advances to customers	2,745,362	2,146,921
Less: impairment allowances on trade bills		
– Collectively assessed	(1,217)	(906)
	2,744,145	2,146,015

The Group accepted listed securities at fair value of HK$3,608,160,000 (2012: HK$2,977,749,000) as collateral for shares financing facilities which were included in 'Term loans and others'. These securities are permitted to be sold or re-pledged in the event of default by the borrowers.

As at 31st December 2013, certain of the Bank's branches in the United States have pledged their real estate loans of HK$56,785,000 (2012: HK$59,445,000) to the State of California and with the Office of the Comptroller of the Currency in compliance with local regulatory requirements.

19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

The Group and the Bank

	Impairment allowances for loans and advances to individuals – Individual assessment				
	Overdrafts	Credit cards	Term loans and others	Mortgages	Total
Balance as at 1st January 2013	415	1,474	2,713	187	4,789
Impairment losses	(275)	3,365	(2,049)	(892)	149
Loans written off as uncollectible	(88)	(4,068)	(76)	–	(4,232)
Recoveries of advances written off in previous years	365	739	416	911	2,431
As at 31st December 2013	417	1,510	1,004	206	3,137
Balance as at 1st January 2012	57	1,314	4,767	256	6,394
Impairment losses	257	3,263	(2,782)	(832)	(94)
Loans written off as uncollectible	–	(4,010)	(39)	–	(4,049)
Recoveries of advances written off in previous years	101	907	767	763	2,538
As at 31st December 2012	415	1,474	2,713	187	4,789

	Impairment allowances for loans and advances to corporate entities – Individual assessment		
	Large corporate customers and others	SME	Total
Balance as at 1st January 2013	38,270	5,425	43,695
Impairment losses	(4,908)	(932)	(5,840)
Loans written off as uncollectible	(21,075)	(703)	(21,778)
Recoveries of advances written off in previous years	14,162	614	14,776
Exchange adjustments	12	–	12
As at 31st December 2013	26,461	4,404	30,865
Balance as at 1st January 2012	55,110	7,565	62,675
Impairment losses	(41,891)	(1,962)	(43,853)
Loans written off as uncollectible	(2,054)	(1,380)	(3,434)
Recoveries of advances written off in previous years	27,168	1,202	28,370
Exchange adjustments	(63)	–	(63)
As at 31st December 2012	38,270	5,425	43,695

	Impairment allowances for loans and advances to individuals – Collective assessment				
	Overdrafts	Credit cards	Term loans and others	Mortgages	Total
Balance as at 1st January 2013	2,128	7,921	19,153	26,675	55,877
Impairment losses	1,185	(1,058)	3,798	1,814	5,739
Exchange adjustments	–	–	37	164	201
As at 31st December 2013	3,313	6,863	22,988	28,653	61,817
Balance as at 1st January 2012	1,974	8,299	21,223	25,967	57,463
Impairment losses	154	(378)	(2,065)	570	(1,719)
Exchange adjustments	–	–	(5)	138	133
As at 31st December 2012	2,128	7,921	19,153	26,675	55,877

19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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

The Group and the Bank

	Impairment allowances for loans and advances to corporate entities – Collective assessment		
	Large corporate customers and others	SME	Total
Balance as at 1st January 2013	132,285	25,320	157,605
Impairment losses	22,111	2,155	24,266
Exchange adjustments	272	127	399
As at 31st December 2013	154,668	27,602	182,270
Balance as at 1st January 2012	133,204	24,193	157,397
Impairment losses	(871)	1,101	230
Exchange adjustments	(48)	26	(22)
As at 31st December 2012	132,285	25,320	157,605

20 FINANCIAL ASSETS HELD FOR TRADING

The Group

	2013	2012
Debt securities		
Listed outside Hong Kong	177,704	206,842
Unlisted	–	125
Total debt securities	177,704	206,967
Equity securities		
Listed in Hong Kong	15,854	11,102
Listed outside Hong Kong	174,727	123,038
Total equity securities	190,581	134,140
Other financial assets held for trading	597	8,656
Total financial assets held for trading	368,882	349,763
Included within debt securities are:		
Government notes and bonds	177,704	189,306
Other debt securities	–	17,661
	177,704	206,967
Financial assets held for trading are analysed by issuers as follows:		
Sovereigns	177,704	189,306
Banks	2,815	35,844
Corporates	188,363	124,613
	368,882	349,763

20 FINANCIAL ASSETS HELD FOR TRADING (CONTINUED)

The Bank

	2013	2012
Debt securities		
Listed outside Hong Kong	177,704	206,842
Unlisted	-	125
Total debt securities	177,704	206,967
Equity securities		
Listed in Hong Kong	–	9,528
Listed outside Hong Kong	174,727	123,038
Total equity securities	174,727	132,566
Other financial assets held for trading	597	8,656
Total financial assets held for trading	353,028	348,189
Included within debt securities are:		
Government notes and bonds	177,704	189,306
Other debt securities	–	17,661
	177,704	206,967
Financial assets held for trading are analysed by issuers as follows:		
Sovereigns	177,704	189,306
Banks	597	35,844
Corporates	174,727	123,039
	353,028	348,189

21 DERIVATIVE FINANCIAL INSTRUMENTS

Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time. The fair values of derivative instruments held are set out below.

21 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The Group and the Bank As at 31st December 2013

	Contract amount	Fair values	
		Assets	Liabilities
Derivatives held for trading			
Exchange rate contracts			
Currency forwards and swaps	8,208,208	73,485	(61,805)
Total recognised derivative assets/ (liabilities)		73,485	(61,805)

The Group and the Bank As at 31st December 2012

	Contract amount	Fair values	
		Assets	Liabilities
Derivatives held for trading			
Exchange rate contracts			
Currency forwards and swaps	11,767,569	51,446	(39,891)
Total recognised derivative assets/ (liabilities)		51,446	(39,891)

The Group and the Bank

	Credit risk weighted amount	
	2013	2012
Exchange rate contracts	68,292	57,655

The contract amounts of these instruments indicate the volume of transactions outstanding as at the end of the reporting period, they do not represent the amounts at risk.

The credit risk weighted amounts as at 31st December 2013 and 2012 are the amounts that have been calculated in accordance with the Banking (Capital) Rules effective as at the year end dates.

The above credit risk weighted amounts and fair values have not taken into account the effect of bilateral netting arrangements and accordingly the amounts disclosed are shown on a gross basis.

The Group uses the following derivative strategies:

– Trading purposes (customer needs)

The Group offers its customers derivatives in connection with their risk-management actions to transfer, modify or reduce their interest rate, foreign exchange and other market/credit risks or for their own trading purposes. As part of this process, the Group considers the customers' suitability for the risk involved, and the business purpose for the transaction. The Group also manages its derivative-risk positions through offsetting trade activities, controls focused on price verification, and daily reporting of positions to senior managers.

– Trading purposes (own account)

The Group trades derivatives for its own account. These derivatives entered into in order to take proprietary positions. Trading limits and price verification controls are key aspects of this activity.

22 AVAILABLE-FOR-SALE INVESTMENTS

	The Group		The Bank	
	2013	2012	2013	2012
Debt securities:				
Listed in Hong Kong	2,785,076	3,207,463	2,785,076	3,207,463
Listed outside Hong Kong	3,377,154	4,461,697	3,377,154	4,461,697
Unlisted	16,994,383	17,701,122	16,879,091	17,660,622
	23,156,613	25,370,282	23,041,321	25,329,782
Equity securities:				
Listed in Hong Kong	–	44,330	–	37,933
Listed outside Hong Kong	102,364	70,993	102,364	70,993
Unlisted (Note)	2,213,159	1,473,375	2,213,159	1,473,375
	2,315,523	1,588,698	2,315,523	1,582,301
	25,472,136	26,958,980	25,356,844	26,912,083
Included within debt securities are:				
Certificates of deposit held	12,293,719	12,572,485	12,247,553	12,547,777
Government notes and bonds	158,120	218,051	158,120	218,051
Other debt securities	10,704,774	12,579,746	10,635,648	12,563,954
	23,156,613	25,370,282	23,041,321	25,329,782
Available-for-sale investments are analysed by issuers as follows:				
Sovereigns	158,120	218,051	158,120	218,051
Public sector entities	112,521	230,540	112,521	230,540
Banks	19,396,765	20,675,616	19,340,223	20,635,687
Corporates	5,804,730	5,834,773	5,745,980	5,827,805
	25,472,136	26,958,980	25,356,844	26,912,083

Note: Included the investment in Bank of Shanghai, China with fair value of HK$2,079,294,000 (2012: HK$1,345,496,000).

The movement in available-for-sale investments is summarised as follows:

The Group		
	2013	2012
As at 1st January	26,958,980	22,008,660
Exchange differences	(484,731)	72,816
Additions	8,692,860	15,474,702
Gains from changes in fair value	415,238	698,674
Disposals and redemptions	(10,037,207)	(11,300,362)
Amortisation	(34,861)	(24,865)
Others	(38,143)	29,355
As at 31st December	25,472,136	26,958,980

22 AVAILABLE-FOR-SALE INVESTMENTS (CONTINUED)

The Bank		
	2013	2012
As at 1st January	26,912,083	21,888,699
Exchange differences	(484,731)	72,820
Additions	8,603,200	15,474,285
Gains from changes in fair value (Note 33)	416,643	697,100
Disposals and redemptions	(10,016,671)	(11,225,690)
Amortisation	(33,829)	(24,636)
Others	(39,851)	29,505
As at 31st December	25,356,844	26,912,083

23 HELD-TO-MATURITY INVESTMENTS

	The Group		The Bank	
	2013	2012	2013	2012
Debt securities:				
Listed in Hong Kong	1,980,631	2,110,813	38,990	39,056
Listed outside Hong Kong	389,130	386,017	368,071	364,564
Unlisted	115,113	–	–	–
	2,484,874	2,496,830	407,061	403,620
Market value of listed securities	2,500,036	2,557,121	408,570	404,802
Included within debt securities are:				
Government bills, notes and bonds	2,266,535	2,235,652	209,781	163,895
Other debt securities	218,339	261,178	197,280	239,725
	2,484,874	2,496,830	407,061	403,620
Held-to-maturity investments are analysed by issuers as follows:				
Sovereigns	2,266,535	2,235,652	209,781	163,895
Public sector entities	38,990	39,056	38,990	39,056
Banks	175,366	218,124	158,290	200,669
Corporates	3,983	3,998	–	–
	2,484,874	2,496,830	407,061	403,620

As at 31st December 2013, certain of the Bank's branches in the United States have pledged held-to-maturity investments amounting to HK$209,781,000 (2012: HK$163,895,000) to the State of California and with the Office of the Comptroller of the Currency in compliance with local regulatory requirements.

As at 31st December 2013, listed and unlisted debt securities at amortised cost of HK$2,056,754,000 (2012: HK$2,071,757,000) comprising Exchange Fund Notes and Exchange Fund Bills were pledged to the Hong Kong Monetary Authority to facilitate settlement operations. There were no related liabilities at the year end.

23 HELD-TO-MATURITY INVESTMENTS (CONTINUED)

The movement in held-to-maturity investments is summarised as follows:

The Group

	2013	2012
As at 1st January	2,496,830	2,764,783
Exchange differences	156	(1,244)
Additions	760,135	241,367
Redemptions	(750,314)	(487,367)
Amortisation	(18,511)	(18,495)
Others	(3,422)	(2,214)
As at 31st December	2,484,874	2,496,830

The Bank

	2013	2012
As at 1st January	403,620	662,366
Exchange differences	156	(1,235)
Additions	92,987	117,051
Redemptions	(85,314)	(372,367)
Amortisation	(3,586)	(447)
Others	(802)	(1,748)
As at 31st December	407,061	403,620

24 INVESTMENTS IN AND LOANS TO JOINT VENTURES AND SUBSIDIARIES

(a) Investments in joint ventures

The Group

	2013	2012
As at 1st January	219,865	189,308
Share of profits, net of tax	31,692	38,498
Dividends paid	(17,000)	(8,360)
Other equity movement: available-for-sale investment revaluation reserve	(101)	419
As at 31st December	234,456	219,865

The Bank

	2013	2012
Unlisted shares, at cost	116,000	116,000

The Group's interests in its joint ventures for the year ended 2013 and 2012, which are unlisted, are as follows:

Name of entity	Place of incorporation	% of ownership interest
Joint Electronic Teller Services Limited	Hong Kong	20% of 'A' shares
Bank Consortium Holding Limited	Hong Kong	14.29% of 'A' shares
BC Reinsurance Limited	Hong Kong	21%
Hong Kong Life Insurance Limited	Hong Kong	16.67%
i-Tech Solutions Limited	Hong Kong	50%

24 INVESTMENTS IN AND LOANS TO JOINT VENTURES AND SUBSIDIARIES (CONTINUED)

(a) Investments in joint ventures (Continued)

Summarised financial information for joint ventures

Set out below is the summarised financial information for joint ventures which are accounted for using the equity method:

2013

Name	Assets	Liabilities	Revenue	Profit	Other comprehensive income/ (loss)	Total comprehensive income	Dividends received from joint ventures
Joint Electronic Teller Services Limited	373,071	4,800	95,164	33,237	–	33,237	900
Bank Consortium Holding Limited	576,478	51,552	439,529	122,681	138	122,819	11,900
BC Reinsurance Limited	640,464	374,896	218,933	50,961	–	50,961	4,200
Hong Kong Life Insurance Limited	7,373,481	6,904,721	1,374,705	21,824	(713)	21,111	–
i-Tech Solutions Limited	6,301	669	6,988	77	–	77	–
	8,969,795	7,336,638	2,135,319	228,780	(575)	228,205	17,000

2012

Name	Assets	Liabilities	Revenue	Profit/ (loss)	Other comprehensive income	Total comprehensive income/ (loss)	Dividends received from joint ventures
Joint Electronic Teller Services Limited	375,220	6,911	77,598	30,073	–	30,073	1,000
Bank Consortium Holding Limited	509,409	107,303	390,806	102,277	326	102,603	7,360
BC Reinsurance Limited	572,848	338,242	251,088	65,506	–	65,506	–
Hong Kong Life Insurance Limited	6,726,103	6,278,454	1,007,973	63,770	2,255	66,025	–
i-Tech Solutions Limited	6,192	636	6,272	(779)	–	(779)	–
	8,189,772	6,731,546	1,733,737	260,847	2,581	263,428	8,360

Note: The balances with the joint ventures arising from normal business transactions are included in Note 38.

(b) Investments in and loans to subsidiaries

The Bank

	2013	2012
Investments, at cost:		
Unlisted shares	193,165	193,160
Loans to subsidiary companies	3,610,434	3,529,354
Amounts due from subsidiary companies	948	1,428
Amounts due to subsidiary companies	(1,333,095)	(1,315,776)
	2,471,452	2,408,166

24 INVESTMENTS IN AND LOANS TO JOINT VENTURES AND SUBSIDIARIES (CONTINUED)

(b) Investments in and loans to subsidiaries (Continued)

The following is a list of the subsidiaries at 31st December 2013:

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Percentage of ordinary share capital held	Percentage of ordinary share capital held by non-controlling interests in equity	Total assets	Total equity
Shanghai Commercial Bank (Nominees) Limited	Hong Kong	Nominee services Hong Kong	100 ordinary shares of HK$100 each	*100%	0%	10	10
Shanghai Commercial Bank Trustee Limited	Hong Kong	Trustee services Hong Kong	1,000 ordinary shares of HK$10,000 each	*60%	40%	14,417	14,022
Shacom Futures Limited	Hong Kong	Commodities trading Hong Kong	100,000 ordinary shares of HK$100 each	*100%	0%	9,509	9,431
Shacom Investment Limited	Hong Kong	Investment in Exchange Fund Bills and Notes Hong Kong	10,000 ordinary shares of HK$100 each	*100%	0%	2,180,381	1,303
Shacom Property Holdings (BVI) Limited	British Virgin Islands	Property holding British Virgin Islands	2 ordinary shares of US$1 each	*100%	0%	40,399	(3,542)
Shacom Property (NY) Inc.	United States of America	Property holding United States of America	10 ordinary shares of US$1 each	*100%	0%	5,847	5,847
Shacom Property (CA) Inc.	United States of America	Property holding United States of America	10 ordinary shares of US$1 each	*100%	0%	2,795	2,772
Shacom Assets Investments Limited	Hong Kong	Investment in notes and bonds Hong Kong	10,000 ordinary shares of HK$1 each	*100%	0%	956,666	47
Infinite Financial Solutions Limited	Hong Kong	I.T. application services provider Hong Kong	500,000 ordinary shares of US$1 each	*80%	20%	22,643	16,558
Shacom Insurance Brokers Limited	Hong Kong	Insurance broker Hong Kong	1,000,000 ordinary shares of HK$1 each	*100%	0%	3,383	802
Shacom Securities Limited	Hong Kong	Securities brokerage services Hong Kong	1,000,000 ordinary shares of HK$100 each	*100%	0%	608,072	157,006
Hai Kwang Property Management Company Limited	Hong Kong	Property management Hong Kong	2 ordinary shares of HK$1 each	*100%	0%	624	319
Paofoong Insurance Company (Hong Kong) Limited	Hong Kong	Insurance Hong Kong	500,000 ordinary shares of HK$100 each	*60%	40%	208,007	138,342
Right Honour Investments Limited	British Virgin Islands	Property holding British Virgin Islands	1 ordinary shares of US$1 each	*100%	0%	-	(52)
Glory Step Investments Limited	British Virgin Islands	Property holding British Virgin Islands	1 ordinary shares of US$1 each	100%	0%	147,125	(1,118)
Silver Wisdom Investments Limited	British Virgin Islands	Property holding British Virgin Islands	1 ordinary shares of US$1 each	100%	0%	282,526	(1,312)

* Shares held directly by the Bank.

(c) Loans to subsidiaries

The loans to subsidiaries are secured, interest free and have no fixed term of repayment. The carrying amounts of loans to subsidiaries are HK$3,610,434,000 (2012: HK$3,529,354,000) which approximate their fair values.

25 PROPERTIES AND EQUIPMENT

The Group

	Leasehold land	Bank premises	Furniture, fittings and equipment	Property under development: Leasehold land	Property under development: Development cost	Total
As at 1st January 2012						
Cost	338,808	478,284	599,058	1,383,906	11,697	2,811,753
Accumulated depreciation	(70,998)	(200,779)	(493,170)	(6,642)	–	(771,589)
Net book amount	267,810	277,505	105,888	1,377,264	11,697	2,040,164
Year ended December 2012						
Opening net book amount	267,810	277,505	105,888	1,377,264	11,697	2,040,164
Additions	195,072	–	38,340	–	25,779	259,191
Transfers from investment properties (Note 26)						
Cost	85,216	5,757	–	–	–	90,973
Accumulated depreciation	(102)	(1,333)	–	–	–	(1,435)
Disposals/ write-off						
Cost	–	(135)	(21,989)	–	–	(22,124)
Accumulated depreciation	–	135	21,402	–	–	21,537
Depreciation charge	(5,057)	(9,239)	(34,270)	(1,651)	–	(50,217)
Exchange rate adjustments	–	1,124	111	–	_	1,235
Closing net book amount	542,939	273,814	109,482	1,375,613	37,476	2,339,324
As at 31st December 2012						
Cost	619,096	485,364	616,357	1,383,906	37,476	3,142,199
Accumulated depreciation	(76,157)	(211,550)	(506,875)	(8,293)	–	(802,875)
Net book amount	542,939	273,814	109,482	1,375,613	37,476	2,339,324
Year ended December 2013						
Opening net book amount	542,939	273,814	109,482	1,375,613	37,476	2,339,324
Additions	14,472	–	37,948	–	49,316	101,736
Transfers from investment properties (Note 26)						
Cost	49,298	646	–	–	–	49,944
Accumulated depreciation	(94)	(538)	–	–	–	(632)
Transfers to investment properties (Note 26)						
Cost	(3,188)	(900)	–	–	–	(4,088)
Accumulated depreciation	198	172	–	–	–	370
Disposals/ write-off						
Cost	–	–	(24,462)	–	–	(24,462)
Accumulated depreciation	–	–	23,907	–	–	23,907
Depreciation charge	(5,177)	(9,431)	(46,637)	(1,651)	–	(62,896)
Exchange rate adjustments	–	583	228	–	–	811
Closing net book amount	598,448	264,346	100,466	1,373,962	86,792	2,424,014
As at 31st December 2013						
Cost	679,678	485,916	629,278	1,383,906	86,792	3,265,570
Accumulated depreciation	(81,230)	(221,570)	(528,812)	(9,944)	–	(841,556)
Net book amount	598,448	264,346	100,466	1,373,962	86,792	2,424,014

25 PROPERTIES AND EQUIPMENT (CONTINUED)

The Bank

	Leasehold land	Bank premises	Furniture, fittings and equipment	Property under development: Leasehold land	Property under development: Development cost	Total
As at 1st January 2012						
Cost	310,731	435,094	668,056	1,383,906	11,697	2,809,484
Accumulated depreciation	(69,617)	(191,655)	(555,669)	(6,642)	–	(823,583)
Net book amount	241,114	243,439	112,387	1,377,264	11,697	1,985,901
Year ended December 2012						
Opening net book amount	241,114	243,439	112,387	1,377,264	11,697	1,985,901
Additions	–	–	42,969	–	25,779	68,748
Transfers from investment properties (Note 26)						
Cost	4,658	4,657	–	–	–	9,315
Accumulated depreciation	(11)	(233)	–	–	–	(244)
Disposals/ write-off						
Cost	–	(135)	(21,817)	–	–	(21,952)
Accumulated depreciation	–	135	21,234	–	–	21,369
Depreciation charge	(4,605)	(8,587)	(38,869)	(1,651)	–	(53,712)
Exchange rate adjustments	–	(132)	95	–	–	(37)
Closing net book amount	241,156	239,144	115,999	1,375,613	37,476	2,009,388
As at 31st December 2012						
Cost	315,389	439,444	690,052	1,383,906	37,476	2,866,267
Accumulated depreciation	(74,233)	(200,300)	(574,053)	(8,293)	–	(856,879)
Net book amount	241,156	239,144	115,999	1,375,613	37,476	2,009,388
Year ended December 2013						
Opening net book amount	241,156	239,144	115,999	1,375,613	37,476	2,009,388
Additions	–	–	41,533	–	49,316	90,849
Disposals/ write-off						
Cost	–	–	(24,405)	–	–	(24,405)
Accumulated depreciation	–	–	23,857	–	–	23,857
Depreciation charge	(4,611)	(8,702)	(50,720)	(1,651)	–	(65,684)
Exchange rate adjustments	–	25	225	–	–	250
Closing net book amount	236,545	230,467	106,489	1,373,962	86,792	2,034,255
As at 31st December 2013						
Cost	315,389	439,488	706,568	1,383,906	86,792	2,932,143
Accumulated depreciation	(78,844)	(209,021)	(600,079)	(9,944)	–	(897,888)
Net book amount	236,545	230,467	106,489	1,373,962	86,792	2,034,255

Property under development represents the related costs paid as at 31st December 2013 and 2012 for the re-development of the Bank's new Head Office building in Central, Hong Kong.

25 PROPERTIES AND EQUIPMENT (CONTINUED)

The net book amount of leasehold land is analysed as follows:

	The Group		The Bank	
	2013	2012	2013	2012
In Hong Kong held on:				
Leases of over 50 years	1,823,619	1,765,398	1,461,716	1,463,615
Leases of between 10 to 50 years	148,791	153,154	148,791	153,154
	1,972,410	1,918,552	1,610,507	1,616,769

As at 31st December 2013, interests in freehold land outside Hong Kong amounted to HK$37,829,000 (2012: HK$37,441,000) for the Group, and HK$18,998,000 (2012: HK$18,991,000) for the Bank are included as bank premises above.

26 INVESTMENT PROPERTIES

The Group

	Leasehold land	Buildings	Total
As at 1st January 2012			
Cost	4,658	4,657	9,315
Accumulated depreciation	(6)	(116)	(122)
Net book amount	4,652	4,541	9,193
Year ended December 2012			
Opening net book amount	4,652	4,541	9,193
Additions	216,136	3,522	219,658
Transfers to properties and equipment (Note 25)			
Cost	(85,216)	(5,757)	(90,973)
Accumulated depreciation	102	1,333	1,435
Depreciation charge	(250)	(1,918)	(2,168)
Closing net book amount	135,424	1,721	137,145
As at 31st December 2012			
Cost	135,578	2,422	138,000
Accumulated depreciation	(154)	(701)	(855)
Net book amount	135,424	1,721	137,145
Year ended December 2013			
Opening net book amount	135,424	1,721	137,145
Additions	2,155	–	2,155
Transfers to properties and equipment (Note 25)			
Cost	(49,298)	(646)	(49,944)
Accumulated depreciation	94	538	632
Transfers from properties and equipment (Note 25)			
Cost	3,188	900	4,088
Accumulated depreciation	(198)	(172)	(370)
Depreciation charge	(150)	(1,061)	(1,211)
Closing net book amount	91,215	1,280	92,495
As at 31st December 2013			
Cost	91,623	2,676	94,299
Accumulated depreciation	(408)	(1,396)	(1,804)
Net book amount	91,215	1,280	92,495

26 INVESTMENT PROPERTIES (CONTINUED)

The Bank

	Leasehold land	Buildings	Total
As at 1st January 2012			
Cost	32,734	12,576	45,310
Accumulated depreciation	(1,386)	(1,304)	(2,690)
Net book amount	31,348	11,272	42,620
Year ended December 2012			
Opening net book amount	31,348	11,272	42,620
Transfers to properties and equipment (Note 25)			
Cost	(4,658)	(4,657)	(9,315)
Accumulated depreciation	11	233	244
Depreciation charge	(235)	(315)	(550)
Closing net book amount	26,466	6,533	32,999
As at 31st December 2012			
Cost	28,076	7,919	35,995
Accumulated depreciation	(1,610)	(1,386)	(2,996)
Net book amount	26,466	6,533	32,999
Year ended December 2013			
Opening net book amount	**26,466**	**6,533**	**32,999**
Depreciation charge	**(230)**	**(198)**	**(428)**
Closing net book amount	**26,236**	**6,335**	**32,571**
As at 31st December 2013			
Cost	**28,076**	**7,919**	**35,995**
Accumulated depreciation	**(1,840)**	**(1,584)**	**(3,424)**
Net book amount	**26,236**	**6,335**	**32,571**

The Group's investment properties were revalued for a value of HK$110,378,000 (2012: HK$144,900,000), and the Bank's investment properties were revalued for a total value of HK$87,000,000 (2012: HK$84,000,000) as at 31st December 2013 by independent, professionally qualified valuers on an open market value basis.

The carrying value of investment properties shown above comprises leasehold land and buildings situated in Hong Kong, which are held on long-term leases.

27 OTHER ASSETS

	The Group		The Bank	
	2013	2012	2013	2012
Repossessed assets	–	5,742	–	5,742
Accounts receivable and prepayments (Note)	1,045,925	1,273,847	574,399	858,675
Others	67,837	76,292	61,025	68,217
	1,113,762	1,355,881	635,424	932,634

Note: Included unamortised carrying costs of investment in special purpose partnerships as stated in Note 14.

28 DEPOSITS FROM CUSTOMERS

The Group and the Bank

	2013			
	Large corporate customers and others	SME	Individuals	Total
Demand deposits and current accounts	5,559,191	1,570,684	3,132,048	10,261,923
Savings deposits	10,300,155	2,047,472	20,178,576	32,526,203
Time, call and notice deposits	29,600,213	1,835,914	39,028,997	70,465,124
Deposits from Hong Kong Government Exchange Fund	387,943	–	–	387,943
	45,847,502	5,454,070	62,339,621	113,641,193

The Group and the Bank

	2012			
	Large corporate customers and others	SME	Individuals	Total
Demand deposits and current accounts	4,572,144	1,593,179	3,290,760	9,456,083
Savings deposits	9,144,599	2,234,770	19,826,992	31,206,361
Time, call and notice deposits	29,583,653	1,858,120	38,189,955	69,631,728
Deposits from Hong Kong Government Exchange Fund	387,743	–	–	387,743
	43,688,139	5,686,069	61,307,707	110,681,915

Deposits amounting to HK$70,610,256,000 (2012: HK$69,763,793,000) are at fixed interest rates, HK$42,788,126,000 (2012: HK$40,662,444,000) are at managed interest rates and all other deposits, amounting to HK$242,811,000 (2012: HK$255,678,000) are at variable rates.

29 OTHER LIABILITIES

	The Group		The Bank	
	2013	2012	2013	2012
Margin deposits	259,067	293,051	259,067	293,051
Accounts payable and accruals	631,844	553,211	176,866	146,865
Liabilities for insurance contracts (Note)	63,425	47,281	–	–
Others	328,134	363,564	322,646	359,698
	1,282,470	1,257,107	758,579	799,614

Note: Amounts recoverable from reinsurance of liabilities under insurance contracts issued amounting to HK$2,244,000 (2012: HK$2,424,000) are included in 'Other assets' in Note 27.

30 PROVISIONS

	The Group		The Bank	
	2013	2012	2013	2012
At 1st January	87,309	94,691	86,833	94,320
Additional provisions charged to income statement	127,107	155,863	125,309	154,185
Utilised during the year	(121,352)	(163,245)	(119,933)	(161,672)
At 31st December	93,064	87,309	92,209	86,833
Current	92,919	87,215	92,209	86,833
Non-current	145	94	–	–

Majority of the 2013 and 2012 balances represent provision for staff bonus.

31 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

Deferred income tax liabilities

	The Group				
	Impairment allowances	Accelerated tax depreciation	Fair value gains on available-for-sale investments	Others	Total
As at 1st January 2012	35,157	(2,270)	(135,183)	(2,255)	(104,551)
Charged to the income statement	(6,911)	(8,276)	–	(101)	(15,288)
Credited to equity	–	–	(86,540)	–	(86,540)
Reclassified to current income tax liabilities	–	–	–	537	537
Reclassified from deferred income tax assets	–	–	432	–	432
As at 31st December 2012	28,246	(10,546)	(221,291)	(1,819)	(205,410)
Credited / (charged) to the income statement	3,968	243	75	(40)	4,246
Charged to equity	–	–	(39,824)	–	(39,824)
Reclassified to current income tax liabilities	–	–	–	599	599
Reclassified to deferred income tax assets	–	–	(154)	–	(154)
As at 31st December 2013	32,214	(10,303)	(261,194)	(1,260)	(240,543)

31 DEFERRED INCOME TAX (CONTINUED)

Deferred income tax liabilities

	The Bank				
	Impairment allowances	Accelerated tax depreciation	Fair value gains on available-for-sale investments	Others	Total
As at 1st January 2012	35,157	(2,237)	(135,181)	(2,255)	(104,516)
Charged to the income statement	(6,911)	(8,277)	–	(102)	(15,290)
Credited to equity	–	–	(86,106)	–	(86,106)
Reclassified to current income tax liabilities	–	–	–	537	537
As at 31st December 2012	28,246	(10,514)	(221,287)	(1,820)	(205,375)
Credited/ (charged) to the income statement	3,968	230	–	(40)	4,158
Charged to equity	–	–	(39,904)	–	(39,904)
Reclassified to current income tax liabilities	–	–	–	599	599
As at 31st December 2013	32,214	(10,284)	(261,191)	(1,261)	(240,522)

Deferred income tax assets

	The Group				
	Impairment allowances	Accelerated tax depreciation	Fair value loss on available-for-sale investments	Others	Total
As at 1st January 2012	31,877	1,743	432	10,703	44,755
Credited/ (charged) to the income statement	276	(142)	–	1,122	1,256
Exchange differences	(54)	(1)	–	(37)	(92)
Reclassified to deferred income tax liabilities	–	–	(432)	–	(432)
As at 31st December 2012	32,099	1,600	–	11,788	45,487
Credited/ (charged) to the income statement	2,732	(50)	–	2,057	4,739
Exchange differences	50	(1)	–	1	50
Reclassified from deferred income tax liabilities	–	–	154	–	154
As at 31st December 2013	34,881	1,549	154	13,846	50,430

Deferred income tax assets

	The Bank				
	Impairment allowances	Accelerated tax depreciation	Fair value loss on available-for-sale investments	Others	Total
As at 1st January 2012	31,877	1,743	–	10,703	44,323
Credited/ (charged) to the income statement	276	(140)	–	1,122	1,258
Exchange differences	(54)	(1)	–	(39)	(94)
As at 31st December 2012	32,099	1,602	–	11,786	45,487
Credited/ (charged) to the income statement	2,732	(50)	–	2,057	4,739
Exchange differences	50	(1)	–	1	50
As at 31st December 2013	34,881	1,551	–	13,844	50,276

32 SHARE CAPITAL

The Group and the Bank

	2013	2012
Authorised:		
30,000,000 shares of HK$100 each	3,000,000	3,000,000
Issued and fully paid:		
20,000,000 shares of HK$100 each	2,000,000	2,000,000

33 OTHER RESERVES

The Group

	Regulatory reserve	Available-for-sale investment revaluation reserve	General reserve	Total
Balance as at 1st January 2012	462,370	681,022	7,350,007	8,493,399
Change in fair value of available-for-sale investments	–	697,925	–	697,925
Realised on disposal of available-for-sale investments	–	(177,792)	–	(177,792)
Effect of deferred taxation	–	(86,366)	–	(86,366)
Currency translation differences	–	(3,185)	6,310	3,125
Impairment losses on available-for-sale investments transferred to income statement	–	6,187	–	6,187
Share of investment revaluation reserve of joint ventures	–	419	–	419
Transfer from retained earnings	28,371	–	–	28,371
Balance as at 31st December 2012	490,741	1,118,210	7,356,317	8,965,268
Balance as at 1st January 2013	490,741	1,118,210	7,356,317	8,965,268
Change in fair value of available-for-sale investments	–	415,800	–	415,800
Realised on disposal of available-for-sale investments	–	(174,840)	–	(174,840)
Effect of deferred taxation	–	(39,886)	–	(39,886)
Currency translation differences	845	780	15,265	16,890
Share of investment revaluation reserve of joint ventures	–	(101)	–	(101)
Transfer from retained earnings	7,986	1,104	–	9,090
Balance as at 31st December 2013	499,572	1,321,067	7,371,582	9,192,221

33 OTHER RESERVES (CONTINUED)

The Bank

	Regulatory reserve	Available-for-sale investment revaluation reserve	General reserve	Total
Balance as at 1st January 2012	462,370	684,110	7,349,940	8,496,420
Change in fair value of available-for-sale investments (Note 22)	–	697,100	–	697,100
Realised on disposal of available-for-sale investments	–	(178,248)	–	(178,248)
Effect of deferred taxation	–	(86,106)	–	(86,106)
Currency translation differences	–	(3,185)	6,297	3,112
Impairment losses on available-for-sale investments transferred to income statement	–	6,187	–	6,187
Transfer from retained earnings	28,371	–	–	28,371
Balance as at 31st December 2012	490,741	1,119,858	7,356,237	8,966,836
Balance as at 1st January 2013	490,741	1,119,858	7,356,237	8,966,836
Change in fair value of available-for-sale investments (Note 22)	–	416,643	–	416,643
Realised on disposal of available-for-sale investments	–	(175,578)	–	(175,578)
Effect of deferred taxation	–	(39,904)	–	(39,904)
Currency translation differences	845	780	15,198	16,823
Transfer from retained earnings	7,986	–	–	7,986
Balance as at 31st December 2013	499,572	1,321,799	7,371,435	9,192,806

Nature and purpose of reserves:

(a) Regulatory reserve

The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance and local regulatory requirements of overseas branches for prudent supervision purpose. Any movements in the regulatory reserve for Hong Kong operation are made in consultation with the Hong Kong Monetary Authority.

(b) Available-for-sale investment revaluation reserve

Available-for-sale investment revaluation reserve represents the cumulative net change in the fair value of available-for-sale investments until the financial assets are derecognised or impaired as stated in the accounting policy for financial assets. (Note 2.9, Note 2.11 and Note 2.13)

(c) General reserve

General reserve comprises previous years' transfers from retained earnings and translation reserve.

34 CASH AND CASH EQUIVALENTS

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise the following balances with less than three months' maturity from the date of acquisition and that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

The Group

	2013	2012
Cash and balances with banks	22,100,945	28,430,252
Placements with and loans and advances to banks	5,746,139	1,515,813
	27,847,084	29,946,065

35 CONTINGENT LIABILITIES AND COMMITMENTS

(a) Capital commitments

Capital expenditure at the end of the reporting period but not yet incurred is as follows:

	The Group		The Bank	
	2013	2012	2013	2012
Properties and equipment				
Contracted but not provided for	648,816	104,606	601,055	98,392
Authorised but not contracted for	48,440	67,633	48,440	67,633
	697,256	172,239	649,495	166,025

(b) Operating lease commitments

Where a group company is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

	The Group		The Bank	
	2013	2012	2013	2012
No later than 1 year	105,436	97,416	107,992	99,920
Later than 1 year and no later than 5 years	147,540	157,896	157,764	167,913
Later than 5 years	4,300	–	6,004	4,173
	257,276	255,312	271,760	272,006

Where a group company is the lessor, the future minimum lease receivables under non-cancellable operating leases are as follows:

	The Group		The Bank	
	2013	2012	2013	2012
No later than 1 year	1,051	1,615	493	492
Later than 1 year and no later than 5 years	459	771	459	215
	1,510	2,386	952	707

(c) Credit commitments

The contract amounts of the Group's off-balance sheet instruments that commit it to extend credit to customers:

The Group and The Bank		
	2013	2012
Direct credit substitutes	2,599,397	2,197,874
Trade-related contingencies	3,271,159	3,417,746
Other commitments with an original maturity of:		
– under 1 year	4,180,027	1,355,706
– 1 year and over	2,937,364	2,506,275
– unconditionally cancellable	35,663,021	33,751,271
	48,650,968	43,228,872

The credit risk weighted amount of credit commitments is HK$4,901,408,000 (2012: HK$4,218,547,000).

(d) Other contingent liabilities

The Group is involved in legal actions which are in relation to its normal business operations. No material provision was made for those actions against the Group because the management believes that the Group has adequate grounds to defend against the claimants or the amounts involved in those actions are not expected to be material.

36 OFFSETTING FINANCIAL INSTRUMENTS

The following tables present details of financial instruments subject to offsetting, enforceable master netting arrangements and similar agreements.

The Group As at 31st December 2013

	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amounts
				Financial instruments	Cash collateral received	
Assets						
Derivative financial instruments	41,437	–	41,437	(26,696)	–	14,741
Other assets	449,250	(285,101)	164,149	–	–	164,149
Total	490,687	(285,101)	205,586	(26,696)	–	178,890

	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amounts
				Financial instruments	Cash collateral pledged	
Liabilities						
Derivative financial instruments	55,231	–	55,231	(26,696)	–	28,535
Other liabilities	285,101	(285,101)	–	–	–	–
Total	340,332	(285,101)	55,231	(26,696)	–	28,535

36 OFFSETTING FINANCIAL INSTRUMENTS (CONTINUED)

The Group As at 31st December 2012

	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amounts
				Financial instruments	Cash collateral received	
Assets						
Derivative financial instruments	32,973	–	32,973	(17,519)	–	15,454
Other assets	402,190	(378,430)	23,760	–	–	23,760
Total	435,163	(378,430)	56,733	(17,519)	–	39,214

	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amounts
				Financial instruments	Cash collateral pledged	
Liabilities						
Derivative financial instruments	30,107	–	30,107	(17,519)	–	12,588
Other liabilities	378,430	(378,430)	–	–	–	–
Total	408,537	(378,430)	30,107	(17,519)	–	12,588

Derivative financial instruments disclosed above are recorded on a gross basis in the consolidated statement of financial position. Since master netting agreements have been entered into for these derivative financial instruments, the net settlement amounts if an event of default or other precedent events occurred are disclosed under 'Net amounts' to comply with the accounting requirements.

The tables below reconcile the amounts of derivative financial instruments, net amounts of other assets and other liabilities presented in the consolidated statement of financial position.

The Group

	2013	2012
Assets		
Net amounts of derivative financial instruments after offsetting as stated above	41,437	32,973
Derivative financial instruments not in scope of offsetting disclosures	32,048	18,473
Total derivative financial instruments	73,485	51,446
Net amounts of other assets after offsetting as stated above	164,149	23,760
Other assets not in scope of offsetting disclosures	949,613	1,332,121
Total other assets	1,113,762	1,355,881
Liabilities		
Net amounts of derivative financial instruments after offsetting as stated above	55,231	30,107
Derivative financial instruments not in scope of offsetting disclosures	6,574	9,784
Total derivative financial instruments	61,805	39,891
Net amounts of other liabilities after offsetting as stated above	–	–
Other liabilities not in scope of offsetting disclosures	1,282,470	1,257,107
Total other liabilities	1,282,470	1,257,107

36 OFFSETTING FINANCIAL INSTRUMENTS (CONTINUED)

The Bank As at 31st December 2013

	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amounts
				Financial instruments	Cash collateral received	
Assets						
Derivative financial instruments	41,437	–	41,437	(26,696)	–	14,741

	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amounts
				Financial instruments	Cash collateral pledged	
Liabilities						
Derivative financial instruments	55,231	–	55,231	(26,696)	–	28,535

36 OFFSETTING FINANCIAL INSTRUMENTS (CONTINUED)

The Bank As at 31st December 2012

	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amounts
				Financial instruments	Cash collateral received	
Assets						
Derivative financial instruments	32,973	–	32,973	(17,519)	–	15,454

	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amounts
				Financial instruments	Cash collateral pledged	
Liabilities						
Derivative financial instruments	30,107	–	30,107	(17,519)	–	12,588

Derivative financial instruments disclosed above are recorded on a gross basis in the statement of financial position. Since master netting agreements have been entered into for these derivative financial instruments, the net settlement amounts if an event of default or other precedent events occurred are disclosed under 'Net amounts' to comply with the accounting requirements.

The tables below reconcile the amounts of derivative financial instruments presented in the statement of financial position.

The Bank

	2013	2012
Assets		
Net amounts of derivative financial instruments after offsetting as stated above	41,437	32,973
Derivative financial instruments not in scope of offsetting disclosures	32,048	18,473
Total derivative financial instruments	73,485	51,446
Liabilities		
Net amounts of derivative financial instruments after offsetting as stated above	55,231	30,107
Derivative financial instruments not in scope of offsetting disclosures	6,574	9,784
Total derivative financial instruments	61,805	39,891

37 LOANS TO OFFICERS

Particulars of loans made by the Bank to officers and companies related to officers and disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

	Balance outstanding as at 31st December		Maximum balance during the year	
	2013	2012	2013	2012
Aggregate amount outstanding in respect of principal and interest	348,408	510,052	607,529	733,798

38 RELATED PARTY TRANSACTIONS

A number of banking transactions were entered into with related parties by the Group or the Bank in the normal course of business and at arm's length basis. These include loans, deposits, trade finance transactions and foreign currency transactions. The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

Included in the following statement of financial position captions are balances with the ultimate holding company:

The Group and the Bank		
	2013	2012
Cash and balances with banks	150,052	265,062
Available-for-sale investments	99,176	93,202
Other assets	6,011	2,164
	255,239	360,428
Deposits and balances from banks as at 1st January	490,659	646,676
Deposits and balances from banks received during the year	301,909	28,621
Deposits and balances from banks repaid during the year	(8,683)	(184,638)
Deposits and balances from banks as at 31st December	783,885	490,659
Interest income on balances with the ultimate holding company	1,576	1,399
Interest expense on deposits from the ultimate holding company	4,502	4,617
Contingent liabilities and other commitments	80,766	108,745

Included in the following statement of financial position captions are balances with subsidiary companies of the ultimate holding company:

The Group and the Bank		
	2013	2012
Deposits from customers as at 1st January	318,699	310,161
Deposits from customers received during the year	3,142	15,161
Deposits from customers repaid during the year	(2,131)	(6,623)
Deposits from customers as at 31st December	319,710	318,699
Interest expense on deposits from the subsidiary companies of the ultimate holding company	2,116	2,025

38 RELATED PARTY TRANSACTIONS (CONTINUED)

Included in the following statement of financial position captions are balances with other shareholders:

The Group and the Bank	2013	2012
Cash and balances with banks	9,206	65,011
Available-for-sale and held-to-maturity investments	181,887	38,757
	191,093	103,768
Deposits from customers as at 1st January	174,203	121,557
Deposits from customers received during the year	311,754	165,301
Deposits from customers repaid during the year	(7,152)	(112,655)
Loans and advances to customers as at 31st December	478,805	174,203
Interest income on loans and advances to other shareholders	265	1,770
Interest expense on deposits from other shareholders	3,044	938

Included in the following statement of financial position captions are balances with joint ventures:

The Group and the Bank	2013	2012
Loans and advances to customers as at 1st January	14,337	37,600
Loans and advances to customers repaid during the year	(2,834)	(23,263)
Loans and advances to customers as at 31st December	11,503	14,337
Collectively assessed impairment allowances	46	57
Deposits from customers as at 1st January	271,648	296,583
Deposits from customers received during the year	59,007	89,128
Deposits from customers repaid during the year	(99,494)	(114,063)
Deposits from customers as at 31st December	231,161	271,648
Interest income on loans and advances to joint ventures	385	319
Interest expense on deposits from joint ventures	2,999	3,425
Contingent liabilities and other commitments	2,000	2,000

Amounts due from/ (to) subsidiary companies are included in Note 24(b).

38 RELATED PARTY TRANSACTIONS (CONTINUED)

Included in the following statement of financial position captions are balances with the Directors of the Bank and the ultimate holding company and their relatives:

The Group and the Bank

	2013	2012
Loans and advances to customers as at 1st January	263,423	382,728
Loans and advances to customers granted during the year	1,256	6,237
Loans and advances to customers repaid during the year	(121,066)	(125,542)
Loans and advances to customers as at 31st December	143,613	263,423
Collectively assessed impairment allowances	594	1,076
Deposits from customers as at 1st January	248,054	100,676
Deposits from customers received during the year	85,086	190,038
Deposits from customers repaid during the year	(144,202)	(42,660)
Deposits from customers as at 31st December	188,938	248,054
Interest income on loans and advances to the Directors and their relatives	4,941	7,593
Interest expense on deposits from the Directors and their relatives	613	849
Contingent liabilities and other commitments	77,002	156,240

Included in the following statement of financial position captions are balances with companies controlled by the Directors of the Bank and the ultimate holding company and their relatives:

The Group and the Bank

	2013	2012
Loans and advances to customers as at 1st January	246,256	321,494
Loans and advances to customers granted during the year	–	23,124
Loans and advances to customers repaid during the year	(75,215)	(98,362)
Loans and advances to customers as at 31st December	171,041	246,256
Collectively assessed impairment allowances	684	985
Deposits from customers as at 1st January	203,895	227,702
Deposits from customers received during the year	46,923	99,371
Deposits from customers repaid during the year	(104,114)	(123,178)
Deposits from customers as at 31st December	146,704	203,895
Interest income on loans and advances to the companies controlled by the Directors and their relatives	9,204	11,610
Interest expense on deposits from the companies controlled by the Directors and their relatives	4,217	2,441
Contingent liabilities and other commitments	487,450	492,461

38 RELATED PARTY TRANSACTIONS (CONTINUED)

Included in the following statement of financial position captions are balances with the key management personnel, other than Directors of the Bank and the ultimate holding company and their relatives:

The Group and the Bank		
	2013	2012
Loans and advances to customers as at 1st January	2,932	9,663
Loans and advances to customers granted during the year	54	754
Loans and advances to customers repaid during the year	(2,138)	(7,485)
Loans and advances to customers as at 31st December	848	2,932
Collectively assessed impairment allowances	18	42
Deposits from customers as at 1st January	35,835	29,880
Deposits from customers received during the year	11,900	12,125
Deposits from customers repaid during the year	(7,198)	(6,170)
Deposits from customers as at 31st December	40,537	35,835
Interest income on loans and advances to the key management personnel of the Bank and the ultimate holding company and their relatives	15	103
Interest expense on deposits from the key management personnel of the Bank and the ultimate holding company and their relatives	393	534
Contingent liabilities and other commitments	3,480	2,750
The compensation of Directors and key management personnel of the Bank: Salaries and other short-term employee benefits	72,207	66,115

Note: The aggregate movement of revolving loans is shown in its net position during the year.

39 ULTIMATE HOLDING COMPANY

The ultimate holding company is The Shanghai Commercial & Savings Bank, Ltd.

The following information is disclosed as part of the accompanying information to the consolidated financial statements and does not form part of the audited financial statements.

1 Liquidity ratio

	2013	2012
Liquidity ratio	55.3%	60.7%

The liquidity ratio is calculated as the simple average of each calendar month's average liquidity ratio for the twelve months of the financial year of the Bank's Hong Kong offices and overseas branches computed in accordance with the Hong Kong Banking Ordinance.

2 Non-bank mainland exposures

The Bank As at 31st December 2013

	On-balance sheet exposures	Off-balance sheet exposures	Total	Individually assessed impairment allowances
Types of counterparties				
Mainland entities	3,028,394	558,525	3,586,919	–
Companies and individuals outside Mainland where the credit is granted for use in Mainland	2,922,465	265,574	3,188,039	2,250
Other counterparties the exposures to whom are considered by the Group to be non-bank Mainland exposures	175,232	555,566	730,798	–
	6,126,091	1,379,665	7,505,756	2,250

The Bank As at 31st December 2012

	On-balance sheet exposures	Off-balance sheet exposures	Total	Individually assessed impairment allowances
Types of counterparties				
Mainland entities	1,920,539	195,789	2,116,328	–
Companies and individuals outside Mainland where the credit is granted for use in Mainland	2,403,881	289,435	2,693,316	2,562
Other counterparties the exposures to whom are considered by the Group to be non-bank Mainland exposures	104,669	543,104	647,773	–
	4,429,089	1,028,328	5,457,417	2,562

3 Currency concentrations

The Group

Equivalent in Hong Kong dollars	2013 Spot assets	Spot liabilities	Forward purchases	Forward sales	Net long/ (short) position	Net structural position
US Dollars	45,450,000	(40,912,000)	7,101,000	(7,827,000)	3,812,000	4,802,000
Pound Sterling	2,316,000	(2,341,000)	57,000	(22,000)	10,000	13,000
Renminbi	19,364,000	(18,103,000)	2,236,000	(2,403,000)	1,094,000	207,000
Canadian Dollars	1,805,000	(1,818,000)	30,000	(15,000)	2,000	–
Australian Dollars	5,752,000	(5,730,000)	944,000	(955,000)	11,000	–
Other currencies and gold	2,288,000	(2,339,000)	894,000	(805,000)	38,000	–
	76,975,000	(71,243,000)	11,262,000	(12,027,000)	4,967,000	5,022,000

Equivalent in Hong Kong dollars	2012 Spot assets	Spot liabilities	Forward purchases	Forward sales	Net long/ (short) position	Net structural position
US Dollars	45,786,000	(41,485,000)	6,896,000	(7,008,000)	4,189,000	3,642,000
Pound Sterling	2,205,000	(2,220,000)	73,000	(35,000)	23,000	9,000
Renminbi	13,529,000	(12,589,000)	3,024,000	(2,736,000)	1,228,000	151,000
Canadian Dollars	1,767,000	(1,778,000)	35,000	(17,000)	7,000	–
Australian Dollars	5,729,000	(5,865,000)	880,000	(748,000)	(4,000)	–
Other currencies and gold	2,558,000	(2,509,000)	770,000	(781,000)	38,000	–
	71,574,000	(66,446,000)	11,678,000	(11,325,000)	5,481,000	3,802,000

Net structural position includes structural positions of the Bank's overseas branches and subsidiaries. Structural assets and liabilities include:

– investments in properties and equipment, net of depreciation;

– capital, statutory reserves and unremitted profits of overseas branches; and

– investments in overseas subsidiaries and related company.

The above disclosure is based on the significance of the Group's foreign currency exposures of the current year.

4 Loans and advances to customers

(a) Gross loans and advances to customers by loan usage

The Group

	2013		2012	
	Gross loans and advances	Amount covered by collateral	Gross loans and advances	Amount covered by collateral
Loans for use in Hong Kong				
Industrial, commercial and financial				
– Property development	2,603,967	1,341,451	1,742,505	876,465
– Property investment	10,291,052	10,041,870	10,107,076	9,861,456
– Financial concerns	714,975	699,951	130,991	127,205
– Stockbrokers	64,482	64,358	80,570	69,953
– Wholesale and retail trade	1,911,686	1,483,150	911,436	619,345
– Manufacturing	2,222,145	1,391,868	2,048,598	1,424,641
– Transport and transport equipment	732,549	485,394	731,252	455,982
– Information technology – telecommunication	8,530	7,867	6,417	5,921
– Hotels, boarding houses and catering	943,132	931,241	890,789	874,423
– Others	4,910,404	4,094,424	5,591,454	4,196,186
Individuals				
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme or their respective successor schemes	188,808	188,117	229,017	228,031
– Loans for the purchase of other residential properties	4,135,841	4,124,506	3,928,236	3,921,971
– Credit card advances	248,938	–	291,704	–
– Others	6,258,663	5,780,500	5,174,506	4,960,556
Trade finance	6,996,690	5,083,431	5,594,761	3,918,751
Loans for use outside Hong Kong	17,394,070	15,744,528	14,370,843	12,705,423
	59,625,932	51,462,656	51,830,155	44,246,309

4 Loans and advances to customers (Continued)

(b) Impairment allowances on loans and advances to customers by loan usage

For those industry sectors to which the Bank's total amount of loans and advances constitute not less than 10% of the Bank's total amount of loans and advances, their corresponding amount of individually assessed impaired loans and advances, overdue loans and advances, individual impairment allowances, collective impairment allowances is analysed as follows:

The Group

	2013			
	Impaired loans and advances	Overdue loans and advances	Individual impairment allowances	Collective impairment allowances
Industrial, commercial and financial – Property investment	14,066	98,347	56	41,108

	2012			
	Impaired loans and advances	Overdue loans and advances	Individual impairment allowances	Collective impairment allowances
Industrial, commercial and financial – Property investment	26,103	118,307	105	40,324

The Group

	2013		
	New provisions	Loans written off as uncollectible	Recoveries of advances written off in previous years
Industrial, commercial and financial – Property investment	7	–	–

	2012		
	New provisions	Loans written off as uncollectible	Recoveries of advances written off in previous years
Industrial, commercial and financial – Property investment	80	–	388

5 Segmental information

(a) Overdue and impaired loans and advances to customers by geographical areas

The Group

	2013		
	Individually assessed impaired loans and advances	Individual impairment allowances	Collective impairment allowances
Hong Kong	161,107	27,273	–
Asia Pacific excluding Hong Kong	3,316	13	–
North America	212,295	6,716	–
	376,718	34,002	–

	2013		
	Overdue loans and advances	Individual impairment allowances	Collective impairment allowances
Hong Kong	774,736	24,700	3,297
Asia Pacific excluding Hong Kong	85,067	13	327
North America	686,403	6,245	2,375
Western Europe	24,955	–	100
	1,571,161	30,958	6,099

The Group

	2012		
	Individually assessed impaired loans and advances	Individual impairment allowances	Collective impairment allowances
Hong Kong	250,443	27,931	–
Asia Pacific excluding Hong Kong	3,876	16	–
North America	199,448	20,537	–
	453,767	48,484	–

	2012		
	Overdue loans and advances	Individual impairment allowances	Collective impairment allowances
Hong Kong	718,230	24,774	2,566
Asia Pacific excluding Hong Kong	80,144	16	312
North America	721,807	6,201	2,441
Western Europe	54,068	–	217
	1,574,249	30,991	5,536

5 Segmental information (Continued)

(b) Cross-border claims

The information on cross-border claims discloses exposures to foreign counterparties on which the ultimate risk lies, and is derived according to the location of the counterparties after taking into account any transfer of risk.

The Group

	2013			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding Hong Kong	49,281,000	138,000	3,476,000	52,895,000
North America	3,608,000	177,000	258,000	4,043,000
Western Europe	579,000	–	272,000	851,000

	2012			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding Hong Kong	37,452,000	196,000	1,795,000	39,443,000
North America	2,024,000	189,000	252,000	2,465,000
Western Europe	739,000	–	233,000	972,000

6 Corporate governance

(a) The Bank has fully complied with the requirements set out in the guideline on 'Corporate Governance of Locally Incorporated Authorized Institutions' issued by the Hong Kong Monetary Authority.

(b) Key specialised committees established under the Board of Directors (the 'Board')

(i) Executive Committee

The Executive Committee meets monthly and operates as a general management committee under the direct authority of the Board to review the management and performance of the Bank. The members of the Executive Committee are Mr. David Sek-chi Kwok (Chairman), Mr. Hung-ching Yung, Mr. David Allen Hoyt, Madam Ning Li Ming and Mr. Edward Kawah Chu.

(ii) Audit Committee

The Audit Committee meets quarterly to consider the nature and scope of audit reviews, as well as to review the Bank's financial statements, the findings of both internal and external auditors and the effectiveness of the internal control systems of the Bank. The members of the Audit Committee are Mr. Gordon Che Keung Kwong (Chairman), Mr. Lincoln Chu Kuen Yung and Dr. Richard Lee.

(iii) Remuneration Committee

The Remuneration Committee meets at least once a year to oversee the implementation of a sound remuneration policy including the recommendations to the Board on the remuneration of the directors and senior management of the Bank. The members of the Remuneration Committee are Mr. Hung-ching Yung (Chairman), Dr. Richard Lee and Mr. Johnson Mou Daid Cha.

(iv) Nomination Committee

The Nomination Committee meets at least once a year to review the structure, size, composition of the Board, to identify, consider and select individuals qualified for recommendations to the Board for their appointments, re-appointment and succession planning as Directors and senior management in order to complement the Bank's business strategies. The members of the Nomination Committee are Mr. Lincoln Chu Kuen Yung (Chairman), Dr. Richard Lee and Mr. Johnson Mou Daid Cha.

(v) Risk Management Committee

Set up in August 2013, the Risk Management Committee meets quarterly to oversee the various aspects of risk management on an integrated basis, to review and make recommendations to the Board on the risk management strategies as well as the risk tolerance and risk appetite of the Bank. The members of the Risk Management Committee are Mr. Lincoln Chu Kuen Yung (Chairman), Mr. Johnson Mou Daid Cha and Mr. Gordon Che Keung Kwong.

(vi) Asset and Liability Committee

The Asset and Liability Committee meets at least monthly to oversee the Bank's operations relating to interest rate risk, liquidity risk, foreign exchange risk and etc. and in particular to ensure that the Bank has adequate funds to meet its obligations. The members of the Asset and Liability Committee are Mr. David Sek-chi Kwok (Chairman), Mr. Edward Kawah Chu, Mr. Paul Kun-kow Wong, Mr. Burton Chi-shan Cheng, Mr. Stephen Siu-fung Lee, Mr. Frank Shui-sang Jin, Mr. Hon-ming Mak, Mr. Danny Kong-keung Tsang, Mr. Francis Yue-cheong Wong, Ms. Wendy Li-chien Weng and Ms. Blanche Oi-hung Chan.

(vii) Credit Committee

The Credit Committee meets at least monthly to ensure that the Bank's credit policies are adequate and lending activities are conducted in accordance with established policies and relevant laws and regulations. The Credit Committee is also responsible for establishing credit policies, monitoring loan portfolio quality, ensuring compliance with statutory and internal lending limits, and evaluating credit applications and making credit decisions. The members of the Credit Committee are Mr. David Sek-chi Kwok (Chairman), Mr. Edward Kawah Chu, Mr. Paul Kun-kow Wong, Mr. Stephen Siu-fung Lee, Mr. Frank Shui-sang Jin, Mr. Hon-ming Mak, Mr. Danny Kong-keung Tsang and Mr. Sau-man Hui.

(viii) Operational Risk Management Committee

The Operational Risk Management Committee meets at least bi-monthly to establish and to review operational risk management policies, processes and procedures for managing operational risk in all of the Bank's material products, activities, processes and systems. The Operational Risk Management Committee is also responsible for overseeing the identification, assessment, monitoring and control of operational risk exposures. The members of the Operational Risk Management Committee are Mr. David Sek-chi Kwok (Chairman), Mr. Edward Kawah Chu, Mr. Paul Kun-kow Wong, Mr. Burton Chi-shan Cheng, Mr. Stephen Siu-fung Lee, Mr. Frank Shui-sang Jin, Mr. Hon-ming Mak, Mr. Danny Kong-keung Tsang, Mr. Francis Yue-cheong Wong, Mr. Michael Yiu-wing Fung and Ms. Blanche Oi-hung Chan.

7 Capital structure and adequacy

The calculation of the capital adequacy ratio as at 31st December 2013 is based on the Banking (Capital) Rules ('BCR') effective from 1st January 2013. The capital adequacy ratio as at 31st December 2013 represents the consolidated ratio of the Bank, Shacom Property (CA) Inc., Shacom Property (NY) Inc., Shacom Property Holdings (BVI) Limited, Shacom Investment Limited, Shacom Assets Investments Limited, Right Honour Investments Limited, Glory Step Investments Limited, Silver Wisdom Investments Limited and Shacom Insurance Brokers Limited computed in accordance with section 3C(1) of the BCR.

The table below presents the balance sheets based on the accounting scope of consolidation and the regulatory scope of consolidation respectively.

As at 31st December 2013	Balance sheet as in published financial statements	Under regulatory scope of consolidation
Assets		
Cash and balances with banks	25,396,151	25,396,105
Placements with and loans and advances to banks	23,266,965	23,266,965
Loans and advances to customers	62,093,205	62,093,205
Financial assets held for trading	368,882	353,028
Derivative financial instruments	73,485	73,485
Investment securities:		
– Available-for-sale	25,472,136	25,356,844
– Held-to-maturity	2,484,874	2,480,890
Investments in joint ventures	234,456	116,000
Investments in and amounts due from subsidiary companies	–	184,449
Properties and equipment	2,424,014	2,401,437
Investment properties	92,495	121,368
Deferred income tax assets	50,430	50,276
Other assets	1,113,762	639,102
Total assets	143,070,855	142,533,154
Liabilities		
Deposits and balances from banks	7,108,798	7,108,798
Deposits from customers	113,641,193	113,641,193
Derivatives financial instruments	61,805	61,805
Amounts due to subsidiary companies	–	248,564
Other liabilities	1,282,470	761,542
Provisions	93,064	92,270
Current income tax liabilities	141,000	140,763
Deferred income tax liabilities	240,543	240,522
Total liabilities	122,568,873	122,295,457
Equity		
Share capital	2,000,000	2,000,000
Retained earnings	9,245,499	9,044,823
Other reserves	9,192,221	9,192,874
Non-controlling interests	64,262	–
Total equity	20,501,982	20,237,697
Total equity and liabilities	143,070,855	142,533,154

7 Capital structure and adequacy (Continued)

The table below shows the reconciliation of the capital components from balance sheet based on regulatory scope of consolidation to the Capital Disclosures Template.

As at 31st December 2013	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Cross reference to Definition of Capital Components
Assets			
Cash and balances with banks	25,396,151	25,396,105	
Placements with and loans and advances to banks	23,266,965	23,266,965	
Loans and advances to customers	62,093,205	62,093,205	
of which: collective impairment allowances reflected in regulatory capital		*244,088*	(1)
Financial assets held for trading	368,882	353,028	
of which: insignificant capital investments in financial sector entities exceeding 10% threshold		*6,509*	(2)
Derivative financial instruments	73,485	73,485	
Investment securities:			
– Available-for-sale	25,472,136	25,356,844	
of which: insignificant capital investments in financial sector entities exceeding 10% threshold		*704,539*	(3)
– Held-to-maturity	2,484,874	2,480,890	
Investments in joint ventures	234,456	116,000	
Investments in and amounts due from subsidiary companies	–	184,449	
Properties and equipment	2,424,014	2,401,437	
Investment properties	92,495	121,368	
Deferred income tax assets	50,430	50,276	(4)
Other assets	1,113,762	639,102	
Total assets	143,070,855	142,533,154	
Liabilities			
Deposits and balances from banks	7,108,798	7,108,798	
Deposits from customers	113,641,193	113,641,193	
Derivatives financial instruments	61,805	61,805	
Amounts due to subsidiary companies	–	248,564	
Other liabilities	1,282,470	761,542	
Provisions	93,064	92,270	
Current income tax liabilities	141,000	140,763	
Deferred income tax liabilities	240,543	240,522	
Total liabilities	122,568,873	122,295,457	
Equity			
Share capital	2,000,000	2,000,000	
of which: paid-in share capital		*2,000,000*	(5)
Retained earnings	9,245,499	9,044,823	
of which: retained earnings		*9,044,823*	(6)
Other reserves	9,192,221	9,192,874	
of which: accumulated other comprehensive income (loss), other than regulatory reserve		*8,693,302*	(7)
regulatory reserve		*499,572*	(8)
Non-controlling interests	64,262	–	
Total equity	20,501,982	20,237,697	
Total equity and liabilities	143,070,855	142,533,154	

7 Capital structure and adequacy (Continued)

The Bank has already applied full capital deductions under the BCR. The Capital Disclosures Template as at 31st December 2013 is shown below.

		Component of regulatory capital reported by bank	Cross-referenced to balance sheet under regulatory scope of consolidation
	CET1 capital: instruments and reserves		
1	Directly issued qualifying CET1 capital instruments plus any related share premium	2,000,000	(5)
2	Retained earnings	9,044,823	(6)
3	Disclosed reserves	9,192,874	(7)+(8)
4	Directly issued capital subject to phase out from CET1 capital (only applicable to non-joint stock companies)	Not applicable	
5	Minority interests arising from CET1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in CET1 capital of the consolidation group)	–	
6	**CET1 capital before regulatory deductions**	**20,237,697**	
	CET1 capital: regulatory deductions		
7	Valuation adjustments	–	
8	Goodwill (net of associated deferred tax liability)	–	
9	Other intangible assets (net of associated deferred tax liability)	–	
10	Deferred tax assets net of deferred tax liabilities	50,276	(4)
11	Cash flow hedge reserve	–	
12	Excess of total EL amount over total eligible provisions under the IRB approach	–	
13	Gain-on-sale arising from securitization transactions	–	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	–	
15	Defined benefit pension fund net assets (net of associated deferred tax liabilities)	–	
16	Investments in own CET1 capital instruments (if not already netted off paid-in capital on reported balance sheet)	–	
17	Reciprocal cross-holdings in CET1 capital instruments	–	
18	Insignificant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	594,463	(2) + (3) - (9)
19	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	–	
20	Mortgage servicing rights (amount above 10% threshold)	Not applicable	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	Not applicable	
22	Amount exceeding the 15% threshold	Not applicable	
23	of which: significant investments in the common stock of financial sector entities	Not applicable	
24	of which: mortgage servicing rights	Not applicable	
25	of which: deferred tax assets arising from temporary differences	Not applicable	
26	National specific regulatory adjustments applied to CET1 capital	–	
26a	Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	–	
26b	Regulatory reserve for general banking risks	499,572	(8)
26c	Securitization exposures specified in a notice given by the Monetary Authority	–	
26d	Cumulative losses below depreciated cost arising from the institution's holdings of land and buildings	–	
26e	Capital shortfall of regulated non-bank subsidiaries	–	
26f	Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	–	
27	Regulatory deductions applied to CET1 capital due to insufficient AT1 capital and Tier 2 capital to cover deductions	–	
28	**Total regulatory deductions to CET1 capital**	**1,144,311**	
29	**CET1 capital**	**19,093,386**	

7 Capital structure and adequacy (Continued)

		Component of regulatory capital reported by bank	Cross-referenced to balance sheet under regulatory scope of consolidation
	AT1 capital: instruments		
30	Qualifying AT1 capital instruments plus any related share premium	–	
31	of which: classified as equity under applicable accounting standards	–	
32	of which: classified as liabilities under applicable accounting standards	–	
33	Capital instruments subject to phase out arrangements from AT1 capital	–	
34	AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidation group)	–	
35	of which: AT1 capital instruments issued by subsidiaries subject to phase out arrangements	–	
36	**AT1 capital before regulatory deductions**	–	
	AT1 capital: regulatory deductions		
37	Investments in own AT1 capital instruments	–	
38	Reciprocal cross-holdings in AT1 capital instruments	–	
39	Insignificant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	–	
40	Significant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	–	
41	National specific regulatory adjustments applied to AT1 capital	–	
42	Regulatory deductions applied to AT1 capital due to insufficient Tier 2 capital to cover deductions	–	
43	**Total regulatory deductions to AT1 capital**	–	
44	**AT1 capital**	–	
45	**Tier 1 capital (Tier 1 = CET1 + AT1)**	**19,093,386**	
	Tier 2 capital: instruments and provisions		
46	Qualifying Tier 2 capital instruments plus any related share premium	–	
47	Capital instruments subject to phase out arrangements from Tier 2 capital	–	
48	Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group)	–	
49	of which: capital instruments issued by subsidiaries subject to phase out arrangements	–	
50	Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	743,660	(1) + (8)
51	**Tier 2 capital before regulatory deductions**	**743,660**	
	Tier 2 capital: regulatory deductions		
52	Investments in own Tier 2 capital instruments	–	
53	Reciprocal cross-holdings in Tier 2 capital instruments	–	
54	Insignificant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	116,585	(9)
55	Significant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	–	
56	National specific regulatory adjustments applied to Tier 2 capital	–	
56a	Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital	–	
57	**Total regulatory deductions to Tier 2 capital**	**116,585**	
58	**Tier 2 capital**	**627,075**	
59	**Total capital (Total capital = Tier 1 + Tier 2)**	**19,720,461**	
60	**Total risk weighted assets**	**100,733,469**	

7 Capital structure and adequacy (Continued)

		Component of regulatory capital reported by bank	Cross-referenced to balance sheet under regulatory scope of consolidation
Capital ratios (as a percentage of risk weighted assets)			
61	CET1 capital ratio	18.95%	
62	Tier 1 capital ratio	18.95%	
63	Total capital ratio	19.58%	
64	Institution specific buffer requirement (minimum CET1 capital requirement as specified in s.3B of the BCR plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB or D-SIB requirements)	4.50%	
65	of which: capital conservation buffer requirement	0.00%	
66	of which: bank specific countercyclical buffer requirement	0.00%	
67	of which: G-SIB and D-SIB buffer requirement	0.00%	
68	CET1 capital surplus over the minimum CET1 requirement and any CET1 capital used to meet the Tier 1 and Total capital requirement under s.3B of the BCR	14.45%	
National minima (if different from Basel 3 minimum)			
69	National CET1 minimum ratio	Not applicable	
70	National Tier 1 minimum ratio	Not applicable	
71	National Total capital minimum ratio	Not applicable	
Amounts below the thresholds for deduction (before risk weighting)			
72	Insignificant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	1,968,785	
73	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	392,778	
74	Mortgage servicing rights (net of related tax liability)	Not applicable	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	Not applicable	
Applicable caps on the inclusion of provisions in Tier 2 capital			
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the basic approach and the standardized (credit risk) approach (prior to application of cap)	743,660	
77	Cap on inclusion of provisions in Tier 2 under the basic approach and the standardized (credit risk) approach	1,167,086	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach (prior to application of cap)	–	
79	Cap for inclusion of provisions in Tier 2 under the IRB approach	–	
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)			
80	Current cap on CET1 capital instruments subject to phase out arrangements	Not applicable	
81	Amount excluded from CET1 capital due to cap (excess over cap after redemptions and maturities)	Not applicable	
82	Current cap on AT1 capital instruments subject to phase out arrangements	–	
83	Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)	–	
84	Current cap on Tier 2 capital instruments subject to phase out arrangements	–	
85	Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)	–	

7 Capital structure and adequacy (Continued)

Note to the template:

Element where a more conservative definition has been applied in the BCR relative to that set out in Basel III capital standards:

Row No.	Description	Hong Kong basis	Basel III basis
10	**Deferred tax assets net of deferred tax liabilities ('DTA')**	**50,276**	–
	Explanation As set out in paragraphs 69 and 87 of the Basel III text issued by the Basel Committee (December 2010), DTAs that rely on future profitability of the bank to be realized are to be deducted, whereas DTAs which relate to temporary differences may be given limited recognition in CET1 capital (and hence be excluded from deduction from CET1 capital up to the specified threshold). In Hong Kong, an authorised institution is required to deduct all DTAs in full, irrespective of their origin, from CET1 capital. Therefore, the amount to be deducted as reported in row 10 may be greater than that required under Basel III. The amount reported under the column 'Basel III basis' in this box represents the amount reported in row 10 (i.e. the amount reported under the 'Hong Kong basis') adjusted by reducing the amount of DTAs to be deducted which relate to temporary differences to the extent not in excess of the 10% threshold set for DTAs arising from temporary differences and the aggregate 15% threshold set for mortgage servicing rights, DTAs arising from temporary differences and significant investments in CET1 capital instruments issued by financial sector entities (excluding those that are loans, facilities and other credit exposures to connected companies) under Basel III.		
Remarks: The amount of the 10%/ 15% thresholds mentioned above is calculated based on the amount of CET1 capital determined under the BCR.			

Abbreviations:
CET1 = Common Equity Tier 1
AT1 = Additional Tier 1

7 Capital structure and adequacy (Continued)

For comparative purpose, the capital adequacy ratio as at 31st December 2012 was based on the BCR effective from 1st January 2012. The capital adequacy ratio as at 31st December 2012 represented the consolidated ratio of the Bank, Shacom Property (CA) Inc., Shacom Property (NY) Inc., Shacom Property Holdings (BVI) Limited, Shacom Investment Limited, Shacom Assets Investments Limited and Shacom Insurance Brokers Limited computed in accordance with section 98(2) of the Hong Kong Banking Ordinance. The comparative figures were not restated on the ground that different approaches were used to calcuate the capital adequacy ratios as at 31st December 2013 and 31st December 2012.

	2012
Capital adequacy ratio	18.0%
Core capital ratio	17.8%

The capital base after deductions used in the calculation of the above capital adequacy ratio as at 31st December 2012 and reported to the Hong Kong Monetary Authority is analysed as follows:

	2012
Core capital:	
Paid up ordinary share capital	2,000,000
Reserves	13,028,417
Income statement	1,614,233
Less: net deferred tax assets	(61,401)
	16,581,249
Other deductions from core capital	(1,132,493)
Core capital after deductions	15,448,756
Supplementary capital:	
Collective impairment allowances for loans and advances	213,482
Regulatory reserve	490,741
Revaluation reserves for available-for-sale investments	603,517
	1,307,740
Other deductions from supplementary capital	(1,132,492)
Supplementary capital after deductions	175,248
Total capital base	15,624,004
Risk-weighted assets:	
Credit risk	79,524,623
Market risk	1,847,675
Operational risk	5,327,900
Total risk-weighted assets	86,700,198
which consist of:	
On-balance sheet	82,423,996
Off-balance sheet	4,276,202

7 Capital structure and adequacy (Continued)

The Main Features Template as at 31st December 2013 is shown below:

1	Issuer	Shanghai Commercial Bank Limited
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	NA
3	Governing law(s) of the instrument	Laws of Hong Kong
	Regulatory treatment	
4	Transitional Basel III rules#	NA
5	Post-transitional Basel III rules+	Common Equity Tier 1
6	Eligible at solo* / group / group & solo	Solo and Group
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	HK$2,000
9	Par value of instrument	HK$100 each
10	Accounting classification	Shareholders' equity
11	Original date of issuance	1951, 1968, 1969 ,1970, 1972, 1973, 1975, 1979, 1981, 1985, 1988, 1990, 1991, 1996, 2000
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	NA
16	Subsequent call dates, if applicable	NA
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	NA
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	NA
25	If convertible, fully or partially	NA
26	If convertible, conversion rate	NA
27	If convertible, mandatory or optional conversion	NA
28	If convertible, specify instrument type convertible into	NA
29	If convertible, specify issuer of instrument it converts into	NA
30	Write-down feature	No
31	If write-down, write-down trigger(s)	NA
32	If write-down, full or partial	NA
33	If write-down, permanent or temporary	NA
34	If temporay write-down, description of write-up mechanism	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	NA
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	NA

Footnote:

\# Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H of the BCR

\+ Regulatory treatment of capital instruments not subject to transitional arrangement provided for in Schedule 4H of the BCR

* Include solo-consolidated

NA Not applicable

8 Capital charges for credit, market and operational risks

The capital adequacy ratio in Note 3.5 to the financial statements represents the consolidated ratio that comprises the positions of the Bank and certain of its subsidiaries as specified by the Hong Kong Monetary Authority for regulatory purposes as at 31st December computed in accordance with the Banking (Capital) Rules. For accounting purposes, the basis of consolidation is described in Note 2.2 to the consolidated financial statements.

The capital requirements for each class of exposures are summarised as follows:

(a) Capital charge for credit risk

	2013	2012
Sovereign exposures	68,790	3,735
Public Sector Entity exposures	2,424	4,313
Bank exposures	1,922,054	1,786,710
Securities Firm exposures	2,579	3,223
Corporate exposures	3,238,447	2,720,960
Cash items	6,700	7,492
Regulatory Retail exposures	288,730	271,930
Residential Mortgage Loans	530,827	529,913
Other exposures which are not past due exposures	993,565	659,833
Past due exposures	14,778	31,764
Total capital charge for on-balance sheet exposures	7,068,894	6,019,873
Direct credit substitutes	204,616	172,449
Trade-related contingencies	51,824	54,181
Other commitments	135,673	110,854
Exchange rate contracts	5,463	4,612
Total capital charge for off-balance sheet exposures	397,576	342,096
Credit valuation adjustment	2,880	–
Total capital charge for credit risk	7,469,350	6,361,969

The Group uses the Standardised Approach for calculating credit risk.

This disclosure is made by multiplying the Group's risk-weighted amount derived from the relevant calculation approach by 8%, not the Group's actual 'regulatory capital'.

(b) Capital charge for market risk

	2013	2012
Interest rate exposures (non-securitisation)	8,741	8,128
Equity exposures	26,914	19,686
Foreign exchange exposures	111,200	120,000
Capital charge for market risk	146,855	147,814

The Group uses the Standardised Approach for calculating market risk.

(c) Capital charge for operational risk

	2013	2012
Capital charge for operational risk	442,473	426,232

The Group uses the Basic Indicator Approach for calculating operational risk.

9 Risk management

(a) Credit risk

(i) Credit risk exposures

Standard & Poor's Ratings Services, Moody's Investors Service, Fitch Ratings and Rating and Investment Information, Inc. are the ECAIs that the Group has used in relation to each and all classes of credit risk exposures below. The process it used to map ECAI issuer ratings to exposures booked in its banking book is a process as prescribed in Part 4 of the Banking (Capital) Rules.

As at 31st December 2013

	Total exposures	Exposures after recognised credit risk mitigation		Risk-weighted amounts		Total risk-weighted amounts
		Rated	Unrated	Rated	Unrated	
A. On-balance Sheet						
1 Sovereign	10,313,148	10,336,525	–	859,876	–	859,876
2 Public Sector Entity	151,510	151,510	–	30,302	–	30,302
3 Multilateral Development Bank	17,075	17,075	–	–	–	–
4 Bank	59,713,327	56,205,182	3,508,145	22,794,966	1,230,704	24,025,670
5 Securities Firm	64,478	–	64,478	–	32,239	32,239
6 Corporate	43,343,709	4,561,683	37,813,046	2,667,545	37,813,046	40,480,591
7 Cash Items	498,754	–	1,444,357	–	83,747	83,747
8 Regulatory Retail	4,812,159	–	4,812,159	–	3,609,119	3,609,119
9 Residential Mortgage Loan	10,688,425	–	10,688,425	–	6,635,340	6,635,340
10 Other exposures which are not Past Due Exposures	11,830,396	1,850,393	9,980,003	1,850,393	10,569,170	12,419,563
11 Past Due Exposures	174,926	–	174,926	–	184,721	184,721
B. Off-balance Sheet						
1 Off-balance sheet exposures other than OTC derivative transactions	5,558,316	836,207	4,722,109	239,404	4,662,004	4,901,408
2 OTC derivative transactions	150,616	116,032	34,584	36,574	31,718	68,292

As at 31st December 2012

	Total exposures	Exposures after recognised credit risk mitigation		Risk-weighted amounts		Total risk-weighted amounts
		Rated	Unrated	Rated	Unrated	
A. On-balance Sheet						
1 Sovereign	18,927,156	18,927,156	–	46,687	–	46,687
2 Public Sector Entity	269,596	269,596	–	53,919	–	53,919
3 Multilateral Development Bank	17,455	17,455	–	–	–	–
4 Bank	54,058,267	50,916,372	3,141,895	20,945,977	1,387,893	22,333,870
5 Securities Firm	80,563	–	80,563	–	40,282	40,282
6 Corporate	35,984,289	4,827,548	31,156,741	2,855,254	31,156,741	34,011,995
7 Cash Items	383,739	–	1,391,388	–	93,647	93,647
8 Regulatory Retail	4,532,173	–	4,532,173	–	3,399,130	3,399,130
9 Residential Mortgage Loan	10,432,097	–	10,432,097	–	6,623,915	6,623,915
10 Other exposures which are not Past Due Exposures	8,247,919	–	8,247,919	–	8,247,919	8,247,919
11 Past Due Exposures	389,214	–	389,214	–	397,057	397,057
B. Off-balance Sheet						
1 Off-balance sheet exposures other than OTC derivative transactions	4,405,702	226,368	4,179,334	97,211	4,121,336	4,218,547
2 OTC derivative transactions	165,589	148,854	16,735	41,400	16,255	57,655

As at 31st December 2013, the credit risk to corporate and past due exposures are covered by recognised collateral of HK$945,603,000 (2012: HK$1,007,649,000) and HK$149,436,000 (2012: HK$368,232,000) respectively.

As at 31st December 2013, the credit risk to corporate and off-balance sheet exposures other than OTC derivative transactions are covered by recognised guarantees of HK$738,079,000 (2012: HK$480,031,000) and HK$224,375,000 (2012: HK$173,125,000) respectively.

9 Risk management (Continued)

(a) Credit risk (Continued)

(ii) Counterparty credit risk exposures

The following table summarises the Group's main credit exposures arising from OTC derivative transactions:

	2013	2012
OTC derivatives:		
Gross total positive fair value	73,485	51,446
Credit equivalent amounts	150,616	165,589
Risk weighted amounts	68,292	57,655

The breakdown of the credit equivalent amounts and the risk-weighted amounts is summarised as follows:

	2013	2012
Notional amounts:		
– Banks	6,228,148	10,095,172
– Corporates	1,322,591	1,121,723
– Others	37,125	85,590
	7,587,864	11,302,485
Credit equivalent amounts:		
– Banks	112,062	140,367
– Corporates	37,583	24,064
– Others	971	1,158
	150,616	165,589
Risk-weighted amounts:		
– Banks	32,604	37,156
– Corporates	34,956	19,630
– Others	732	869
	68,292	57,655

As at 31st December 2013, the default risk exposure, capital charge and risk-weighted amount under the standardised credit valuation adjustment method are HK$150,615,000, HK$2,880,000 and HK$36,000,000 respectively (2012: Nil).

(b) Asset securitisation

There are no such exposures for the year ended 31st December 2013 and 2012.

(c) Equity exposures in banking book

Equity holdings in other entities are accounted for in accordance with the underlying intentions of holdings at the inception of acquisition. The classifications for equity holdings taken for relationship and strategic purposes will be separated from those taken for other purposes (including capital appreciation). Investments in equity shares which are intended to be held on a continuing basis, but which do not comprise investments in joint ventures or subsidiaries, are classified as 'Available-for-sale Investments' and are reported in the Statement of Financial Position.

Gains / (losses) related to equity exposures are as follows:

	2013	2012
Realised gains / (losses) from sales during the year	3,397	(11,920)
Unrealised revaluation gains at year ended:		
– Amount included in reserves but not through income statement	1,589,382	1,066,712

9 Risk management (Continued)

(d) Interest rate exposures in banking book

2013

	Currency				
Equivalent in Hong Kong Dollars	HKD	USD	RMB	Others	Total
Interest rate risk shock (200 basis points upward) Increase/ (decline) in earnings	139,611	(15,239)	37,870	26,849	189,091

2012

	Currency				
Equivalent in Hong Kong Dollars	HKD	USD	RMB	Others	Total
Interest rate risk shock (200 basis points upward) Decline in earnings	(77,404)	(36,748)	(1,071)	(3,459)	(118,682)

For 2013 and 2012, the effect of decline in earnings and increase in earnings with interest rate risk shock of 200 basis points downward are contra to that with interest rate risk shock of 200 basis points upward.

The above analysis is based on the methodology as set out by the Hong Kong Monetary Authority in the completion instructions for the 'Return of Interest Rate Risk Exposure' which is compiled on a quarterly basis.

10 Disclosure on Remuneration

GUIDING PRINCIPLES

The Bank is committed to sustaining long-term capital preservation and financial strength for the benefits of all stakeholders. The Remuneration Policy of the Bank is designed to promote fairness and consistency in the compensation approach; to attract, motivate and retain talents, as well as to help achieve the business goals under prudent risk management principles.

The Remuneration Policy applies to the Bank in Hong Kong and its subsidiaries, where appropriate. While the basic principles are applicable to foreign branches, they are also subject to their local regulatory requirements in respective jurisdictions.

REMUNERATION COMMITTEE

The Remuneration Committee is established with written Terms of Reference defining its authority and duties to oversee the formulation and implementation of a sound remuneration policy by the Bank, and to ensure its consistency with the best practices and applicable legal and regulatory requirements.

Directly appointed by the Board of the Bank, majority of the members of the Committee are Independent Non-executive Directors. The Committee is chaired by Mr. Hung-ching Yung. The other members are Dr. Richard Lee and Mr. Johnson Mou Daid Cha.

The Remuneration Committee reviews the remuneration policy and its structure of the Bank at least annually and had held two meetings in 2013.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Remuneration Committee is responsible for making recommendations to the Board on the formulation and review of the remuneration packages for the Directors, the Chief Executive and Senior Management, with reference to the Bank's financial condition and future prospect, risk management framework, reward and people strategies. Such packages are subject to the final approval of the Board.

No individual Director/ Staff or any of his/ her alternates shall be involved in deciding his/ her own remuneration package.

10 Disclosure on Remuneration (Continued)

REMUNERATION STRUCTURE

The remuneration package is a combination of fixed and variable remuneration. Fixed remuneration consists of basic salary, allowances, double pay and pension contribution. Variable remuneration takes into account the overall performance of the Bank and various business units, individual performance measured against the established key performance indicators, adherence to risk management policies, compliance with legal and regulatory requirements and ethical standards. The variable remuneration is awarded in the form of cash bonus.

A proportion of the variable remuneration will be deferred and the vesting criteria of the deferred payment are subject to the impact of financial and non-financial factors over a period of time.

PERFORMANCE MEASUREMENTS AND THE DISTRIBUTION OF VARIABLE REMUNERATION

The Bank maintains a performance evaluation scheme to ensure individual staff performance would be differentiated into various levels, and be adequately and effectively evaluated. Final approval of the discretionary bonus is determined by various quantitative and qualitative assessment criteria set out in the performance appraisal system.

The employees within risk control functions are remunerated independently. The performance of business units where they oversee does not affect their remuneration.

When deciding the remuneration measures, the Bank shall also take into account certain key risk factors such as its asset quality, liquidity position, business environments, respective staff performance, the overall business results as well as long-term financial position. The timing and the portion of the performance-related bonus distribution are vested in the Remuneration Committee and finally with the Board.

DEFERRAL ARRANGEMENTS

In view of the Bank's existing business model and organisation structure, a portion of the discretionary bonus payment of senior management will be deferred and may be subject to a vesting period for a number of years in order to align with long-term value creation and the time horizons of risk.

SENIOR MANAGEMENT AND KEY PERSONNEL REMUNERATION

Aggregate quantitative information on remuneration for the Bank's senior management and key personnel for the financial year of 2013:

Senior Management		
Total value of remuneration awards for the current financial year	Non-deferred	Deferred
Fixed remuneration		
• Cash-based	35,376	Nil
Variable remuneration		
• Cash-based	23,230	2,222
Deferred remuneration		
• Vested cash		2,490
• Unvested cash		4,783

Notes:

(i) The unvested deferred remuneration relates to the 2011, 2012 and 2013 variable remuneration.

(ii) Number of senior management staff as at 31st December 2013 was 14.

(iii) Number of key personnel other than those senior management described above: Nil.

The Bank has fully complied with the requirements set out in the guideline on 'Guideline on a Sound Remuneration System' issued by the Hong Kong Monetary Authority.

BRANCHES AND SUBSIDIARY COMPANIES

Management and Administration

35/F., Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong
Telephone: (852) 2841 5415
Fax: (852) 2810 4623
Telex: 73650 SCBK HX
SWIFT: SCBK HK HH
Web Site: http://www.shacombank.com.hk

Hong Kong Island Branches

Retail Banking Operations - Central	Basement, Manning House, 48 Queen's Road Central
Aberdeen Branch	118 Aberdeen Main Road, Aberdeen
Causeway Bay Branch	18 Pennington Street, Causeway Bay
Hennessy Road Branch	Shop LG16, C. C. Wu Building, 302 Hennessy Road, Wanchai
North Point Branch	486 King's Road, North Point
President Theatre Branch	Shop A, G/F., 517 Jaffe Road, Causeway Bay
Shaukiwan Branch	136 Shaukiwan Main Street East, Shaukiwan
Sheung Wan Branch	G/F., 41-47 Jervois Street, Sheung Wan
Siu Sai Wan Branch	Shop 9, G/F., Harmony Garden, 9 Siu Sai Wan Road, Chai Wan
Taikoo Shing Branch	G502 Tai Yue Avenue, Taikoo Shing, Quarry Bay
Victoria Centre Branch	G7 Victoria Centre, 15 Watson Road, Causeway Bay
Wanchai Branch	19-21 Hennessy Road, Wanchai
West Point Branch	47 Catchick Street, West Point

Kowloon Branches

Jordan Road Branch	Shop 2, G/F., Sino Cheer Plaza, 23 Jordan Road, Jordan
Kowloon Bay Branch	Telford House, 16 Wang Hoi Road, Kowloon Bay
Kowloon Tong Branch	G28 Franki Centre, 320 Junction Road, Kowloon Tong
Kwun Tong Branch	57-61 Hong Ning Road, Kwun Tong
Laichikok Branch	Shops 5-8, G/F., Lai Kwan Court, 438 Castle Peak Road
Mei Foo Sun Chuen (Stage 1) Branch	29D Broadway, Mei Foo Sun Chuen, Laichikok
Mei Foo Sun Chuen (Stage 4) Branch	83B Broadway, Mei Foo Sun Chuen, Laichikok
Mody Road Branch	Units 101-103, 1/F., Wing On Plaza, 62 Mody Road, Tsimshatsui East
Mongkok Branch	666 Nathan Road, Mongkok
Ping Shek Estate Branch	115 Tsuen Shek House, Ping Shek Estate, Ngau Chi Wan
Sanpokong Branch	28 Hong Keung Street, Sanpokong
Sham Shui Po Branch	141 Cheung Sha Wan Road, Sham Shui Po
Tokwawan Branch	60 Tokwawan Road, Tokwawan
Tsimshatsui Branch	7 Hankow Road, Tsimshatsui
Tsimshatsui East Branch	G27 Houston Centre, 63 Mody Road, Tsimshatsui East
Waterloo Road Branch	84K Waterloo Road, Homantin
Whampoa Garden Branch	Shop 9, Palm Mansions, Whampoa Garden, Site 4, Hunghom
Wong Tai Sin Branch	Shop LG4, Lung Cheung Plaza, 136 Lung Cheung Road, Wong Tai Sin

New Territories and Outlying Island Branches

Kingswood Villa Branch	Shop G08, G/F., Phase 2, Kingswood Ginza, 18 Tin Yan Road, Tin Shui Wai
Kwai Chung Branch	Shop 3, Hutchison Estate, 482 Castle Peak Road, Kwai Chung
Ma On Shan Branch	Shop 308, Level 3, Ma On Shan Plaza, 608 Sai Sha Road, Ma On Shan
Shatin Branch	Shop 70B, Level 3, Shatin Centre, Wang Pok Street, Shatin
Sheung Shui Branch	82 San Fung Avenue, Sheung Shui
Tai Po Branch	Shop 54, Level 1, Uptown Plaza, 9 Nam Wan Road, Tai Po
Texaco Road Branch	Shops B128-131, East Asia Commercial Centre, 36-60 Texaco Road, Tsuen Wan
Tseung Kwan O Branch	Shops G1-2, G/F., Metro City Plaza III, The Metropolis, 8 Mau Yip Road, Tseung Kwan O
Tsuen Wan Branch	405 Castle Peak Road, Tsuen Wan
Tuen Mun Branch	Shop 2183, 2/F., Tuen Mun Town Plaza Phase 1, 1 Tuen Shing Street, Tuen Mun
Tung Chung Branch	Shops 1-2, Block 5, Tung Chung Crescent, Tung Chung, Lantau
TVB Office	2/F., Workshop Block, TVB City, 77 Chun Choi Street, Tseung Kwan O Industrial Estate
Yuen Long Branch	17 Hong Lok Road, Yuen Long

Overseas Branches

London Branch	65 Cornhill, London, EC3V 3NB, U.K.
Los Angeles Branch	383 East Valley Boulevard, Alhambra, CA 91801, U.S.A.
New York Branch	125 East 56th Street, New York, NY 10022, U.S.A.
San Francisco Branch	231 Sansome Street, San Francisco, CA 94104, U.S.A.

Mainland Branches

Shanghai Branch	Room 913, China Merchants Tower, 161 Lu Jia Zui Road (E), Pu Dong, Shanghai 200120, P.R.C.
Shenzhen Branch	Room 01-03, 20/F, Tower One, Kerry Plaza, No.1 Zhong Xin Si Road, Futian District, Shenzhen 518048, P.R.C.

Wholly-owned Subsidiary Companies

Glory Step Investments Limited
Hai Kwang Property Management Company Limited
Right Honour Investments Limited
Shacom Assets Investments Limited
Shacom Futures Limited
Shacom Insurance Brokers Limited
Shacom Investment Limited
Shacom Property (CA) Inc.
Shacom Property (NY) Inc.
Shacom Property Holdings (BVI) Limited
Shacom Securities Limited
Shanghai Commercial Bank (Nominees) Limited
Silver Wisdom Investments Limited

Subsidiary Companies

Infinite Financial Solutions Limited
Shanghai Commercial Bank Trustee Limited
Paofoong Insurance Company (Hong Kong) Limited