Report of the Directors and Audited Financial Statements

ALLIED BANKING CORPORATION (HONG KONG) LIMITED
新聯銀行(香港)有限公司

31 December 2013

ALLIED BANKING CORPORATION (HONG KONG) LIMITED
新聯銀行(香港)有限公司

REPORTS AND AUDITED FINANCIAL STATEMENTS

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ALLIED BANKING CORPORATION (HONG KONG) LIMITED
新聯銀行(香港)有限公司

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of Allied Banking Corporation (Hong Kong) Limited (the "Company") and its subsidiary, ACR Nominees Limited (collectively referred to as the "Group") for the year ended 31 December 2013.

Principal activities

The principal activity of the Company is commercial banking business, predominantly in Hong Kong, which includes deposit-taking, lending and trade financing, documentary credits, remittances, money exchange, money market and foreign exchange operations, investment and corporate services. The principal activities of the subsidiary are to provide management and nominee services. There were no significant changes in the nature of the Group's principal activities during the year.

Results and dividends

The Group's profit for the year ended 31 December 2013 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 5 to 67.

Preference shares dividend of 2013: HK$1.035M (2012: HK$1.035M) has been accrued.

The directors do not recommend the payment of any dividend to ordinary shareholders in respect of current year.

Share capital

There were no movements in either the Company's authorised or issued capital during the year.

Property and equipment and investment property

Details of movements in property and equipment and investment property of the Company and the Group during the year are set out in Note 18 and Note 17 to the financial statements, respectively.

Reserves

Details of movement in the reserves of the Company and the Group during the year are set out in Note 23 to the financial statement and in the consolidated statement of changes in equity, respectively.

Directors

The directors of the Company during the year and up to the date of this report were:

Lucio Chua Tan	(Chairman)
Willy See Co	(Deputy Chairman)
Kwan Kie Yip	
Regnar C. Rivera	
Lourdes A. Salazar	
Lim Bee Lu S.	
Fok Kam Chu John	
Harry Chua Tan	
Chong Kim Chan Kenneth	
Michael Gonzales Tan	(appointed on 21 June 2013)
Lucio Jr. Khao Tan	(appointed on 13 September 2013)
Domingo Tee Chua	(resigned on 22 March 2013)

In accordance with article 10A of the Company's articles of association, all remaining directors shall retire from office at every annual general meeting and shall be eligible for re-election.

Directors' interests in contracts

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year.

Directors' rights to acquire shares and debentures

At no time during the year were rights to acquire benefits by means of acquisition of shares in or debentures of the Company granted to any director or their respective spouses or minor children, or were any such rights exercised by them; or was the Company, its holding company, any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Compliance with the Banking (Disclosure) Rules

The Company has fully complied with the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority.

Auditors

Ernst & Young retire and a resolution for the reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Lourdes A. Salazar

Director
Hong Kong
22 April 2014

Independent auditors' report
To the shareholders of Allied Banking Corporation (Hong Kong) Limited
新聯銀行(香港)有限公司
(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Allied Banking Corporation (Hong Kong) Limited (the "Company") and its subsidiary (together, the "Group") set out on pages 5 to 67, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated income statement, the consolidated statement 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 Company 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.

Auditors' responsibility

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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.

Independent auditors' report (continued)
To the shareholders of Allied Banking Corporation (Hong Kong) Limited
新聯銀行(香港)有限公司
(Incorporated in Hong Kong with limited liability)

Opinion

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

Ernst & Young

Certified Public Accountants
Hong Kong
22 April 2014

ALLIED BANKING CORPORATION (HONG KONG) LIMITED
新聯銀行(香港)有限公司

CONSOLIDATED INCOME STATEMENT

YEAR ENDED 31 DECEMBER 2013

	Notes	2013 HK$	2012 HK$
INTEREST INCOME ON			
Loans and receivables		36,106,260	32,341,574
Deposits with other banks		2,202,931	2,840,483
Available-for-sale investments		367,691	905,634
		38,676,882	36,087,691
INTEREST EXPENSE ON DEPOSIT LIABILITIES		(5,290,540)	(5,359,638)
NET INTEREST INCOME		33,386,342	30,728,053
OTHER OPERATING INCOME	7	12,537,613	9,259,666
OPERATING INCOME		45,923,955	39,987,719
OPERATING EXPENSES	8	(28,572,047)	(27,463,494)
OPERATING PROFIT BEFORE IMPAIRMENT LOSSES		17,351,908	12,524,225
NET WRITEBACK OF IMPAIRMENT PROVISION	16	8,227,326	3,396,048
PROFIT BEFORE TAX		25,579,234	15,920,273
INCOME TAX EXPENSE	10	(826,485)	(376,035)
PROFIT FOR THE YEAR		24,752,749	15,544,238
ATTRIBUTABLE TO SHAREHOLDERS	11	24,752,749	15,544,238

ALLIED BANKING CORPORATION (HONG KONG) LIMITED
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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2013

	Note	2013 HK$	2012 HK$
PROFIT FOR THE YEAR		24,752,749	15,544,238
OTHER COMPREHENSVE INCOME, NET OF TAX			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Changes in fair value of available-for-sale investments	15	193,161	4,555,878
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		24,945,910	20,100,116
ATTRIBUTABLE TO SHAREHOLDERS		24,945,910	20,100,116

ALLIED BANKING CORPORATION (HONG KONG) LIMITED
新聯銀行(香港)有限公司

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2013

	Notes	31 December 2013 HK$	31 December 2012 HK$
ASSETS			
Cash and cash equivalents	13	303,805,626	301,012,488
Placements with banks and other financial institutions maturing between one and twelve months		253,191,950	230,833,045
Derivative financial instruments	14	14,615	9,937
Available-for-sale investments	15	23,242,510	58,860,467
Advances and other accounts	16	917,410,081	824,358,110
Trade bills		-	1,794,182
Investment property	17	48,000,000	45,500,000
Property and equipment	18	32,609,589	33,491,534
Deferred tax assets	19	4,861,527	5,688,012
Total assets		1,583,135,898	1,501,547,775
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits and balances of banks and other financial institutions		60,227,240	53,364,233
Deposits from customers	21	1,147,073,362	1,099,498,079
Derivative financial instruments	14	2,974	118,089
Other accounts and provisions		13,056,018	9,701,980
Total liabilities		1,220,359,594	1,162,682,381
EQUITY			
Issued capital	22	185,700,000	185,700,000
Reserves	23(a)	177,076,304	153,165,394
Total equity		362,776,304	338,865,394
Total equity and liabilities		1,583,135,898	1,501,547,775

The financial statements on pages 5 to 67 were approved and authorised for issue by the Board of Directors on 22 April 2014 and are signed on its behalf by:

Lourdes A. Salazar
Director

Kwan Kie Yip
Director

ALLIED BANKING CORPORATION (HONG KONG) LIMITED
新聯銀行(香港)有限公司

STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2013

	Notes	31 December 2013 HK$	31 December 2012 HK$
ASSETS			
Cash and cash equivalents	13	302,296,706	300,624,867
Placements with banks and other financial institutions maturing between one and twelve months		247,119,678	223,734,535
Derivative financial instruments	14	14,615	9,937
Available-for-sale investments	15	23,242,510	58,860,467
Advances and other accounts	16	914,910,653	824,349,166
Trade bills		-	1,794,182
Investment in a subsidiary	20	1,000,000	1,000,000
Investment property	17	48,000,000	45,500,000
Property and equipment	18	32,609,589	33,491,534
Deferred tax assets	19	4,861,527	5,688,012
Total assets		1,574,055,278	1,495,052,700
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits and balances of banks and other financial institutions		60,227,240	53,364,233
Deposits from customers	21	1,147,073,362	1,099,498,079
Derivative financial instruments	14	2,974	118,089
Other accounts and provisions		9,283,807	8,454,209
Total liabilities		1,216,587,383	1,161,434,610
EQUITY			
Issued capital	22	185,700,000	185,700,000
Reserves	23(b)	171,767,895	147,918,090
Total equity		357,467,895	333,618,090
Total equity and liabilities		1,574,055,278	1,495,052,700

Lourdes A. Salazar

Director

Kwan Kie Yip

Director

ALLIED BANKING CORPORATION (HONG KONG) LIMITED
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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2013

	Notes	Issued capital HK$ (Note 22)	Reserves: General reserve HK$	Reserves: Investment revaluation reserve HK$	Reserves: Collective Impairment Reserve HK$	Reserves: Retained Profits HK$	Reserves: Total reserves HK$	Total HK$
At 1 January 2012		185,700,000	7,000,000	(4,747,985)	1,945,204	129,903,059	134,100,278	319,800,278
Profit for the year		-	-	-	-	15,544,238	15,544,238	15,544,238
Other comprehensive income for the year:								
Changes in fair values of available-for-sale investments, net of tax	15	-	-	4,555,878	-	-	4,555,878	4,555,878
Total comprehensive income for the year		-	-	4,555,878	-	15,544,238	20,100,116	20,100,116
2012 preference shares dividend	12	-	-	-	-	(1,035,000)	(1,035,000)	(1,035,000)
Transfer from retained profits		-	-	-	2,279,000	(2,279,000)	-	-
At 31 December 2012 and 1 January 2013		185,700,000	7,000,000	(192,107)	4,224,204	142,133,297	153,165,394	338,865,394
Profit for the year		-	-	-	-	24,752,749	24,752,749	24,752,749
Other comprehensive income for the year:								
Changes in fair values of available-for-sale investments net of tax	15	-	-	193,161	-	-	193,161	193,161
Total comprehensive income for the year		-	-	193,161	-	24,752,749	24,945,910	24,945,910
2013 preference shares dividend	12					(1,035,000)	(1,035,000)	(1,035,000)
Transfer from retained profits		-	-	-	5,009,000	(5,009,000)	-	-
At 31 December 2013		185,700,000	7,000,000	1,054	9,233,204	160,842,046	177,076,304	362,776,304

ALLIED BANKING CORPORATION (HONG KONG) LIMITED
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CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2013

	Notes	31 December 2013 HK$	31 December 2012 HK$
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		25,579,234	15,920,273
Adjustments for:			
Recovery from losses on advances and other accounts	16	(8,227,326)	(3,396,048)
Depreciation	8	1,063,446	1,065,113
Exchange gain		(942,429)	(175,400)
Amortisation of discount on available-for-sale investments		(137,121)	(323,101)
(Gain)/Loss on disposal of property and equipment	7, 8	(1,999)	4
Change in fair value of an investment property	17	(2,500,000)	-
		14,833,805	13,090,841
Increase in placements with banks and other financial institutions with maturity more than three months when acquired		(2,318,122)	(11,906,237)
Decrease in trade bills		1,794,182	436,578
Increase in advances and other accounts		(84,824,645)	(41,300,617)
(Increase)/decrease in derivative financial instruments		(119,793)	231,186
Increase in deposits and balances of banks and other financial institutions		6,863,007	9,410,893
Increase in deposits from customers		47,575,283	89,205,623
Increase/(decrease) in other accounts and provisions		3,354,038	(3,348,027)
NET CASH FLOWS (USED IN)/FROM OPERATING ACTIVITIES		(12,842,245)	55,820,240
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property and equipment	18	(181,502)	(118,300)
Proceeds from disposal of items of property and equipment		2,000	-
Maturity of available-for-sale investments		36,890,668	31,005,200
NET CASH FLOWS FROM INVESTING ACTIVITIES		36,711,166	30,886,900
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid to preference shareholders	12	(1,035,000)	(1,035,000)
NET CASH FLOWS USED IN FINANCING ACTIVITIES		(1,035,000)	(1,035,000)
NET INCREASE IN CASH AND CASH EQUIVALENTS		22,833,921	85,672,140
Cash and cash equivalents at beginning of year		355,387,454	269,715,314
CASH AND CASH EQUIVALENTS AT END OF YEAR		378,221,375	355,387,454
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the statement of financial position	13	303,805,626	301,012,488
Placements with banks and other financial institutions repayable within three months when acquired		74,415,749	54,374,966
Cash and cash equivalents as stated in the statement of cash flows		378,221,375	355,387,454

1. CORPORATE INFORMATION

The Company is a private limited company incorporated in Hong Kong and is licensed as a restricted license bank under the Hong Kong Banking Ordinance. The address of the registered office and the principal place of business is 1402 World-Wide House, 19 Des Voeux Road Central, Hong Kong.

The Company engaged in commercial banking business during the year. In the opinion of the directors, the holding company and the ultimate holding company of the Company is Philippine National Bank (PNB) (formerly Allied Banking Corporation prior to its merger with PNB in February 2013), which is incorporated in the Republic of the Philippines.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") (which include all HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment property, derivative financial instruments and available-for-sale investments, which have been measured at fair values. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest dollar except when otherwise indicated.

Basis of consolidation
The consolidated financial statements include the financial statements of the Company and its subsidiary (collectively referred to as the "Group") for the year ended 31 December 2013. The financial statements of the subsidiary are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiary are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intragroup transactions and dividends are eliminated on consolidation in full.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*
HKFRS 10	*Consolidated Financial Statements*
HKFRS 12	*Disclosure of Interests in Other Entities*
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – *Transition Guidance*
HKFRS 13	*Fair Value Measurement*
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*
HKAS 19 (2011)	*Employee Benefits*
HKAS 27 (2011)	*Separate Financial Statements*
HKAS 36 Amendments	Amendments to HKAS 36 *Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets* (early adopted)
Annual Improvements 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Other than as further explained below regarding the impact of HKFRS 7, HKFRS 10, HKFRS 12, HKFRS 13, amendments to HKFRS 10, HKFRS 11, HKFRS 12, and HKAS 1, the adoption of the new and revised HKFRSs had no significant financial effect on these financial statements.

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) The HKFRS 7 Amendments require 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. Details of the disclosures required by the standard are included in Note 26 to the consolidated financial statements.

(b) HKFRS 10 replaces the portion of HKAS 27, *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements and addresses the issues in HK(SIC)-Int 12, *Consolidation – Special Purpose Entities*. It establishes a single control model used for determining which entities are consolidated. To meet the definition of control in HKFRS 10, an investor must have (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled.

    The application of HKFRS 10 does not change any of the consolidation conclusions of the Group in respect of its involvement with its investee company as at 1 January 2013.

(c) HKFRS 12 sets out the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities..

(d) The HKFRS 10, HKFRS 11 and HKFRS 12 Amendments clarify the transition guidance in HKFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between HKFRS 10 and HKAS 27 or HK(SIC)-Int 12 at the beginning of the annual period in which HKFRS 10 is applied for the first time.

(e) HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but rather provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. HKFRS 13 is applied prospectively and the adoption has had no material impact on the Group's fair value measurements. As a result of the guidance in HKFRS 13, the policies for measuring fair value have been amended. Additional disclosures required by HKFRS 13 are provided in Note 6 to the financial statements.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(f) The HKAS 1 Amendments change the grouping of items presented in other comprehensive income ("OCI"). Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) are presented separately from items which will never be reclassified (for example, the revaluation of land and buildings). The amendments have affected the presentation only and have had no impact on the financial position or performance of the Group. The consolidated statement of comprehensive income has been affected to reflect the changes.

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The Group has not applied the following new and revised HKFRSs that have been issued but are not yet effective, in these financial statements.

HKFRS 9	*Financial Instruments*[3]
HKFRS 9, HKFRS 7 and HKAS 39 Amendments	*Hedge Accounting and amendments to HKFRS 9, HKFRS 7* and HKAS 39[3]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) *– Investment Entities*[1]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[1]
HKAS 39 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*[1]
HK (IFRIC)-Int 21	*Levies*[1]
Annual Improvements 2010-2012 Cycle	*Amendments to a number of HKFRSs issued in January 2014*[2]
Annual Improvements 2011-2013 Cycle	*Amendments to a number of HKFRSs issued in January 2014*[2]

1 Effective for annual periods beginning on or after 1 January 2014
2 Effective for annual periods beginning on or after 1 July 2014
3 No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

In November 2010, the HKICPA issued additions to HKFRS 9 to address the classification and measurement of financial liabilities and derecognition of financial instruments. HKFRS 9 retains the current derecognition principles and the classification and measurement requirements for financial liabilities under HKAS 39 except for the measurement of financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income.

In December 2013, the HKICPA added to HKFRS 9 the new hedge accounting model, together with corresponding disclosures about risk management activity for entities applying hedge accounting. The new model represents a substantial overhaul of hedge accounting that will enable entities to better reflect their risk management activities in their financial statements and allows greater flexibility in what can be hedged and, in particular, the non-financial risk. As a result of these changes, users of the financial statements will be provided with better information about risk management and about the effect of hedge accounting on the financial statements.

As part of the amendments, the changes introduced also enable entities to change the accounting for liabilities that they have elected to measure at fair value, before applying any of the other requirements in HKFRS 9. This change in accounting would mean that gains caused by a worsening in an entity’s own credit risk on such liabilities are recognised in other comprehensive income instead of profit or loss.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on impairment of financial assets continues to apply. The mandatory effective date of HKFRS 9 was removed by the HKICPA in December 2013 but HKFRS 9 is available for application now. A mandatory effective date will be determined after the entire replacement is completed. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

The HKAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to setoff" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in HKAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

Amendments to HKFRS 10 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with HKFRS 9 rather than consolidate them. Consequential amendments were made to HKFRS 12 and HKAS 27 (2011). The amendments to HKFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in HKFRS 10.

The *Annual Improvements to HKFRSs 2010-2012 and 2011-2014 Cycles* issued in January 2014 set out amendments to a number of HKFRSs and shall be applied for a financial period beginning on or after 1 July 2014, except where otherwise indicated. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition - interest income and expenses

Interest income and expenses are recognised on a time-proportion basis using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts over 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. The calculation includes significant fees and transaction costs that are an integral part of the effective interest rate, and premiums or discounts.

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

Revenue recognition - fee and commission income

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commission expenses relate mainly to transaction and service fees, which are expensed as the services are provided.

Revenue recognition - rental income

Rental income arising on leased property is accounted for on a time-proportion basis over the lease terms on ongoing lease and is recorded in the consolidated income statement under ‘Other income’.

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;
(b) rights arising from other contractual arrangements; and
(c) the Group’s voting rights and potential voting rights.

The results of subsidiary are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiary are stated at cost less any impairment losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required, the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the consolidated income statement in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person
   (i) has control or joint control over the Group;
   (ii) has significant influence over the Group; or
   (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:
   (i) the entity and the Group are members of the same group;
   (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
   (iii) the entity and the Group are joint ventures of the same third party;
   (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
   (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
   (vi) the entity is controlled or jointly controlled by a person identified in (a); and
   (vii) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment and depreciation

Property and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property and equipment have been put into operation, such as repairs and maintenance, is charged to the income statement in the period in which it is incurred.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property and equipment to its residual value over their estimated useful lives. The principal annual rates used for this purpose are as follows:

Buildings	2.2% - 4%
Furniture and fixtures	20%
Office equipment	20% - 33%
Motor vehicles	25%
Leasehold land under finance lease	Over the lease terms
Leasehold improvements	Over the shorter of the lease terms and 20%

The assets' residuals values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Investment property

Investment property is interests in land and building held to earn rental income and/or for capital appreciation. Such property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of an investment property are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at inception, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as other expenses and losses in the income statement. These net fair value changes do not include any interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" above.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest amortisation is included in the income statement. The loss arising from impairment is recognised in the income statement in other operating expenses.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the investment revaluation reserve to the income statement in other gains or losses. Interest earned whilst holding the available-for-sale financial investments are reported as interest income, respectively, and are recognised in the income statement as other income in accordance with the policies set out for "Revenue recognition" above.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment of financial assets

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. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, and the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cashflows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

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

The amount of any impairment loss identified 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 yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is recognised in the income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

<u>Impairment of financial assets (continued)</u>

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the income statement. Impairment losses on debt instruments are reversed through the income statement if the subsequent increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

<u>Financial liabilities</u>

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include deposits and balances of banks and other financial institutions, deposits from customers, derivative financial instruments and other accounts and provisions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)
Subsequent measurement
The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Loans and borrowings
After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains or losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest amortisation is included in the income statement.

Financial guarantee contracts
Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Derecognition of financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Offsetting of financial instruments
Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle, on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value measurement
The Group measures its investment properties, derivative financial instruments and equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Derivative financial instruments
Derivatives are initially recognised at fair value on the date which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Any gains or losses arising from changes in fair value of derivatives are taken directly to the income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Cash and cash equivalents
For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and in banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions
A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in the income statement.

Income tax
Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)
Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Retirement benefit costs
The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Fiduciary assets
The assets of the staff provident funds and assets held in trust in a fiduciary capacity are not assets of the Group, and accordingly are not reported in the financial statements.

Repossessed assets
Repossessed collateral assets are accounted as "Assets held for sale" and reported in "Other assets" and the relevant loans are derecognised. The repossessed collateral assets are measured at lower of carrying amount and fair value less costs to sell.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

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 judgements 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.

Fair value of investment property

Investment property is carried in the statement of financial position at their fair value. The fair value was based on a valuation on these properties conducted by an independent firm of professional valuers using property valuation techniques which involve making assumptions on certain market conditions. Favourable or unfavourable changes to these assumptions would result in changes in the fair value of the Group's investment property.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Recognition of deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in Note 19 to the financial statements.

5. FINANCIAL RISK MANAGEMENT

The Board of Directors has the overall responsibility for the management of all types of risk exposures. In the delivery of its responsibility, the Board has established specialised committees to identify, measure, monitor and control different types of risks. The Board or the appropriate specialised committees review and approve policies and procedures for the identification, measurement, control and monitoring of both financial and non-financial risks. Such policies and procedures are reviewed by the relevant committees or senior management on a regular basis.

The most important types of risk are credit risk, market risk and liquidity risk. Market risk includes currency risk and interest rate risk.

The Group's total operating income, profit before taxation, total assets, total liabilities and contingent liabilities and commitments are derived predominantly from Hong Kong.

5.1 Credit risk

The Group takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the statement of financial position. Impairment allowances are made for losses that have been incurred at the end of the reporting period. Significant changes in the economy, or in the health of a particular industry segment, could result in losses that are different from those provided for at the end of the reporting period. Management therefore carefully manages its exposure to credit risk.

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.1 Management of credit risk

The Group's lending policies have been formulated based on its own experience, the Banking Ordinance, the Hong Kong Monetary Authority guidelines and other statutory requirements.

The Group's primary credit approval bodies are the Credit Risk Management Committee and the Executive Committee. The Credit Risk Management Committee is responsible for evaluating and monitoring lending-related activities, reviewing existing credit limits and industry limits and managing the lending portfolio and overall credit risk of the Group. It comprises two non-executive directors, the Chief Executive, two Alternate Chief Executives, who are also Head of Treasury and Head of Operation, and the Senior Managers of Credit. The Executive Committee is responsible for reviewing and confirming all credit approvals. The members of the Executive Committee include the Deputy Chairman of the Board of the parent bank and other directors.

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 typically monitored on a revolving basis and are subject to periodic reviews. Limits on the level of credit risk by product, industry sector and by country are approved annually by the Board.

The exposure to any one borrower 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 reviews of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

5.1.2 Risk mitigation policies

Some specific control and mitigation measures are outlined below.

Collateral
The Group implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

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

In addition, in order to minimise credit losses, the Group will seek additional collaterals from the counterparty as soon as impairment indicators are identified for the relevant individual loans and advances.

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.2 Risk mitigation policies (continued)

Derivatives
The Group does not carry interest and foreign exchange rate positions on its trading book. The derivatives are used to manage the Group's own exposures to market risks as part of its asset and liability management process. The principal derivatives instruments used by the Group are interest and foreign exchange rate related contracts, which are over-the-counter derivatives. Most of the Group's foreign exchange rate and interest rate contracts have been entered into to meet customer demand and manage the Group's own risk.

The Group maintains strict control limits on net open derivative positions (i.e., the difference between purchase and sale contracts), in terms of 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 is generally only a small fraction of the nominal value 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.

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risk arising from the Group's market transactions on any single day.

Credit-related commitments
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 borrowing.

Commitments to extend credit represent unused portions of authorisation 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 amount of loss is likely to be 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 of maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.3 Impairment and provisioning policies

Impairment allowances are recognised for losses that have been incurred at the end of the reporting period based on objective evidence of impairment.

The impairment allowances shown in the statement of financial position at year end is derived from the 5-grade loan classification adopted by the Hong Kong Monetary Authority. The table below shows the percentage of the Group's loans and advances and the associated impairment allowances for each of the rating categories:

Group's Rating

	2013		2012	
	Loans and advances (%)	Impairment allowances (%)	Loans and advances (%)	Impairment allowances (%)
1. Pass	100	97	99	95
2. Special Mention	-	-	1	3
3. Substandard	-	3	-	1
4. Doubtful	-	-	-	-
5. Loss	-	-	-	1
	100	100	100	100

The rating tool assists 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;
- Deterioration in the value of collateral; and
- Downgrading below investment grade level.

The Group's policy requires review to be performed on 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 incurred loss at the end of the reporting period on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held 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, experienced judgment and statistical techniques.

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

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

Credit risk exposures relating to on-balance sheet assets are as follows:

	THE GROUP		THE COMPANY	
	2013	2012	2013	2012
	HK$	HK$	HK$	HK$
ASSETS				
Cash and cash equivalents	303,805,626	301,012,488	302,296,706	300,624,867
Placements with banks and other financial institutions maturing between one and twelve months	253,191,950	230,833,045	247,119,678	223,734,535
Derivative financial instruments	14,615	9,937	14,615	9,937
Available-for-sale investments	23,242,510	58,860,467	23,242,510	58,860,467
Advances and other accounts	917,410,081	824,358,110	914,910,653	824,349,166
Trade bills	-	1,794,182	-	1,794,182
	1,497,664,782	1,416,868,229	1,487,584,162	1,409,373,154

Credit risk exposures relating to off-balance sheet items are as follows:

	THE GROUP AND THE COMPANY	
	2013	2012
	HK$	HK$
Guaranteed, acceptance and other financial liabilities	16,452,461	7,773,480
Loan commitments	26,907,729	23,212,092
	43,360,190	30,985,572

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.5 Credit quality

Credit quality of loans and advances to customers are summarised as follows:

	THE GROUP 2013 HK$	THE GROUP 2012 HK$	THE COMPANY 2013 HK$	THE COMPANY 2012 HK$
Neither past due nor impaired	914,987,281	825,072,933	912,529,395	825,071,173
Past due but not impaired	-	-	-	-
Impaired	230,177	1,768,119	230,177	1,768,119
Gross loans and advances to customers	915,217,458	826,841,052	912,759,572	826,839,292
Less: impairment allowance	(1,813,749)	(6,900,699)	(1,813,749)	(6,900,699)
	913,403,709	819,940,353	910,945,823	819,938,593

Advances neither past due nor impaired

The credit quality of the portfolio of loans and advances to customers that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Group and are summarised as follows:

At 31 December 2013

THE GROUP

	Individual (retail customers)			Corporate entities		Total
	Overdrafts HK$	Term loans HK$	Mortgages HK$	Large corporate customers HK$	SMEs HK$	loans and advances to customers HK$
GRADES:						
1. Pass	13,872,839	25,800,000	246,312,481	-	629,001,961	914,987,281
2. Special mention	-	-	-	-	-	-
Total	13,872,839	25,800,000	246,312,481	-	629,001,961	914,987,281

At 31 December 2012

THE GROUP

	Individual (retail customers)			Corporate entities		Total
	Overdrafts HK$	Term loans HK$	Mortgages HK$	Large corporate customers HK$	SMEs HK$	loans and advances to customers HK$
GRADES:						
1. Pass	13,037,169	41,852,340	210,419,307	-	549,844,066	815,152,882
2. Special mention	-	-	5,750,617	-	4,169,434	9,920,051
Total	13,037,169	41,852,340	216,169,924	-	554,013,500	825,072,933

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.5 Credit quality (continued)

Advances neither past due nor impaired (continued)

At 31 December 2013

THE COMPANY

	Individual (retail customers)			Corporate entities		Total
	Overdrafts HK$	Term loans HK$	Mortgages HK$	Large corporate customers HK$	SMEs HK$	loans and advances to customers HK$
GRADES:						
1. Pass	13,872,839	25,800,000	246,195,418	-	626,661,138	912,529,395
2. Special mention	-	-	-	-	-	-
Total	13,872,839	25,800,000	246,195,418	-	626,661,138	912,529,395

At 31 December 2012

THE COMPANY

	Individual (retail customers)			Corporate entities		Total
	Overdrafts HK$	Term loans HK$	Mortgages HK$	Large corporate customers HK$	SMEs HK$	loans and advances to customers HK$
GRADES:						
1. Pass	13,037,169	41,852,340	210,417,547	-	549,844,066	815,151,122
2. Special mention	-	-	5,750,617	-	4,169,434	9,920,051
Total	13,037,169	41,852,340	216,168,164	-	554,013,500	825,071,173

Advances past due but not impaired

There are no advances past due but not impaired as at 31 December 2013 and 2012.

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.5 Credit quality (continued)

Advances individually impaired

Advances to customers
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:

At 31 December 2013

	THE GROUP AND THE COMPANY					
	Individual (retail customers)			Corporate entities		Total
	Overdrafts	Term loans	Mortgages	Large corporate customers	SMEs	loans and advances to customers
	HK$	HK$	HK$	HK$	HK$	HK$
Individually impaired loans	-	-	230,022	-	155	230,177
Fair value of collateral	-	-	-	-	-	-

At 31 December 2012

	THE GROUP AND THE COMPANY					
	Individual (retail customers)			Corporate entities		Total
	Overdrafts	Term loans	Mortgages	Large corporate customers	SMEs	loans and advances to customers
	HK$	HK$	HK$	HK$	HK$	HK$
Individually impaired loans	-	-	1,699,891	-	68,228	1,768,119
Fair value of collateral	-	-	1,445,728	-	-	1,445,728

Loans and advances to banks
There are no individually impaired loans and advances to banks as at 31 December 2013 and 2012.

Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, and modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to normal status and managed together with accounts of similar status. Restructuring policies and practices are based on indicators or criteria which, in the judgement of local management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans, in particular customer finance loans.

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.5 Credit quality (continued)

They are retained in classified loans for as long as we do not have sufficiently good reasons to believe that the obligor will be able to sustainably meet the re-scheduled loan repayment terms.

There are no renegotiated loans that would otherwise be past due or impaired as at 31 December 2013 and 2012.

Debt securities

Financial investments by rating agency designation
The following table presents an analysis of financial securities, other than loans and advances, at the end of the reporting period based on Standard and Poor's ratings or their equivalents to the respective issues of the financial securities.

	THE GROUP AND THE COMPANY	
	2013	2012
	HK$	HK$
AA- to AA+	-	-
A- to A+	23,242,510	58,860,467
Lower than A-	-	-
Total	23,242,510	58,860,467

5.2 Market risk

The Group is exposed to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

Market risk is managed by the Asset and Liability Management Committee ("ALCO"). ALCO directs the Group's overall acquisition, allocation and pricing of funds, within the established target/guidelines, while managing and monitoring the overall treasury risk exposure. It comprises two non-executive directors, the Chief Executive, two Alternate Chief Executives, who are also the Head of Treasury and Head of Operation, the Senior Managers of Credit and Marketing, the Compliance Officer and the FX Manager.

5.2.1 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group undertakes transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within the approved policy parameters by utilising forward foreign exchange contracts.

5. FINANCIAL RISK MANAGEMENT (continued)

5.2 Market risk (continued)

5.2.1 Currency risk (continued)

The Group does not have any significant foreign exchange risk as foreign exchange dealing is moderate. Day-to-day foreign exchange management is performed by the Treasury Management Department within the approved limits.

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. ALCO sets both overnight and intra-day positions limits and monitors the level of exposure by currencies and in total on a daily basis.

The following table, presented in Hong Kong dollars, indicates the concentration of currency risk at the end of the reporting period.

THE GROUP

At 31 December 2013	US$	HK$	Euro	GBP	Other	Total
ASSETS						
Cash and cash equivalents	282,502,697	12,050,872	302,374	369,606	8,580,077	303,805,626
Placements with banks and other financial institutions between one and twelve months	191,363,114	6,072,272	9,626,336	13,660,812	32,469,416	253,191,950
Derivative financial instruments	5,821	4,437	-	-	4,357	14,615
Available-for-sale investments	23,242,510	-	-	-	-	23,242,510
Advances and other accounts	59,949,173	856,980,615	316,051	9,596	154,646	917,410,081
Trade bills	-	-	-	-	-	-
Investment property	-	48,000,000	-	-	-	48,000,000
Property and equipment	-	32,609,589	-	-	-	32,609,589
Deferred tax assets	-	4,861,527	-	-	-	4,861,527
Total assets	557,063,315	960,579,312	10,244,761	14,040,014	41,208,496	1,583,135,898
LIABILITIES						
Deposits and balances of banks and other financial institutions	26,576,969	33,646,834	-	-	3,437	60,227,240
Deposits from customers	768,293,916	314,251,388	9,680,719	14,040,820	40,806,519	1,147,073,362
Derivative financial instruments	-	-	2,974	-	-	2,974
Other accounts and provisions	1,012,895	11,918,541	132	2,267	122,183	13,056,018
Total liabilities	795,883,780	359,816,763	9,683,825	14,043,087	40,932,139	1,220,359,594
Net on-balance sheet position	(238,820,465)	600,762,549	560,936	(3,073)	276,357	362,776,304

5. FINANCIAL RISK MANAGEMENT (continued)

5.2 Market risk (continued)

5.2.1 Currency risk (continued)

THE GROUP

At 31 December 2012	US$	HK$	Euro	GBP	Other	Total
ASSETS						
Cash and cash equivalents	270,889,467	17,719,373	556,637	367,996	11,479,015	301,012,488
Placements with banks and other financial institutions between one and twelve months	191,267,028	7,098,510	-	13,326,681	19,140,826	230,833,045
Derivative financial instruments	-	7,827	-	-	2,110	9,937
Available-for-sale investments	38,407,614	-	20,452,853	-	-	58,860,467
Advances and other accounts	71,882,954	752,306,579	23,400	6,775	138,402	824,358,110
Trade bills	1,794,182	-	-	-	-	1,794,182
Investment property	-	45,500,000	-	-	-	45,500,000
Property and equipment	-	33,491,534	-	-	-	33,491,534
Deferred tax assets	-	5,688,012	-	-	-	5,688,012
Total assets	574,241,245	861,811,835	21,032,890	13,701,452	30,760,353	1,501,547,775
LIABILITIES						
Deposits and balances of banks and other financial institutions	20,019,864	33,340,696	-	-	3,673	53,364,233
Deposits from customers	663,470,729	390,796,592	10,702,652	13,732,301	20,795,805	1,099,498,079
Derivative financial instruments	36,228	-	81,861	-	-	118,089
Other accounts and provisions	771,803	8,859,571	137	3,700	66,769	9,701,980
Total liabilities	684,298,624	432,996,859	10,784,650	13,736,001	20,866,247	1,162,682,381
Net on-balance sheet position	(110,057,379)	428,814,976	10,248,240	(34,549)	9,894,106`	338,865,394

5. FINANCIAL RISK MANAGEMENT (continued)

5.2 Market risk (continued)

5.2.1 Currency risk (continued)

THE COMPANY

At 31 December 2013	US$	HK$	Euro	GBP	Other	Total
ASSETS						
Cash and cash equivalents	282,502,697	10,541,952	302,374	369,606	8,580,077	302,296,706
Placements with banks and other financial institutions between one and twelve months	191,363,114	-	9,626,336	13,660,812	32,469,416	247,119,678
Derivative financial instruments	5,821	4,437	-	-	4,357	14,615
Available-for-sale investments	23,242,510	-	-	-	-	23,242,510
Advances and other accounts	59,949,173	854,481,187	316,051	9,596	154,646	914,910,653
Trade bills	-	-	-	-	-	-
Investment in a subsidiary	-	1,000,000	-	-	-	1,000,000
Investment property	-	48,000,000	-	-	-	48,000,000
Property and equipment	-	32,609,589	-	-	-	32,609,589
Deferred tax assets	-	4,861,527	-	-	-	4,861,527
Total assets	557,063,315	951,498,692	10,244,761	14,040,014	41,208,496	1,574,055,278
LIABILITIES						
Deposits and balances of banks and other financial institutions	26,576,969	33,646,834	-	-	3,437	60,227,240
Deposits from customers	768,293,916	314,251,388	9,680,719	14,040,820	40,806,519	1,147,073,362
Derivative financial instruments	-	-	2,974	-	-	2,974
Other accounts and provisions	1,012,895	8,146,330	132	2,267	122,183	9,283,807
Total liabilities	795,883,780	356,044,552	9,683,825	14,043,087	40,932,139	1,216,587,383
Net on-balance sheet position	(238,820,465)	595,454,140	560,936	(3,073)	276,357	357,467,895

5. FINANCIAL RISK MANAGEMENT (continued)

5.2 Market risk (continued)

5.2.1 Currency risk (continued)

THE COMPANY

At 31 December 2012	US$	HK$	Euro	GBP	Other	Total
ASSETS						
Cash and cash equivalents	270,889,467	17,331,752	556,637	367,996	11,479,015	300,624,867
Placements with banks and other financial institutions between one and twelve months	191,267,028	-	-	13,326,681	19,140,826	223,734,535
Derivative financial instruments	-	7,827	-	-	2,110	9,937
Available-for-sale investments	38,407,614	-	20,452,853	-	-	58,860,467
Advances and other accounts	71,882,954	752,297,635	23,400	6,775	138,402	824,349,166
Trade bills	1,794,182	-	-	-	-	1,794,182
Investment in a subsidiary	-	1,000,000	-	-	-	1,000,000
Investment property	-	45,500,000	-	-	-	45,500,000
Property and equipment	-	33,491,534	-	-	-	33,491,534
Deferred tax assets	-	5,688,012	-	-	-	5,688,012
Total assets	574,241,245	855,316,760	21,032,890	13,701,452	30,760,353	1,495,052,700
LIABILITIES						
Deposits and balances of banks and other financial institutions	20,019,864	33,340,696	-	-	3,673	53,364,233
Deposits from customers	663,470,729	390,796,592	10,702,652	13,732,301	20,795,805	1,099,498,079
Derivative financial instruments	36,228	-	81,861	-	-	118,089
Other accounts and provisions	771,803	7,611,800	137	3,700	66,769	8,454,209
Total liabilities	684,298,624	431,749,088	10,784,650	13,736,001	20,866,247	1,161,434,610
Net on-balance sheet position	(110,057,379)	423,567,672	10,248,240	(34,549)	9,894,106	333,618,090

Foreign currency sensitivity

The Group and the Company are mainly exposed to US dollars. The following shows the sensitivity analysis on profit before tax of reasonably possible movement in US dollars exchange rates (i.e., a 100 basis point increase/decrease in US dollar exchange rates).

	2013		2012	
	Change in basis points		Change in basis points	
	+100	-100	+100	-100
	HK$	HK$	HK$	HK$
Profit before tax	2,388,205	(2,388,205)	1,098,083	(1,098,083)

5.2.2 Interest rate risk

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 or create losses in the event that unexpected movements arise. Limits are set on the level of mismatch of interest rate repricing that may be undertaken, which is monitored regularly.

5. FINANCIAL RISK MANAGEMENT (continued)

5.2 Market risk (continued)

5.2.2 Interest rate risk (continued)

THE GROUP

At 31 December 2013	Effective interest rate	Up to 1 month HK$	1 - 3 months HK$	4 - 12 months HK$	1 - 5 years HK$	Over 5 years HK$	Non-interest bearing HK$	Total HK$
ASSETS								
Cash and cash equivalents	0.25%	283,982,387	-	-	-	-	19,823,239	303,805,626
Placements with banks and other financial institutions between one and twelve months	0.59%	-	184,909,784	68,282,166	-	-	-	253,191,950
Derivative financial instruments	0.00%	-	-	-	-	-	14,615	14,615
Available-for-sale investments	0.51%	7,754,050	15,488,460	-	-	-	-	23,242,510
Advances and other accounts	4.35%	908,758,409	2,089,624	-	-	-	6,742,048	917,410,081
Trade bills	0.00%	-	-	-	-	-	-	-
Investment property	0.00%	-	-	-	-	-	48,000,000	48,000,000
Property and equipment	0.00%	-	-	-	-	-	32,609,589	32,609,589
Deferred tax assets	0.00%	-	-	-	-	-	4,861,527	4,861,527
Total assets		1,200,314,846	202,487,868	68,282,166	-	-	112,051,018	1,583,135,898
LIABILITIES								
Deposits and balances of banks and other financial institutions	3.17%	44,719,140	-	15,508,100	-	-	-	60,227,240
Deposits from customers	0.36%	513,136,085	403,416,183	230,521,094	-	-	-	1,147,073,362
Derivative financial instruments	0.00%	-	-	-	-	-	2,974	2,974
Other accounts and provisions	0.00%	-	-	-	-	-	13,056,018	13,056,018
Total liabilities		557,855,225	403,416,183	246,029,194	-	-	13,058,992	1,220,359,594
Total interest sensitivity gap		642,459,621	(200,928,315)	(177,747,028)	-	-	98,992,026	362,776,304

5. FINANCIAL RISK MANAGEMENT (continued)

5.2 Market risk (continued)

5.2.2 Interest rate risk (continued)

THE GROUP

At 31 December 2012	Effective interest rate	Up to 1 month HK$	1 - 3 months HK$	4 - 12 months HK$	1 - 5 years HK$	Over 5 years HK$	Non-interest bearing HK$	Total HK$
ASSETS								
Cash and cash equivalents	0.35%	263,130,025	-	-	-	-	37,882,463	301,012,488
Placements with banks and other financial institutions between one and twelve months	0.58%	-	150,783,894	80,049,151	-	-	-	230,833,045
Derivative financial instruments	0.00%	-	-	-	-	-	9,937	9,937
Available-for-sale investments	0.56%	28,178,341	30,682,126	-	-	-	-	58,860,467
Advances and other accounts	4.02%	788,287,100	30,186,987	-	-	-	5,884,023	824,358,110
Trade bills	4.75%	1,794,182	-	-	-	-	-	1,794,182
Investment property	0.00%	-	-	-	-	-	45,500,000	45,500,000
Property and equipment	0.00%	-	-	-	-	-	33,491,534	33,491,534
Deferred tax assets	0.00%	-	-	-	-	-	5,688,012	5,688,012
Total assets		1,081,389,648	211,653,007	80,049,151	-	-	128,455,969	1,501,547,775
LIABILITIES								
Deposits and balances of banks and other financial institutions	3.59%	37,861,633	-	-	15,502,600	-	-	53,364,233
Deposits from customers	0.29%	471,326,394	429,963,415	198,208,270	-	-	-	1,099,498,079
Derivative financial instruments	0.00%	-	-	-	-	-	118,089	118,089
Other accounts and provisions	0.00%	-	-	-	-	-	9,701,980	9,701,980
Total liabilities		509,188,027	429,963,415	198,208,270	15,502,600	-	9,820,069	1,162,682,381
Total interest sensitivity gap		572,201,621	(218,310,408)	(118,159,119)	(15,502,600)	-	118,635,900	338,865,394

5. FINANCIAL RISK MANAGEMENT (continued)

5.2 Market risk (continued)

5.2.2 Interest rate risk (continued)

THE COMPANY

	Effective interest rate	Up to 1 month HK$	1 - 3 months HK$	4 - 12 months HK$	1 - 5 years HK$	Over 5 years HK$	Non-interest bearing HK$	Total HK$
At 31 December 2013								
ASSETS								
Cash and cash equivalents	0.25%	283,982,387	-	-	-	-	18,314,319	302,296,706
Placements with banks and other financial institutions between one and twelve months	0.59%	-	178,837,512	68,282,166	-	-	-	247,119,678
Derivative financial instruments	0.00%	-	-	-	-	-	14,615	14,615
Available-for-sale investments	0.51%	7,754,050	15,488,460	-	-	-	-	23,242,510
Advances and other accounts	4.35%	908,578,409	2,089,624	-	-	-	4,242,620	914,910,653
Trade bills	0.00%	-	-	-	-	-	-	-
Investment in a subsidiary	0.00%	-	-	-	-	-	1,000,000	1,000,000
Investment property	0.00%	-	-	-	-	-	48,000,000	48,000,000
Property and equipment	0.00%	-	-	-	-	-	32,609,589	32,609,589
Deferred tax assets	0.00%	-	-	-	-	-	4,861,527	4,861,527
Total assets		1,200,314,846	196,415,596	68,282,166	-	-	109,042,670	1,574,055,278
LIABILITIES								
Deposits and balances of banks and other financial institutions	3.17%	44,719,140	-	15,508,100	-	-	-	60,227,240
Deposits from customers	0.36%	513,136,085	403,416,183	230,521,094	-	-	-	1,147,073,362
Derivative financial instruments	0.00%	-	-	-	-	-	2,974	2,974
Other accounts and provisions	0.00%	-	-	-	-	-	9,283,807	9,283,807
Total liabilities		557,855,225	403,416,183	246,029,194	-	-	9,286,781	1,216,587,383
Total interest sensitivity gap		642,459,621	(207,000,587)	(177,747,028)	-	-	99,755,889	357,467,895

5. FINANCIAL RISK MANAGEMENT (continued)

5.2 Market risk (continued)

5.2.2 Interest rate risk (continued)

THE COMPANY

At 31 December 2012	Effective interest rate	Up to 1 month HK$	1 - 3 months HK$	4 - 12 months HK$	1 - 5 years HK$	Over 5 years HK$	Non-interest bearing HK$	Total HK$
ASSETS								
Cash and cash equivalents	0.35%	263,130,024	-	-	-	-	37,494,843	300,624,867
Placements with banks and other financial institutions between one and twelve months	0.57%	-	143,685,384	80,049,151	-	-	-	223,734,535
Derivative financial instruments	0.00%	-	-	-	-	-	9,937	9,937
Available-for-sale investments	0.56%	28,178,341	30,682,126	-	-	-	-	58,860,467
Advances and other accounts	4.02%	788,287,100	30,186,987	-	-	-	5,875,079	824,349,166
Trade bills	4.75%	1,794,182	-	-	-	-	-	1,794,182
Investment in a subsidiary	0.00%	-	-	-	-	-	1,000,000	1,000,000
Investment property	0.00%	-	-	-	-	-	45,500,000	45,500,000
Property and equipment	0.00%	-	-	-	-	-	33,491,534	33,491,534
Deferred tax assets	0.00%	-	-	-	-	-	5,688,012	5,688,012
Total assets		1,081,389,647	204,554,497	80,049,151	-	-	129,059,405	1,495,052,700
LIABILITIES								
Deposits and balances of banks and other financial institutions	3.59%	37,861,633	-	-	15,502,600	-	-	53,364,233
Deposits from customers	0.29%	471,326,394	429,963,415	198,208,270	-	-	-	1,099,498,079
Derivative financial instruments	0.00%	-	-	-	-	-	118,089	118,089
Other accounts and provisions	0.00%	-	-	-	-	-	8,454,209	8,454,209
Total liabilities		509,188,027	429,963,415	198,208,270	15,502,600	-	8,572,298	1,161,434,610
Total interest sensitivity gap		572,201,620	(225,408,918)	(118,159,119)	(15,502,600)	-	120,487,107	333,618,090

5. FINANCIAL RISK MANAGEMENT (continued)

5.2 Market risk (continued)

5.2.2 Interest rate risk (continued)

Interest rate sensitivity

The sensitivity analyses below are determined based on the exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. A 100 basis point change is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rates.

	2013		2012	
	Change in basis points		Change in basis points	
	+100	-100	+100	-100
	HK$	HK$	HK$	HK$
Profit before tax	2,637,843	(2,637,843)	2,199,040	(2,199,040)

5.3 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 fulfil commitments to lend.

5.3.1 Management of liquidity risk

ALCO is responsible for monitoring the Company's liquidity position through periodic review of statutory liquidity ratio, maturity profile of assets and liabilities, loan-to-deposit ratio and inter-bank transactions. Liquidity policy is monitored by ALCO and reviewed regularly by the Board of Directors of the Company. The Group's policy is to maintain a conservative level of liquid funds on a daily basis so that the Group is prepared to meet its obligations when they fall due in the normal course of business, to satisfy statutory liquidity ratio requirements, and to deal with any funding crises that may arise. Limits are set on the minimum proportion of maturing funds to be maintained in order to meet all the calls on cash resources such as overnight deposits, current accounts, maturing deposits, loan draw-downs and guarantees, margin calls and other calls on cash-settled derivatives. Limits are also set on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at an unexpected level of demand.

5. FINANCIAL RISK MANAGEMENT (continued)

5.3 Liquidity risk (continued)

5.3.1 Management of liquidity risk (continued)

The following table details the Group's and the Company's remaining contractual maturity for its financial liabilities and derivative financial instruments. The tables below have been drawn up based on the undiscounted contractual maturities of the financial liabilities including interest that will accrue to those liabilities.

	THE GROUP						
	Less than 1 month HK$	1 - 3 months HK$	3 - 12 months HK$	1 - 5 years HK$	Over 5 years HK$	Undated HK$	Total HK$
At 31 December 2013							
Liabilities							
Deposits and balances of banks and other financial institutions	44,746,889	-	15,813,739	-	-	-	60,560,628
Deposits from customers	513,441,984	403,849,415	231,151,244	-	-	-	1,148,442,643
Other accounts and provisions	1,380,756	61,255	2,469,747	-	-	9,144,,260	13,056,018
	559,569,629	403,910,670	249,434,730	-	-	9,144,260	1,222,059,289
Derivative cash flow							
Derivative financial instruments settled on net basis	12,710	-	-	-	-	-	12,710
Total outflow	(149,456,996)	-	-	-	-	-	(149,456,996)
Total inflow	149,469,706	-	-	-	-	-	149,469,706
Derivative financial instruments settled on gross basis							
Total outflow	(77,548,440)	-	-	-	-	-	(77,548,440)
Total inflow	77,560,573	-	-	-	-	-	77,560,573

	THE GROUP						
	Less than 1 month HK$	1 - 3 months HK$	3 - 12 months HK$	1 - 5 years HK$	Over 5 years HK$	Undated HK$	Total HK$
At 31 December 2012							
Liabilities							
Deposits and balances of banks and other financial institutions	37,889,539	-	-	15,808,131	-	-	53,697,670
Deposits from customers	471,607,557	430,374,158	198,747,306	-	-	-	1,100,729,021
Other accounts and provisions	1,368,107	46,600	2,404,747	-	-	5,882,526	9,701,980
	510,865,203	430,420,758	201,152,053	15,808,131	-	5,882,526	1,164,128,671
Derivative cash flow							
Derivative financial instruments settled on net basis	(93,403)	-	-	-	-	-	(93,403)
Total outflow	(69,798,421)	-	-	-	-	-	(69,798,421)
Total inflow	69,705,018	-	-	-	-	-	69,705,018
Derivative financial instruments settled on gross basis							
Total outflow	(15,502,400)	(23,247,600)	-	-	-	-	(38,750,000)
Total inflow	15,502,600	23,253,900	-	-	-	-	38,756,500

5. FINANCIAL RISK MANAGEMENT (continued)

5.3 Liquidity risk (continued)

5.3.1 Management of liquidity risk (continued)

	THE COMPANY						
	Less than 1 month HK$	1 - 3 months HK$	3 - 12 months HK$	1 - 5 years HK$	Over 5 years HK$	Undated HK$	Total HK$
At 31 December 2013							
Liabilities							
Deposits and balances of banks and other financial institutions	44,746,889	-	15,813,739	-	-	-	60,560,628
Deposits from customers	513,441,984	403,849,415	231,151,244	-	-	-	1,148,442,643
Other accounts and provisions	1,380,756	61,255	2,469,747	-	-	5,372,049	9,283,807
	559,569,629	403,910,670	249,434,730	-	-	5,372,049	1,218,287,078
Derivative cash flow							
Derivative financial instruments settled on net basis	12,710	-	-	-	-	-	12,710
Total outflow	(149,456,996)	-	-	-	-	-	(149,456,996)
Total inflow	149,469,706	-	-	-	-	-	149,469,706
Derivative financial instruments settled on gross basis							
Total outflow	(77,548,440)	-	-	-	-	-	(77,548,440)
Total inflow	77,560,573	-	-	-	-	-	77,560,573

	THE COMPANY						
	Less than 1 month HK$	1 - 3 months HK$	3 - 12 months HK$	1 - 5 years HK$	Over 5 years HK$	Undated HK$	Total HK$
At 31 December 2012							
Liabilities							
Deposits and balances of banks and other financial institutions	37,889,539	-	-	15,808,131	-	-	53,697,670
Deposits from customers	471,607,557	430,374,158	198,747,306	-	-	-	1,100,729,021
Other accounts and provisions	1,368,107	46,600	2,404,747	-	-	4,634,755	8,454,209
	510,865,203	430,420,758	201,152,053	15,808,131	-	4,634,755	1,162,880,900
Derivative cash flow							
Derivative financial instruments settled on net basis	(93,403)	-	-	-	-	-	(93,403)
Total outflow	(69,798,421)	-	-	-	-	-	(69,798,421)
Total inflow	69,705,018	-	-	-	-	-	69,705,018
Derivative financial instruments settled on gross basis							
Total outflow	(15,502,400)	(23,247,600)	-	-	-	-	(38,750,000)
Total inflow	15,502,600	23,253,900	-	-	-	-	38,756,500

5. FINANCIAL RISK MANAGEMENT (continued)

5.3 Liquidity risk (continued)

5.3.2 Off-balance sheet items

The tables below summarised the Group's and the Company's off-balance sheet financial instruments by maturity based on the remaining period at the end of the reporting period to the contractual maturity date.

	THE GROUP AND THE COMPANY			
	Less than 1 year HK$	1-5 years HK$	Over 5 years HK$	Total HK$
At 31 December 2013				
Loan commitments	26,907,729	-	-	26,907,729
Guarantee, acceptances and other financial facilities	16,452,461	-	-	16,452,461
Total	43,360,190	-	-	43,360,190

	THE GROUP AND THE COMPANY			
	Less than 1 year HK$	1-5 years HK$	Over 5 years HK$	Total HK$
At 31 December 2012				
Loan commitments	23,212,092	-	-	23,212,092
Guarantee, acceptances and other financial facilities	4,273,480	3,500,000	-	7,773,480
Total	27,485,572	3,500,000	-	30,985,572

5. FINANCIAL RISK MANAGEMENT (continued)

5.3 Liquidity risk (continued)

5.3.3 Analysis of assets and liabilities by remaining maturity

The maturity analysis based on the remaining period at the end of the reporting period to the contractual maturity date in accordance with the guideline issued by the Hong Kong Monetary Authority is shown below.

THE GROUP

31 December 2013	On Demand HK$	Up to 1 month HK$	1 - 3 months HK$	4 - 12 months HK$	1 - 5 years HK$	Over 5 years HK$	Indefinite Period HK$	Total HK$
ASSETS								
Cash and cash equivalents	19,823,239	283,982,387	-	-	-	-	-	303,805,626
Placements with banks and other financial institutions between one and twelve months	-	-	184,909,784	68,282,166	-	-	-	253,191,950
Derivative financial instruments	-	14,615	-	-	-	-	-	14,615
Available-for-sale investments	-	7,754,050	-	15,488,460	-	-	-	23,242,510
Advance and other accounts	-	154,567,484	38,557,530	108,992,062	272,375,571	338,179,126	4,738,308	917,410,081
Trade bills	-	-	-	-	-	-	-	-
Investment property	-	-	-	-	-	-	48,000,000	48,000,000
Property and equipment	-	-	-	-	-	-	32,609,589	32,609,589
Deferred tax assets	-	-	-	-	-	-	4,861,527	4,861,527
Total assets	19,823,239	446,318,536	223,467,314	192,762,688	272,375,571	338,179,126	90,209,424	1,583,135,898
LIABILITIES								
Deposits and balances of banks and other financial institutions	-	44,719,140	-	15,508,100	-	-	-	60,227,240
Deposits from customers	-	513,136,086	403,416,183	230,521,093	-	-	-	1,147,073,362
Derivative financial instruments	-	2,974	-	-	-	-	-	2,974
Other accounts and provisions	-	1,380,756	61,255	2,469,747	-	-	9,144,260	13,056,018
Total liabilities	-	559,238,956	403,477,438	248,498,940	-	-	9,144,260	1,220,359,594
Total liquidity gap	19,823,239	(112,920,420)	(180,010,124)	(55,736,252)	272,375,571	338,179,126	81,065,164	362,776,304

5. FINANCIAL RISK MANAGEMENT (continued)

5.3 Liquidity risk (continued)

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

THE GROUP

31 December 2012	On Demand HK$	Up to 1 month HK$	1 - 3 months HK$	4 - 12 months HK$	1 - 5 years HK$	Over 5 years HK$	Indefinite Period HK$	Total HK$
ASSETS								
Cash and cash equivalents	37,882,464	263,130,024	-	-	-	-	-	301,012,488
Placements with banks and other financial institutions between one and twelve months	-	-	150,783,894	80,049,151	-	-	-	230,833,045
Derivative financial instruments	-	7,987	1,950	-	-	-	-	9,937
Available-for-sale investments	-	-	-	20,452,854	38,407,613	-	-	58,860,467
Advance and other accounts	-	131,484,988	65,984,945	81,239,160	240,943,004	300,794,934	3,911,079	824,358,110
Trade bills	-	1,794,182	-	-	-	-	-	1,794,182
Investment property	-	-	-	-	-	-	45,500,000	45,500,000
Property and equipment	-	-	-	-	-	-	33,491,534	33,491,534
Deferred tax assets	-	-	-	-	-	-	5,688,012	5,688,012
Total assets	37,882,464	396,417,181	216,770,789	181,741,165	279,350,617	300,794,934	88,590,625	1,501,547,775
LIABILITIES								
Deposits and balances of banks and other financial institutions	-	37,861,633	-	-	15,502,600	-	-	53,364,233
Deposits from customers	-	471,326,394	429,963,415	198,208,270	-	-	-	1,099,498,079
Derivative financial instruments	-	116,139	1,950	-	-	-	-	118,089
Other accounts and provisions	-	1,368,108	46,600	2,404,747	-	-	5,882,525	9,701,980
Total liabilities	-	510,672,274	430,011,965	200,613,017	15,502,600	-	5,882,525	1,162,682,381
Total liquidity gap	37,882,464	(114,255,093)	(213,241,176)	(18,871,852)	263,848,017	300,794,934	82,708,100	338,865,394

5. FINANCIAL RISK MANAGEMENT (continued)

5.3 Liquidity risk (continued)

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

THE COMPANY

31 December 2013	On Demand HK$	Up to 1 month HK$	1 - 3 months HK$	4 - 12 months HK$	1 - 5 years HK$	Over 5 years HK$	Indefinite Period HK$	Total HK$
ASSETS								
Cash and cash equivalents	18,314,319	283,982,387	-	-	-	-	-	302,296,706
Placements with banks and other financial institutions between one and twelve months	-	-	178,837,512	68,282,166	-	-	-	247,119,678
Derivative financial instruments	-	14,615	-	-	-	-	-	14,615
Available-for-sale investments	-	7,754,050	-	15,488,460	-	-	-	23,242,510
Advances and other accounts	-	154,567,484	38,557,530	108,992,062	272,375,571	338,179,126	2,238,880	914,910,653
Trade bills	-	-	-	-	-	-	-	-
Investment in a subsidiary	-	-	-	-	-	-	1,000,000	1,000,000
Investment property	-	-	-	-	-	-	48,000,000	48,000,000
Property and equipment	-	-	-	-	-	-	32,609,589	32,609,589
Deferred tax assets	-	-	-	-	-	-	4,861,527	4,861,527
Total assets	18,314,319	446,318,536	217,395,042	192,762,688	272,375,571	338,179,126	88,709,996	1,574,055,278
LIABILITIES								
Deposits and balances of banks and other financial institutions	-	44,719,140	-	15,508,100	-	-	-	60,227,240
Deposits from customers	-	513,136,086	403,416,183	230,521,093	-	-	-	1,147,073,362
Derivative financial instruments	-	2,974	-	-	-	-	-	2,974
Other accounts and provisions	-	1,380,756	61,255	2,469,747	-	-	5,372,049	9,283,807
Total liabilities	-	559,238,956	403,477,438	248,498,940	-	-	5,372,049	1,216,587,383
Total liquidity gap	18,314,319	(112,920,420)	(186,082,396)	(55,736,252)	272,375,571	338,179,126	83,337,947	357,467,895

5. FINANCIAL RISK MANAGEMENT (continued)

5.3 Liquidity risk (continued)

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

THE COMPANY

31 December 2012	On Demand HK$	Up to 1 month HK$	1 - 3 months HK$	4 - 12 months HK$	1 - 5 years HK$	Over 5 years HK$	Indefinite Period HK$	Total HK$
ASSETS								
Cash and cash equivalents	37,494,843	263,130,024	-	-	-	-	-	300,624,867
Placements with banks and other financial institutions between one and twelve months	-	-	143,685,384	80,049,151	-	-	-	223,734,535
Derivative financial instruments	-	7,987	1,950	-	-	-	-	9,937
Available-for-sale investments	-	-	-	20,452,854	38,407,613	-	-	58,860,467
Advances and other accounts	-	131,484,988	65,984,946	81,239,160	240,943,004	300,794,934	3,902,134	824,349,166
Trade bills	-	1,794,182	-	-	-	-	-	1,794,182
Investment in a subsidiary	-	-	-	-	-	-	1,000,000	1,000,000
Investment property	-	-	-	-	-	-	45,500,000	45,500,000
Property and equipment	-	-	-	-	-	-	33,491,534	33,491,534
Deferred tax assets	-	-	-	-	-	-	5,688,012	5,688,012
Total assets	37,494,843	396,417,181	209,672,280	181,741,165	279,350,617	300,794,934	89,581,680	1,495,052,700
LIABILITIES								
Deposits and balances of banks and other financial institutions	-	37,861,633	-	-	15,502,600	-	-	53,364,233
Deposits from customers	-	471,326,394	429,963,415	198,208,270	-	-	-	1,099,498,079
Derivative financial instruments	-	116,139	1,950	-	-	-	-	118,089
Other accounts and provisions	-	1,368,109	46,600	2,404,747	-	-	4,634,753	8,454,209
Total liabilities	-	510,672,275	430,011,965	200,613,017	15,502,600	-	4,634,753	1,161,434,610
Total liquidity gap	37,494,843	(114,255,094)	(220,339,685)	(18,871,852)	263,848,017	300,794,934	84,946,927	333,618,090

5. FINANCIAL RISK MANAGEMENT (continued)

5.4 Capital management

The Group has adopted a policy of maintaining a strong capital base to:

- comply with the capital requirements under the Banking (Capital) Rules of the Banking Ordinance; and

- support the Group's stability and business growth so as to provide reasonable returns for shareholders.

The Banking (Capital) (Amendment) Rules 2012 and the Banking (Capital) (Amendment) Rules 2013 came into operation on 1 January 2013 and 30 June 2013 respectively. The rules mainly addressed the revision to both the minimum capital ratio requirement (in terms of expanding the existing capital adequacy ratio into three ratios, namely, a Common Equity Tier 1 capital ratio, a Tier 1 capital ratio and a Total capital ratio) and the definition of regulatory capital. In addition, the rules included the enhancements to the counterparty credit risk framework and amendments on the capital treatment for certain trade financing activities and securities financing transactions. The Group has complied with the rules to calculate Capital Adequacy Ratio.

Capital adequacy ratio, computed as a ratio of total regulatory capital to the risk-weighted asset, of the Group was maintained at a level above the required minimum ratio.

Capital adequacy position and the use of regulatory capital are monitored closely by the Group's management, employing techniques based on the Banking (Capital) Rules. The required information is filed with the Hong Kong Monetary Authority on a quarterly basis in the form of a statistical return. The disclosure of capital adequacy and capital base are shown in Note 7 of Supplementary Financial Information.

The Group has an established capital planning process to assess the adequacy of its capital to support current and future activities. The process states the Group's capital adequacy goals in relation to risk, taking into account its strategic focus and business plan.

6. FAIR VALUE MEASUREMENT

6.1 Fair values of assets and liabilities measured at fair value

THE GROUP AND THE COMPANY

Assets measured at fair value as at 31 December 2013

	Fair value measurement using			
	Quoted prices in active market (Level 1) HK$	Significant observable inputs (Level 2) HK$	Significant unobservable inputs (Level 3) HK$	Total HK$
Recurring fair value measurements				
Financial assets				
Available-for-sale investments	23,242,510	-	-	23,242,510
Derivative financial instruments	-	14,615	-	14,615
	23,242,510	14,615	-	23,257,125
Non-financial assets				
Investment property	-	-	48,000,000	48,000,000
	-	-	48,000,000	48,000,000
	23,242,510	14,615	48,000,000	71,257,125

Liabilities measured at fair value as at 31 December 2013

	Fair value measurement using			
	Quoted prices in active market (Level 1) HK$	Significant observable inputs (Level 2) HK$	Significant unobservable inputs (Level 3) HK$	Total HK$
Recurring fair value measurement				
Financial liabilities				
Derivative financial instruments	-	2,974	-	2,974

6. FAIR VALUE MEASUREMENT (continued)

6.1 Fair values of assets and liabilities measured at fair value (continued)

THE GROUP AND THE COMPANY

Assets measured at fair value as at 31 December 2012

	Fair value measurement using			
	Quoted prices in active market (Level 1) HK$	Significant observable inputs (Level 2) HK$	Significant unobservable inputs (Level 3) HK$	Total HK$
Recurring fair value measurements				
Financial assets				
Available-for-sale investments	58,860,467	-	-	58,860,467
Derivative financial instruments	-	9,937	-	9,937
	58,860,467	9,937	-	58,870,404
Non-financial assets				
Investment property	-	-	45,500,000	45,500,000
	-	-	45,500,000	45,500,000
	58,860,467	9,937	45,500,000	104,370,404

Liabilities measured at fair value as at 31 December 2012

	Fair value measurement using			
	Quoted prices in active market (Level 1) HK$	Significant observable inputs (Level 2) HK$	Significant unobservable inputs (Level 3) HK$	Total HK$
Recurring fair value measurement				
Financial liabilities				
Derivative financial instruments	-	118,089	-	118,089

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 (2012: Nil) and no transfers into or out of Level 3 (2012: Nil).

6. FAIR VALUE MEASUREMENT (continued)

6.2 Information about Level 3 fair value measurements

The fair value of the Group's investment property is determined by adoption of direct comparison approach by Century 21 Surveyors Limited, independent professional qualified valuer. Valuations were derived on the basis of assuming sale of the property in its existing state with the benefit of immediate vacant possession and by making reference to comparable sales transactions as available in the relevant market. In the course of valuation, reference has been made to comparable market transactions of properties in the same development as well as other similar developments and taking into account the general market trends and other economic factors which may reasonably affect the open market value of the investment property as at 31 December 2013.

The table below summarises the valuation techniques used and the significant unobservable inputs valuation for the investment property held by the Group:

Description	Fair Value at 31 December 2013	Valuation Techniques	Unobservable Input
Investment Property (Note 17)			
Land & Buildings	HK$48,000,000	Direct comparison approach	Location: Commercial centre of Central, predominated by Class A high rise commercial building and skyscrapers Size: Gross floor area: 2,615 s.f.

6.3 Fair values of financial instruments not measured at fair value

Management has assessed that the fair values of cash and cash equivalents, placements with banks and other financial institutions, financial assets included in advances and other accounts, trade bills, deposits and balances of banks and other financial institutions, deposits from customers and financial liabilities included in other accounts and provision approximate to their carrying amounts largely due to the short term maturities of these instruments.

7. OTHER OPERATING INCOME

	2013 HK$	2012 HK$
Other income		
Rental income	1,564,918	1,255,200
Commission income	1,484,878	1,649,640
Others	3,454,742	2,480,425
	6,504,538	5,385,265
Gains		
Net gains arising from dealing in foreign currencies	3,531,076	3,874,401
Gain on change in fair value of investment property (Note 17)	2,500,000	-
Gain on disposal of property and equipment	1,999	-
	6,033,075	3,874,401
	12,537,613	9,259,666

Others consist of sundry income, insurance referral fee and charges recovered from customers.

8. OPERATING EXPENSES

	2013 HK$	2012 HK$
Employee benefit expense (including directors' remuneration):		
Staff cost	20,173,174	19,220,883
Retirement benefits costs	1,114,436	1,134,232
Depreciation (Note 18)	1,063,446	1,065,113
Auditors' remuneration	1,050,000	1,000,000
Premises and equipment expenses	749,107	813,456
Loss on disposal of property and equipment	-	4
Other operating expenses	4,421,884	4,229,806
	28,572,047	27,463,494

For the year ended 31 December 2013, no contribution had been forfeited and was available to reduce the Group’s contribution to the pension scheme in future years (2012: HK$92,772).

9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance is as follow:

	2013	2012
	HK$	HK$
Fee	-	-
Other emoluments:		
Salaries, allowances and benefits in kind	4,580,070	4,401,962
Pension scheme contributions	290,371	273,084
	4,870,441	4,675,046
	4,870,441	4,675,046

The key management personnel of the Group comprise directors of the Company.

10. INCOME TAX

	2013	2012
	HK$	HK$
Hong Kong profits tax		
Current tax	-	-
Deferred tax (Note 19)	826,485	376,035
Total tax charge for the year	826,485	376,035

No provision for Hong Kong profits tax has been made as the Company has available tax losses brought forward from prior years to offset the assessable profits generated during the year (2012: Nil).

A reconciliation of the tax expense/(credit) applicable to profit before tax at the statutory rate to the tax expense at the effective rate is as follows:

	2013		2012	
	HK$	%	HK$	%
Profit before tax	25,579,234		15,920,273	
Tax at statutory rate of 16.5% (2012: 16.5%)	4,220,574	16.50	2,626,844	16.50
Income not subject to tax	(412,500)	(1.61)	-	-
Expenses not deductible for tax	79,650	0.31	79,650	0.50
Tax losses not recognised	(3,051,157)	(11.93)	(2,318,127)	(14.56)
Others	(10,082)	(0.04)	(12,332)	(0.08)
Tax charge at the Group's effective rate	826,485	3.23	376,035	2.36

11. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders for the year ended 31 December 2013 includes a profit of HK$24,691,644 (2012: HK$15,469,497) which has been dealt with in the financial statements of the Company.

12. PREFERENCE SHARES DIVIDEND

Dividend amounting to HK$1,035,000 (2012: HK$1,035,000) has been proposed for preference shares by the directors.

13. CASH AND CASH EQUIVALENTS

	THE GROUP		THE COMPANY	
	2013	2012	2013	2012
	HK$	HK$	HK$	HK$
Cash and bank balances	19,823,239	37,882,464	18,314,319	37,494,843
Money at call and short notice	283,982,387	263,130,024	283,982,387	263,130,024
Cash and cash equivalents	303,805,626	301,012,488	302,296,706	300,624,867

14. DERIVATIVE FINANCIAL INSTRUMENTS

	THE GROUP AND THE COMPANY	
	2013	2012
	HK$	HK$
Forward foreign currency contracts		
- Assets	14,615	9,937
- Liabilities	(2,974)	(118,089)

The Group entered into a variety of foreign currency forward contracts to manage its exchange rate exposures. At the end of the reporting period, all derivatives are stated at fair value determined based on valuation techniques.

The total notional amount of outstanding forward foreign currency contracts to which the Group and the Company are committed, at the end of the reporting period, are as follows:

	THE GROUP AND THE COMPANY	
	2013	2012
	HK$	HK$
Forward foreign currency contracts	227,030,279	108,548,421

15. AVAILABLE-FOR-SALE INVESTMENTS

	THE GROUP AND THE COMPANY 2013 HK$	2012 HK$
Unlisted certificates of deposit/notes issued by banks and other financial institutions	23,242,510	58,860,467

At the end of the reporting period, all available-for-sale investments are stated at fair value. Fair value of the investments has been determined by reference to bid prices quoted in active markets.

The movement in net unrealised gains/(losses) on available-for-sale investments is as follow:

	THE GROUP AND THE COMPANY 2013 HK$	2012 HK$
Balance at beginning of year	(192,107)	(4,747,985)
Changes in fair value of AFS investments	264,107	4,555,878
Disposal, redemption or mature of available-for-sale investments reclassified to profit or loss	(70,946)	-
	193,161	4,555,878
Balance at end of year	1,054	(192,107)

16. ADVANCES AND OTHER ACCOUNTS

	THE GROUP 2013 HK$	2012 HK$
Advances to customers	915,217,458	826,841,052
Impairment allowances		
- Individually assessed	(49,749)	(127,699)
- Collectively assessed	(1,764,000)	(6,773,000)
	913,403,709	819,940,353
Other accounts	4,006,372	4,417,757
	917,410,081	824,358,110

Other accounts include unquoted equity securities valued at cost amounting to HK$520,000 as of 31 December 2013 and 2012.

16. ADVANCES AND OTHER ACCOUNTS (continued)

	THE COMPANY 2013 HK$	THE COMPANY 2012 HK$
Advances to customers	912,759,572	826,839,292
Impairment allowances		
- Individually assessed	(49,749)	(127,699)
- Collectively assessed	(1,764,000)	(6,773,000)
	910,945,823	819,938,593
Other accounts	3,964,830	4,410,573
	914,910,653	824,349,166

Other accounts include unquoted equity securities valued at cost amounting to HK$520,000 as of 31 December 2013 and 2012.

Movement in impairment allowance on advances:

	THE GROUP AND THE COMPANY		
	Individual assessment HK$	Collective assessment HK$	Total assessment HK$
Balance at 1 January 2013	127,699	6,773,000	6,900,699
Impairment losses	711	227,000	227,711
Amounts written-back	(3,219,037)	(5,236,000)	(8,455,037)
Net write-back to the income statement	(3,218,326)	(5,009,000)	(8,227,326)
Amounts recovered	3,141,087	-	3,141,087
Amounts written off	(711)	-	(711)
	3,140,376	-	3,140,376
Balance at 31 December 2013	49,749	1,764,000	1,813,749

16. ADVANCES AND OTHER ACCOUNTS (continued)

	THE GROUP AND THE COMPANY		
	Individual assessment HK$	Collective assessment HK$	Total assessment HK$
Balance at 1 January 2012	148,097	9,052,000	9,200,097
Impairment losses	437	-	437
Amounts written-back	(1,117,485)	(2,279,000)	(3,396,485)
Net write-back to the income statement	(1,117,048)	(2,279,000)	(3,396,048)
Amounts recovered	1,097,087	-	1,097,087
Amounts written off	(437)	-	(437)
	1,096,650	-	1,096,650
Balance at 31 December 2012	127,699	6,773,000	6,900,699

Details of the impaired loans are as follows:

	THE GROUP AND THE COMPANY	
	2013 HK$	2012 HK$
Gross impaired loans	230,177	1,768,119
Less: Impairment allowances under individual assessment	(49,749)	(127,699)
Net impaired loans	180,428	1,640,420
Gross impaired loans as a percentage of gross advances to customers	0.03%	0.21%

17. INVESTMENT PROPERTY

	THE GROUP AND THE COMPANY	
	2013 HK$	2012 HK$
Carrying amount at 1 January	45,500,000	45,500,000
Net gain from fair value adjustment	2,500,000	-
Carrying amount at 31 December	48,000,000	45,500,000

The Group's investment property was revalued on 31 December 2013 by Century 21 Surveyors Limited, an independent professional qualified valuer, at HK$48,000,000.

17. INVESTMENT PROPERTY (continued)

The investment property is held for rental purpose.

The Group's investment property is situated in Hong Kong and held under the following lease terms:

	THE GROUP AND THE COMPANY	
	2013	2012
	HK$	HK$
Medium term lease	48,000,000	45,500,000

18. PROPERTY AND EQUIPMENT

THE GROUP AND THE COMPANY

	Land and buildings	Leasehold improvements	Furniture and fixtures	Office equipment	Motor vehicles	Total
	HK$	HK$	HK$	HK$	HK$	HK$
COST						
At 1 January 2012	45,145,394	1,209,576	1,039,361	2,271,923	332,122	49,998,376
Additions	-	-	-	118,300	-	118,300
Disposals	-	-	-	(72,070)	-	(72,070)
At 31 December 2012 and 1 January 2013	45,145,394	1,209,576	1,039,361	2,318,153	332,122	50,044,606
Additions	-	-	-	181,502	-	181,502
Disposals	-	-	-	(286,650)	-	(286,650)
At 31 December 2013	45,145,394	1,209,576	1,039,361	2,213,005	332,122	49,939,458
DEPRECIATION						
At 1 January 2012	10,891,174	1,209,567	1,039,324	2,087,838	332,122	15,560,025
Provided for the year	965,456	-	-	99,657	-	1,065,113
Eliminated on disposals	-	-	-	(72,066)	-	(72,066)
At 31 December 2012 and 1 January 2013	11,856,630	1,209,567	1,039,324	2,115,429	332,122	16,553,072
Provided for the year	965,456	-	-	97,990	-	1,063,446
Eliminated on disposals	-	-	-	(286,649)	-	(286,649)
At 31 December 2013	12,822,086	1,209,567	1,039,324	1,926,770	332,122	17,329,869
NET CARRYING AMOUNTS						
At 31 December 2013	32,323,308	9	37	286,235	-	32,609,589
At 31 December 2012	33,288,764	9	37	202,724	-	33,491,534

The Group's land is included in property and equipment with a net carrying amount of HK$28,682,006 (2012: HK$29,538,766).

19. DEFERRED TAX ASSETS

The following are the deferred tax assets recognised by the Group and the Company and the movement thereon during the current reporting periods.

	THE GROUP AND THE COMPANY				
	Accelerated tax depreciation HK$	Collective impairment allowance HK$	Revaluation gain on investment property HK$	Tax losses HK$	Total HK$
At 1 January 2012	(841,096)	1,493,580	-	5,411,563	6,064,047
Deferred tax credited/(charged) to the statement of profit or loss during the year (Note 10)	(78,222)	(376,035)	-	78,222	(376,035)
At 31 December 2012 and 1 January 2013	(919,318)	1,117,545	-	5,489,785	5,688,012
Deferred tax credited/(charged) to the statement of profit or loss during the year (Note 10)	(83,883)	(826,485)	-	83,883	(826,485)
At 31 December 2013	(1,003,201)	291,060	-	5,573,668	4,861,527

At 31 December 2013, the Group has estimated unused tax losses of approximately HK$34,575,743 (2012: HK$52,559,219) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$33,779,806 (2012: HK$33,271,424) of such losses. No deferred tax asset has been recognised in respect of the HK$795,937 (2012: HK$19,287,795) due to the unpredictability of the future profit streams.

20. INVESTMENT IN A SUBSIDIARY

	THE COMPANY	
	2013 HK$	2012 HK$
Unlisted shares, at cost	1,000,000	1,000,000

The wholly-owned subsidiary, ACR Nominees Limited, is a private limited company incorporated in Hong Kong. Its principal activities are to provide management and nominee services.

21. DEPOSITS FROM CUSTOMERS

	THE GROUP AND THE COMPANY	
	2013 HK$	2012 HK$
Time, call and notice deposits	1,139,508,801	1,089,610,911
Demand deposits and current accounts	7,564,561	9,887,168
	1,147,073,362	1,099,498,079

22. SHARE CAPITAL

	2013 HK$	2012 HK$
Authorised:		
19,000,000 (2012: 19,000,000) ordinary shares of HK$10 each	190,000,000	190,000,000
2,100,000 (2012: 2,100,000) 5% non-cumulative and non-redeemable preference shares of HK$10 each (Note)	21,000,000	21,000,000
	211,000,000	211,000,000
Issued and fully paid		
12,420,925 (2012: 12,420,925) ordinary shares of HK$10 each fully paid	124,209,250	124,209,250
6,500,000 (2012: 6,500,000) ordinary shares of HK$10 each with HK$6.2755 each paid up	40,790,750	40,790,750
2,070,000 (2012: 2,070,000) 5% non-cumulative and non-redeemable preference shares of HK$10 each (Note)	20,700,000	20,700,000
	185,700,000	185,700,000

Note:

1. The 5% non-cumulative and non-redeemable preference shares ("Preference Shares") shall entitle the holders thereof upon winding-up to receive in priority to the holders of all other classes of shares repayment of the amount paid up or deemed to be paid up thereon but not to participate further in any surplus assets.

2. In addition, the Preference Shares shall entitle the holders to receive from the profits of the Company for each individual financial year as a first charge preference dividends at the rate 5% per annum on the amount of issued Preference Shares ("Capital"), but shall not entitle the holders to participate further in the profits of the Company. If the Company sustains a loss for a particular financial year, no preferential dividend will be paid for that year, or if the profit for that financial year is not sufficient to cover the full 5% preferential dividend, the profit will be paid as preferential dividend in proportion among the holders of the Capital for the time being paid up on such Preference Shares and the remaining portion of preference dividend will be treated as waived by the holders.

22. SHARE CAPITAL (continued)

3. The Preference Shares shall not entitle the holders thereof to vote at any general meeting of shareholders.

23. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in consolidated statement of changes in equity on page 9 of the financial statements.

(b) Company

	General reserve HK$	Investment revaluation reserve HK$	Collective impairment reserve HK$	Retained profits HK$	Total HK$
At 1 January 2012	7,000,000	(4,747,985)	1,945,204	124,730,496	128,927,715
Total comprehensive income for the year, net of tax	-	4,555,878	-	15,469,497	20,025,375
Proposed 2012 preference shares dividend (Note 12)	-	-	-	(1,035,000)	(1,035,000)
Transfer from retained profits	-	-	2,279,000	(2,279,000)	-
At 31 December 2012	7,000,000	(192,107)	4,224,204	136,885,993	147,918,090
Total comprehensive income for the year, net of tax	-	193,161	-	24,691,644	24,884,805
Proposed 2013 preference shares dividend (Note 12)	-	-	-	(1,035,000)	(1,035,000)
Transfer from retained profits	-	-	5,009,000	(5,009,000)	-
At 31 December 2013	7,000,000	1,054	9,233,204	155,533,637	171,767,895

24. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	THE GROUP	
	2013	2012
	HK$	HK$
Management fee income from subsidiary	2,220,000	1,440,000
Fellow subsidiaries:		
Interest income from fellow subsidiaries	-	-
Interest expense to fellow subsidiaries	216,421	31,901

(b) Outstanding balances with related parties:

	2013	2012
	HK$	HK$
Parent bank		
Deposits and balances of banks and other financial institutions	5,278,357	1,247,292
Fellow subsidiary and affiliates		
Cash and cash equivalents	58,863	57,707
Deposits and balances of banks and other financial institutions	19,214,928	16,932,463
Other accounts and provisions	247,591	-

The above outstanding balances bear interest at rates similar to those available to non-related parties.

The remuneration of directors during the year is disclosed in Note 9 to the financial statements.

25. LOANS TO OFFICERS

No loans were granted to officers by the Company during the year pursuant to Section 161B of the Hong Kong Companies Ordinance.

26. OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

The amendments to HKFRS 7, which is effective on 1 January 2013, requires the Group to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreements or similar arrangements. The effects of these arrangements are disclosed in the tables below.

31 December 2013

Financial assets recognised at end of reporting period by type	**Gross carrying amounts (before offsetting)**	**Gross amounts offset in accordance with the offsetting criteria**	**Net amount presented in statement of financial position [a-b]**	**Effect of remaining rights of set-off (including rights to set-off financial collateral) that do not meet HKAS 32 offsetting criteria**		**Net exposure [c-d]**
				Financial instruments	**Fair value of financial collateral**	
	[a]	**[b]**	**[c]**	**[d]**		**[e]**
Derivative financial assets	12,131	-	12,131	2,965	-	9,166
Derivative financial liabilities	2,965	-	2,965	2,965	-	-

31 December 2012

Financial assets recognised at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statement of financial position [a-b]	Effect of remaining rights of set-off (including rights to set-off financial collateral) that do not meet HKAS 32 offsetting criteria		Net exposure [c-d]
				Financial instruments	Fair value of financial collateral	
	[a]	[b]	[c]	[d]		[e]
Derivative financial assets	3,413	-	3,413	3,413	-	-
Derivative financial liabilities	105,408	-	105,408	3,413	-	101,995

27. OFF-BALANCE SHEET EXPOSURES

(a) Contingent liabilities and commitments

The following is a summary of the contractual amounts of each significant class of contingent liability and commitment:

	2013 HK$	2012 HK$
Trade-related contingencies	16,452,461	4,273,480
Other commitments:		
With an original maturity of under one year or which are unconditionally cancellable	26,907,729	23,212,092
With an original maturity of one year and over	-	3,500,000
	43,360,190	30,985,572

Contingent liabilities and commitments are credit-related instruments which include acceptances, letters of credit, guarantees and commitments to extend credit. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client defaults.

27. OFF-BALANCE SHEET EXPOSURES (continued)

(b) Derivatives financial instruments

The replacement costs and credit risk weighted amounts of the derivatives financial instrument of the Group and the Company are as follows:

	2013		2012	
	Replacement cost HK$	Credit risk weighted amount HK$	Replacement cost HK$	Credit risk weighted amount HK$
Contingent liabilities and Commitments	-	3,290,492	-	2,790,436
Exchange rate contracts	41,885	251,002	15,563	149,874
	41,885	3,541,494	15,563	2,940,310

The replacement costs and credit risk weighted amounts of the derivatives financial instrument do not take into account the effects of bilateral netting arrangements.

28. RETIREMENT BENEFITS PLAN

The Company participates in both a defined contribution scheme which is registered under the Occupational Retirement Scheme Ordinance (the "ORSO Scheme") and a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Company, in funds under the control of trustees. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme were offered a choice of staying within the ORSO Scheme or switching to the MPF Scheme, whereas all new employees joining the Company are offered a one-off choice to join the MPF Scheme or the ORSO Scheme.

For members of the MPF Scheme, the Company contributes 5% of relevant payroll costs to the Scheme, which contribution is matched by the employee.

The ORSO Scheme is funded by monthly contributions from both employees and the Company at 5% and 7% of the employee's basic salary respectively, depending on the length of service with the Company.

29. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 April 2014.

ALLIED BANKING CORPORATION (HONG KONG) LIMITED

新聯銀行(香港)有限公司

Unaudited Supplementary Financial Information
For the year ended 31 December 2013

ALLIED BANKING CORPORATION (HONG KONG) LIMITED
新聯銀行(香港)有限公司

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

FOR THE YEAR ENDED 31 DECEMBER 2013

The unaudited supplementary financial information regarding corporate governance, market risk, segmental information, capital adequacy ratio, average liquidity ratio, foreign currency position, overdue and rescheduled assets, repossessed assets and cross-border claims disclosed pursuant to Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority under Section 98A of the Hong Kong Banking Ordinance is as follows:

1. CORPORATE GOVERNANCE

In addition to Board of Directors Meetings, there are several governance committees formed under the Board of Directors. The roles, functions and composition of these key committees are as follows:

(i) Executive Committee - responsible for reviewing and confirming all credit approvals. The members include the Deputy Chairman of the Board of the parent bank and other directors.

(ii) Credit Risk Management Committee - responsible for evaluation and monitoring of lending-related activities, reviewing existing credit limits and industry limits and managing the lending portfolio and overall credit risk of the Group. It comprises two non-executive directors, the Chief Executive, two Alternate Chief Executives, who are also the Head of Treasury and Head of Operation, the Senior Managers of Credit, respectively.

(iii) Asset and Liability Management Committee ("ALCO") - responsible for managing the Group's assets and liabilities on a functional basis. The Committee directs the Group's overall acquisition, allocation and pricing of funds, within the established target/guidelines, while managing and monitoring the overall treasury risk exposure. It comprises two non-executive directors, the Chief Executive, two Alternate Chief Executives, who are also the Head of Treasury and Head of Operation, the Senior Managers of Credit and Marketing, the Compliance Officer and the FX Manager.

(iv) The Audit Committee is an oversight body monitoring the internal control framework, risk management systems and financial reports. The Committee consists of three non-executive directors, two of whom are independent non-executives.

(v) Remuneration Committee

The Remuneration Committee of the Company comprises one non-executive director and one independent non-executive director. The Remuneration Committee was formed in June 2010 and meetings shall be held as a need basis.

The guiding principles for the remuneration framework of the Company are consistent with its ethical values, objectives, strategies and control environment and are as follows:

(a) Simplicity in providing appropriate compensation to its employees for the services they provide to the company;

(b) Fairness in its conduct to attract and retain employees with skills required to effectively manage the operations and growth of the business;

1. CORPORATE GOVERNANCE (continued)

(c) Alignment of values in the management of its remuneration system to motivate employees to perform in the best interests of the Company and its stakeholders;

(d) Transparency in the appropriate level of the organisation with specific regard to the remuneration of senior management who are responsible for oversight of the business strategy, key personnel whose duties involve the assumption of material risk on behalf of the Company; and

(e) Ensure a level of equity and consistency across its branch and subsidiaries and the Group as a whole.

The major roles and functions of the Company's Remuneration Committee are as follows:

(a) Making recommendations to the Board of Directors in respect of remuneration packages for the Company's senior management and key personnel in cases where the approval authority for such remuneration packages rests solely with the Board;

(b) Ensuring that a regular, at least annual, review of the Company's remuneration system and its operations, which includes an assessment of consistency with the guidelines, is conducted independently of management.

(c) Review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

(d) Review and approve the compensation payable to Executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;

(e) To ensure that no director (executive or non-executive) or any of his/her associates is involved in deciding his/her own remuneration.

(vi) Members of Managers Committee Meeting - responsible for managing day to day operation. The members consist of Chief Executive, two Alternate Chief Executives, who are also the Head of Treasury and Head of Operation, all department heads and the Compliance Officer.

The terms of reference of the Committees, together with all the policies within the corporate governance scheme, are subject to review as necessary in order to cope with the latest development in the Banking industry as well as other changes in the regulatory environment. In addition, the Company is committed to maintain high standards of corporate governance practices and has fully complied with the module set out in the Supervisory Policy Manual entitled "Corporate Governance of Locally Incorporated Authorized Institutions" issued by the Hong Kong Monetary Authority on 3 August 2012 throughout the financial year ended 31 December 2013.

2. RISK MANAGEMENT

The Board of Directors has the overall responsibility for the management of all types of risk exposures. In the delivery of its responsibility, the Board has established specialised committees to identify, measure, monitor and control different types of risks. The Board or the appropriate specialised committees review and approve policies and procedures for the identification, measurement, control and monitoring of both financial and non-financial risks. Such policies and procedures are reviewed by the relevant committees or senior management on a regular basis.

(i) Capital management

The Banking (Capital) (Amendment) Rules 2012 and the Banking (Capital) (Amendment) Rules 2013 came into operation on 1 January 2013 and 30 June 2013 respectively. The rules mainly addressed the revision to both the minimum capital ratio requirement (in terms of expanding the existing capital adequacy ratio into three ratios, namely, a Common Equity Tier 1 capital ratio, a Tier 1 capital ratio and a Total capital ratio) and the definition of regulatory capital. In addition, the rules included the enhancements to the counterparty credit risk framework and amendments on the capital treatment for certain trade financing activities and securities financing transactions. The Group has complied with the rules to calculate Capital Adequacy Ratio.

Capital adequacy ratio, computed as a ratio of total regulatory capital to the risk-weighted asset, of the Group was maintained at a level above the required minimum ratio.

(ii) Operational and legal risk

Operational risk is the risk of unexpected losses attributable to human error, systems failures, fraud, or inadequate internal controls and procedures.

Executive directors, department heads, external legal counsels, and internal auditors collaborate to manage operational and legal risks through proper human resources policies, delegation of authorities, segregation of duties, and timely and accurate management information. Senior management and the Audit Committee are accountable to the Board for maintaining a strong and disciplined control environment to provide reasonable assurance that the operational and legal risks are prudently managed.

A comprehensive contingency plan is available to ensure that key business functions continue and normal operations are restored effectively and efficiently in the event of business interruption.

(iii) Reputation risk

Reputation risk is the risk to earnings or capital arising from negative public opinion.

Reputation risk is managed by ensuring proper and adequate communications and public relation efforts to foster the reputation of the Group. A risk management mechanism guided by the senior management including executive directors and senior managers has been established to manage the media exposure, handle customers' and other relevant parties' complaints and suggestions, and to ensure that new business activities and agents acting on the Group's behalf do not jeopardise the Group's reputation.

3. SEGMENTAL INFORMATION

The Company's total operating income, profit before taxation, total assets, total liabilities and contingent liabilities and commitments are derived predominantly from Hong Kong.

The Company's gross advances to customers analysed and reported by industry sectors are as follows:

	2013		2012	
	HK$'000	% of Gross advances covered by collateral	HK$'000	% of Gross advances covered by collateral
Loans for use in Hong Kong				
Industrial, commercial and financial				
- Property investment	311,560	100%	290,966	100%
- Wholesale and retail trade	78,318	100%	79,069	81.03%
- Manufacturing	136,582	99.49%	68,882	99.82%
- Transport and transport equipment	13,596	100%	11,664	100%
- Others	26,352	100%	5,136	98.67%
Individuals				
- Loans for purchase of other residential properties	145,381	100%	119,879	100%
- Others	96,834	99.76%	101,968	85.86%
Trade finance	36,476	51.71%	67,512	47.37%
Loans for use outside Hong Kong	67,661	32.23%	81,763	30.61%
	912,760		826,839	

The advances are predominantly made to customers in Hong Kong. No geographical analysis is disclosed as the Company derives the majority of its income from its commercial banking business where the customers' principal operations are in Hong Kong.

4. AVERAGE LIQUIDITY RATIO

	2013	2012
	%	%
Average liquidity ratio for the year	81.58	85.05

Average liquidity ratio of the Company is calculated as the ratio of the average liquefiable assets to the average qualifying liabilities, as specified in the Fourth Schedule of the Banking Ordinance.

5. FOREIGN CURRENCY POSITION

US Dollars	THE COMPANY 2013 HK$'000	THE COMPANY 2012 HK$'000
Spot assets	557,200	574,839
Spot liabilities	(795,906)	(684,648)
Forward purchases	226,158	108,462
Forward Sales	(880)	-
Net short position	(13,428)	(1,347)

The Company's positions in other foreign currencies constitute less than 10% of the total net position in all foreign currencies.

6. OVERDUE AND RESCHEDULED ASSETS

	THE COMPANY 2013 HK$'000	THE COMPANY 2012 HK$'000	As a percentage of total advances 2013	As a percentage of total advances 2012
Advances to customers overdue for				
more than 3 months and up to 6 months	-	-	0.00%	0.00%
over 1 year	-	1,514	0.00%	0.18%
	-	1,514		
Rescheduled advances to customers	-	-	0.00%	0.00%
	-	1,514		

The reconciliation between overdue advances and impaired advances is as follows:

	THE COMPANY 2013 HK$'000	THE COMPANY 2012 HK$'000
Advances to customers overdue for more than 3 months	-	1,514
Rescheduled advances to customers	-	-
	-	1,514
Add: Impaired advances which are not overdue or rescheduled	230	254
Impaired advances which are overdue less than 3 months	-	-
Total impaired advances	230	1,768

ALLIED BANKING CORPORATION (HONG KONG) LIMITED
新聯銀行(香港)有限公司

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

FOR THE YEAR ENDED 31 DECEMBER 2013

7. CAPITAL MANAGEMENT

The company has adopted the foundation basic approach (BSC approach) to calculate the credit risk capital charge for all on-balance sheet exposures and off-balance sheet exposures. In view of the Banking (capital) (Amendment) Rules 2012 which came into operation on 1 January 2013, the Company has adopted the standardized (market risk) (STM approach) to calculate the market risk capital charge for foreign exchange and interest rate exposures. The company has adopted the standardized (operational risk) STO approach to calculate the minimum capital charge for operational risk.

As a result of the adoption of Banking (Capital) (Amendment) Rules 2012 since 1 January 2013, the amounts shown for 31 December 2013 are not directly comparable to those of 31 December 2012.

	2013
CET1 capital ratio	28.95%
Tier 1 capital ratio	30.54%
Total capital ratio	32.53%

	2012
Core capital ratio	34.20%
Total capital ratio	35.31%

7. CAPITAL MANAGEMENT (continued)

The components of the company's total capital base after deductions used in the calculation of the above capital ratios as at 31 December 2013 and 31 December 2012 and reported to the Hong Kong Monetary Authority are as follows:

	2013 HK$'000
Category I – Common equity Tier 1 ("CET1) Capital	
CET1 capital instruments	165,000
Retained earnings	155,534
Disclosed reserves	7,001
CET1 Capital before deductions	327,535
CET1 Capital: regulatory deductions	
Cumulative fair value gains arising from the revaluation of land and buildings	21,555
Deferred tax assets in excess of deferred tax liabilities	4,862
Total regulatory deductions to CET1 Capital	26,417
CET1 Capital after deductions	301,118
Category II – Additional Tier 1 Capital	
Additional Tier 1 capital instruments issued and share premium if any (subject to phase out arrangements from AT1 Capital)	16,560
Additional Tier 1 Capital	16,560
Tier 1 Capital after deductions	317,678
Category III – Tier 2 Capital	
Reserve attributable to fair value gains on revaluation of holdings of land and buildings	9,700
Collective provisions	10,997
Tier 2 Capital	20,697
Total Capital Base	338,375

7. CAPITAL MANAGEMENT (continued)

	2012 HK$'000
Core capital	
Paid up ordinary share capital	165,000
Paid up irredeemable non-cumulative preference shares	20,700
Reserves	126,058
Profit and loss account	14,811
Net deferred tax assets	(2,920)
Core capital	323,649
Less: 50% of total amount of deductible items (TDI) and any excessive amount of non-deduction from supplementary capital	(500)
Total core capital	323,149
Supplementary capital	
Regulatory reserve for general banking risks	4,224
Collective provisions	6,773
Reserves attributable to fair value gains on revaluation of holdings	
Available-for-sale equities and debt securities	26
	11,023
Less: 50% of total amount of deductible items (TDI) up to supplementary capital amount	(500)
Total supplementary capital	10,523
Total deduction from capital base	-
Capital base	333,672

To comply with the Banking (Disclosure) Rules, a section “Regulatory Disclosures” will be available on the company’s website at www.abchkl.com.hk on 30 April 2014 and include the following information :

- A detailed breakdown of the company’s capital base and regulatory deductions, using the standard template as specified by the Hong Kong Monetary authority.

- A reconciliation of capital components to the Company’s balance sheet, using the standard template as specified by the Hong Kong Monetary Authority.

- A description of the main features and the full terms and conditions of the Company’s issued capital instruments.

8. CROSS-BORDER CLAIMS DISCLOSURE

The information on cross-border claims disclose 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. In general, such transfer of risk takes place if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of the Company whose head office is located in another country. Only regions constituting 10% or more of the aggregate cross-border claims are disclosed.

	2013 Total HK$'000	2012 Total HK$'000
Asia Pacific excluding Hong Kong		
Australia	115,336	148,638
United States	63,440	122,624
Europe		
Netherlands	72,240	66,376

9. SENIOR EXECUTIVE COMPENSATION

The Remuneration Committee annually reviews and Board of Directors approves the remuneration packages of the Chief Executive, members of the senior management and key personnel. The aggregate payouts for these 6 (2012: 6) senior executives for 2013 are shown in the table below in accordance with the disclosure requirement of 3.2.3 of the "Guideline on a Sound Remuneration System" issued by the Hong Kong Monetary Authority in March 2010.

Fixed Remuneration Salaries		Variable Remuneration Cash Bonus		Award of Deferred Variable Remuneration	
2013 HK$'000	2012 HK$'000	2013 HK$'000	2012 HK$'000	2013 HK$'000	2012 HK$'000
8,195	7,165	Nil	Nil	Nil	Nil

Included in the above table of the senior executives compensation were the emoluments of 1 director (2012: 1 director). The directors' emoluments have been included in Note 9 to the financial statements.

In determining the remuneration packages of the Chief Executive, senior management, and key personnel, the Remuneration Committee takes into account individual performances of respective divisions and departments, and the Company's overall business goals and objectives.

10. STATEMENT OF COMPLIANCE

The Company has fully complied with the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority.