



INDUSTRIAL AND COMMERCIAL BANK OF CHINA (ASIA) LIMITED

中國工商銀行（亞洲）有限公司

(Incorporated in Hong Kong with limited liability)

**INTERIM FINANCIAL DISCLOSURE STATEMENTS
FOR THE SIX MONTHS ENDED
30 JUNE 2014**

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INTERIM RESULTS AND FINANCIAL REVIEW

The Board of Directors (the “Board”) of Industrial and Commercial Bank of China (Asia) Limited (the “Bank” or “ICBC (Asia)”) is pleased to present the interim financial disclosure statements of the Bank and its subsidiaries (the “Group”) for the six months ended 30 June 2014. The consolidated income statement, consolidated statement of comprehensive income, condensed consolidated statement of cash flows and consolidated statement of changes in equity of the Group for the six months ended 30 June 2014, and the consolidated statement of financial position as at 30 June 2014 of the Group, all of which are unaudited, but have been reviewed by KPMG, in accordance with Hong Kong Standards on Review Engagements 2410, Review of interim financial information performed by the independent auditor of the entity, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), along with selected explanatory notes are set out on pages 4 to 58 of these interim financial disclosure statements.

Interim Results

The Board of Directors is pleased to announce that the unaudited consolidated profit attributable to the equity holders of the Bank for the six months ended 30 June 2014 was HK\$3,000 million. This represents a 22.62% increase over the same period last year (first half of 2013: HK\$2,446 million). Basic earnings per share for the six months ended 30 June 2014 were HK\$1.45 (first half of 2013: HK\$ 1.18). Return on average assets and return on average equity were 1.00% and 13.06% respectively (first half of 2013: 1.07% and 11.95% respectively).

Interim Dividend

The Board has not recommended the payment of interim dividend for the six months ended 30 June 2014 (2013 interim dividend: Nil).

Financial Review

In the first half of 2014, the Group achieved satisfactory results. Consolidated profit attributable to equity holders was HK\$3,000 million, representing an increase of HK\$553 million or 22.62% over HK\$2,446 million achieved for the corresponding period in 2013.

Net interest income increased HK\$829 million or 25.22% to HK\$4,113 million. Net fee and commission income increased HK\$9 million or 1.23% to HK\$733 million.

Non-interest income increased HK\$104 million or 10.51% to HK\$1,090 million from HK\$986 million for the corresponding period in 2013. The ratio of non-interest income to total operating income was 20.94%, down 2.15 percentage points compared with 23.09% for the corresponding period in 2013.

Operating expenses increased by HK\$190 million or 17.76% to HK\$1,262 million, compared with HK\$1,072 million for the corresponding period in 2013. The cost to income ratio was 24.26%, down 0.83 percentage points compared with the corresponding period in 2013.

The impairment losses on loans and advances for the period were HK\$274 million, out of which HK\$21 million was made as provision write-back for individual assessment and HK\$295 million was made as additional provision for collective assessment.

INTERIM RESULTS AND FINANCIAL REVIEW

Statement of Financial Position

The total assets of the Group amounted to HK\$601,784 million as at 30 June 2014, representing an increase of HK\$32,027 million or 5.62% over the financial position as at 31 December 2013.

Customer deposits amounted to HK\$394,506 million as at 30 June 2014, representing an increase of HK\$53,043 million or 15.53%, compared to HK\$341,463 million as at 31 December 2013. Loans and advances also increased by HK\$33,319 million or 10.34% to HK\$355,649 million as at 30 June 2014 compared to HK\$322,330 million as at 31 December 2013.

Total securities investment amounted to HK\$74,958 million as at 30 June 2014, which represents an increase of HK\$6,490 million or 9.48% compared to HK\$68,468 million as at 31 December 2013.

Total certificates of deposit issued increased by HK\$3,235 million or 7.97% to HK\$43,802 million as at 30 June 2014, compared to HK\$40,567 million as at 31 December 2013.

Capital and Liquidity Management

The Group's capital adequacy ratio decreased to 13.64% as at 30 June 2014 from 13.83% as at 31 December 2013. The average liquidity ratio amounted to 46.55% (average for the first half of 2013: 39.16%).

Asset Quality

Impaired loans and advances decreased by HK\$68 million to HK\$1,344 million as at 30 June 2014, compared with HK\$1,412 million as at 31 December 2013. The impaired loan ratio was 0.38% as at 30 June 2014 (31 December 2013: 0.44%).

As at 30 June 2014, the cumulative loan impairment allowances amounted to HK\$2,457 million (31 December 2013: HK\$2,204 million), which included HK\$753 million (31 December 2013: HK\$781 million) of individual impairment allowance and HK\$1,704 million (31 December 2013: HK\$1,423 million) of collective impairment allowance.

Hong Kong, 26 August 2014

CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2014
(UNAUDITED)

	Notes	Six months ended (Restated)		Change %
		30 Jun 2014 HK\$'000	30 Jun 2013 HK\$'000	
Interest income	(6)	8,214,853	6,088,371	35%
Interest expense	(6)	(4,101,479)	(2,803,557)	46%
Net interest income	(6)	4,113,374	3,284,814	25%
Fee and commission income	(7)	889,213	870,210	2%
Fee and commission expense	(7)	(156,286)	(146,214)	7%
Net fee and commission income	(7)	732,927	723,996	1%
Net trading income	(8)	341,269	240,911	42%
Net gain on financial assets and liabilities designated at fair value through profit or loss	(9)	4,345	5,054	-14%
Dividend income from financial investments	(10)	4,431	4,832	-8%
Other operating income	(11)	6,651	11,184	-41%
Operating income		5,202,997	4,270,791	22%
Operating expenses	(12)	(1,262,079)	(1,071,746)	18%
Operating profit before impairment losses		3,940,918	3,199,045	23%
Charge for impairment losses on loans and advances	(13)	(274,281)	(140,687)	95%
Charge for impairment losses on available-for-sale financial investments		—	(676)	-100%
Operating profit after impairment losses		3,666,637	3,057,682	20%
Revaluation gain on investment properties		—	2,700	-100%
Net loss from disposal/reversal of revaluation deficits of property, plant and equipment		(1,985)	(193)	928%
Gain on disposal of loans and advances		477	—	—
Net gain on disposal of available-for-sale financial investments		46,972	11,077	324%
Operating profit		3,712,101	3,071,266	21%
Share of profit of an associate		10,807	10,572	2%
Profit before tax		3,722,908	3,081,838	21%
Income tax expense	(14)	(723,115)	(635,515)	14%
Profit for the period and attributable to equity holders of the Bank		2,999,793	2,446,323	23%
Earnings per share – Basic and diluted	(16)	HK\$1.45	HK\$1.18	22%

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2014
(UNAUDITED)

	Six months ended		
	30 Jun 2014	30 Jun 2013	Change
	HK\$'000	HK\$'000	%
Profit for the period	<u>2,999,793</u>	<u>2,446,323</u>	23%
Item that will not be reclassified to income statement:			
Revaluation surplus on bank premises	3,672	111,214	-97%
Income tax effect	<u>(606)</u>	<u>(18,350)</u>	-97%
	<u>3,066</u>	<u>92,864</u>	-97%
Items that may be reclassified subsequently to income statement:			
Change of fair value of hedging instruments under cash flow hedges	71,805	(248,693)	—
Income tax effect	<u>(11,848)</u>	<u>41,034</u>	—
	<u>59,957</u>	<u>(207,659)</u>	—
Change in fair value reserve of available-for-sale financial investments	533,934	(1,022,758)	—
Income tax effect	<u>(46,802)</u>	<u>152,151</u>	—
	<u>487,132</u>	<u>(870,607)</u>	—
Exchange differences arising from translation of results of a foreign subsidiary	<u>(144,694)</u>	<u>270,104</u>	—
Other comprehensive income for the period, net of tax	<u>405,461</u>	<u>(715,298)</u>	—
Total comprehensive income for the period, net of tax	<u>3,405,254</u>	<u>1,731,025</u>	97%
Attributable to:			
Equity holders of the Bank	<u>3,405,254</u>	<u>1,731,025</u>	97%

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2014
(UNAUDITED)

	Notes	Unaudited 30 Jun 2014 HK\$'000	Audited 31 Dec 2013 HK\$'000	Change %	Unaudited 30 Jun 2013 HK\$'000	Change %
Assets						
Cash and balances with banks and other financial institutions	(17)	122,926,927	137,074,097	-10%	101,801,273	21%
Placements with banks and other financial institutions	(18)	34,372,871	28,546,241	20%	20,923,339	64%
Financial assets held for trading	(19)	1,526,678	324,974	370%	269,116	467%
Financial assets designated at fair value through profit or loss	(20)	215,139	412,783	-48%	418,784	-49%
Derivative financial instruments	(21)	7,874,654	5,430,669	45%	3,480,449	126%
Advances and other accounts	(22)	355,649,418	322,330,335	10%	317,425,945	12%
Financial investments:		73,215,745	67,730,060	8%	71,302,885	3%
– Available-for-sale	(23)	52,639,783	62,833,206	-16%	70,138,922	-25%
– Held-to-maturity	(24)	20,575,962	4,896,854	320%	1,163,963	1668%
Investment in an associate		260,535	249,728	4%	238,777	9%
Goodwill and other intangible assets		1,074,960	1,087,712	-1%	1,076,639	0%
Investment properties	(25)	58,524	58,524	0%	56,123	4%
Property, plant and equipment	(26)	827,887	845,166	-2%	874,602	-5%
Deferred income tax assets	(29)	–	66,146	-100%	18,618	-100%
Other assets	(27)	3,781,014	5,600,485	-32%	5,910,391	-36%
Total assets		<u>601,784,352</u>	<u>569,756,920</u>	6%	<u>523,796,941</u>	15%
Liabilities						
Deposits from banks and other financial institutions		78,976,895	100,941,733	-22%	109,015,962	-28%
Derivative financial instruments	(21)	7,360,781	5,454,630	35%	3,663,608	101%
Deposits from customers	(28)	394,506,276	341,462,974	16%	319,873,846	23%
Certificates of deposit issued		43,801,844	40,566,723	8%	21,324,443	105%
Debt securities in issue measured at fair value through profit or loss		–	699,091	-100%	–	0%
Debt securities in issue measured at amortised cost		11,554,279	20,823,409	-45%	16,774,216	-31%
Current income tax liabilities		588,527	112,936	421%	678,602	-13%
Deferred income tax liabilities	(29)	39,625	66,165	-40%	60,426	-34%
Subordinated debts measured at amortised cost	(30)	9,574,273	9,622,817	-1%	5,740,500	67%
Other liabilities	(31)	7,516,855	5,546,699	36%	5,033,274	49%
Total liabilities		<u>553,919,355</u>	<u>525,297,177</u>	5%	<u>482,164,877</u>	15%
Equity						
Share capital: Nominal value		–	4,129,497	-100%	4,129,497	-100%
Other statutory capital reserves		–	19,462,335	-100%	19,462,335	-100%
Share capital and other statutory capital reserves	(32)	23,591,832	23,591,832	0%	23,591,832	0%
Retained earnings		21,204,152	18,204,359	16%	15,638,503	36%
Other reserves	(33)	3,069,013	2,663,552	15%	2,401,729	28%
Total equity		<u>47,864,997</u>	<u>44,459,743</u>	8%	<u>41,632,064</u>	15%
Total equity and liabilities		<u>601,784,352</u>	<u>569,756,920</u>	6%	<u>523,796,941</u>	15%

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2014
(UNAUDITED)**

Note									
	Share capital	Ordinary share premium	Bank premises valuation reserve	Investment valuation reserve	Cash flow hedge reserve	Exchange reserve	General reserve	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2014	4,129,497	19,462,335	468,496	2,929	94,992	534,690	1,562,445	18,204,359	44,459,743
Profit for the period	-	-	-	-	-	-	-	2,999,793	2,999,793
Other comprehensive income for the period:									
Change in fair value of available-for-sale financial investments	-	-	-	521,631	-	-	-	-	521,631
Reserve realised on disposal of available-for-sale financial investment	-	-	-	12,303	-	-	-	-	12,303
Changes in fair value of cash flow hedge	-	-	-	-	71,805	-	-	-	71,805
Revaluation surplus on bank premises	-	-	3,672	-	-	-	-	-	3,672
Change in deferred tax (29)	-	-	(606)	(46,802)	(11,848)	-	-	-	(59,256)
Exchange differences	-	-	-	-	-	(144,694)	-	-	(144,694)
Total comprehensive income for the period	-	-	3,066	487,132	59,957	(144,694)	-	2,999,793	3,405,254
Transition to no-par value regime on 3 March 2014 (32)	19,462,335	(19,462,335)	-	-	-	-	-	-	-
Partial transfer of retained earnings to general reserve	-	-	-	-	-	-	-	-	-
At 30 June 2014	23,591,832	-	471,562	490,061	154,949	389,996	1,562,445	21,204,152	47,864,997

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2013
(UNAUDITED)

Note	Share capital HK\$'000	Ordinary share premium HK\$'000	Bank premises revaluation reserve HK\$'000	Investment revaluation reserve HK\$'000	Cash flow hedge reserve HK\$'000	Exchange reserve HK\$'000	General reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 January 2013	4,129,497	19,462,335	425,684	796,610	349,348	227,417	1,091,215	13,418,933	39,901,039
Profit for the period	–	–	–	–	–	–	–	2,446,323	2,446,323
Other comprehensive income for the period:									
Change in fair value of available-for-sale financial investments	–	–	–	(1,004,917)	–	–	–	–	(1,004,917)
Reserve realised on disposal of available-for-sale financial investments	–	–	–	(17,841)	–	–	–	–	(17,841)
Changes in fair value of cash flow hedge	–	–	–	–	(248,693)	–	–	–	(248,693)
Revaluation surplus on bank premises	–	–	111,214	–	–	–	–	–	111,214
Change in deferred tax	–	–	(18,350)	152,151	41,034	–	–	–	174,835
Exchange differences	–	–	–	–	–	270,104	–	–	270,104
Total comprehensive income for the period	–	–	92,864	(870,607)	(207,659)	270,104	–	2,446,323	1,731,025
Partial transfer of retained earnings to general reserve	–	–	–	–	–	–	226,753	(226,753)	–
At 30 June 2013	4,129,497	19,462,335	518,548	(73,997)	141,689	497,521	1,317,968	15,638,503	41,632,064

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2014
(UNAUDITED)

	Six months ended	
	30 Jun 2014	30 Jun 2013
	HK\$'000	HK\$'000
Net cash flows (used in)/from operating activities	(8,541,442)	5,127,477
Net cash flows used in investing activities	(33,354)	(66,489)
Net cash flows (used in)/from financing activities	(10,175,627)	7,218,794
Net (decrease)/increase in cash and cash equivalents	(18,750,423)	12,279,782
Cash and cash equivalents at 1 January	139,412,155	89,897,235
Effects of foreign exchange differences	(494,011)	332,887
Cash and cash equivalents at 30 June	<u>120,167,721</u>	<u>102,509,904</u>

Components of cash and cash equivalents in the condensed consolidated statement of cash flows:

For the purposes of the condensed consolidated statement of cash flows, cash and cash equivalents comprise the following balances with an original maturity of three months or less:

	30 Jun 2014	30 Jun 2013
	HK\$'000	HK\$'000
Cash and balances with banks and other financial institutions	59,671,010	34,284,401
Placements with banks and other financial institutions	<u>60,496,711</u>	<u>68,225,503</u>
	<u>120,167,721</u>	<u>102,509,904</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

1 Principal activities

The principal activities of the Bank are the provision of banking, financial and other financial related services.

2.1 Basis of preparation

The unaudited interim financial disclosure statements of the Group have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, “Interim Financial Reporting”, issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and fully comply with the requirements set out in the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority (the “HKMA”).

The accounting policies adopted in the preparation of the interim financial disclosure statements are consistent with those used in the preparation of the Group’s audited financial statements for the year ended 31 December 2013 except for the adoption of the following HKFRSs and HKASs issued up to 30 June 2014 which are pertinent to the Group’s operations and relevant to these interim financial disclosure statements.

The unaudited interim financial disclosure statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2013.

The preparation of unaudited interim financial disclosure statements requires management to exercise its judgement and make estimates and assumptions in the process of applying the Group’s accounting policies and reporting amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates. The significant judgements made by management were the same as those applied to the annual financial statements for the year ended 31 December 2013.

2.2 Basis of consolidation

The unaudited interim financial disclosure statements include the accounts of the Bank and all its subsidiaries, a controlled unit trust and attributable share of results and reserves of its associate. For regulatory reporting, the basis of consolidation is set out in Note 1 of the “Supplementary Financial Information” section.

List of subsidiaries and a trust fund, which are all 100% held by the Bank, included in the consolidation are:

- Chinese Mercantile Bank
- ICBC (Asia) Asset Management Company Limited
- ICBC (Asia) Bullion Company Limited
- ICBC (Asia) Futures Company Limited
- ICBC (Asia) Investment Management Company Limited
- ICBC (Asia) Nominee Limited
- ICBC (Asia) Securities Limited
- ICBC (Asia) Trustee Company Limited
- ICBC (Asia) Wa Pei Nominees Limited
- ICBCA (C.I.) Limited
- UB China Business Management Co. Ltd.
- The Greater China Fund

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

3.1 Impact of new/revised Hong Kong Financial Reporting Standards (“HKFRSs”) and Hong Kong Accounting Standards (“HKASs”)

The HKICPA has issued the following amendments to HKFRSs and HKASs, and one new Interpretation that are first effective for the current accounting period of the Group and the Bank.

- Amendments to HKFRS 10, HKFRS 12 and HKAS 27, Investment entities
- Amendments to HKAS 32, Offsetting financial assets and financial liabilities
- Amendments to HKAS 36, Recoverable amount disclosures for non-financial assets
- Amendments to HKAS 39, Novation of derivatives and continuation of hedge accounting
- HK(IFRIC) 21, Levies

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 27, Investment entities

The amendments provide consolidation relief to those parents which qualify to be an investment entity as defined in the amended HKFRS 10. Investment entities are required to measure their subsidiaries at fair value through profit or loss. These amendments do not have an impact on the Group’s interim financial report as the Group does not qualify to be an investment entity.

Amendments to HKAS 32, Offsetting financial assets and financial liabilities

The amendments to HKAS 32 clarify the offsetting criteria in HKAS 32. The amendments do not have an impact on the Group’s interim financial report as they are consistent with the policies already adopted by the Group.

Amendments to HKAS 36, Recoverable amount disclosures for non-financial assets

The amendments to HKAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or CGU whose recoverable amount is based on fair value less costs of disposal. The Group has not made additional disclosures in this interim financial report as a result of adopting Amendments to HKAS 36.

Amendments to HKAS 39, Novation of derivatives and continuation of hedge accounting

The amendments to HKAS 39 provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendments do not have an impact on the Group’s interim financial report as the Group has not novated any of its derivatives.

HK(IFRIC) 21, Levies

The Interpretation provides guidance on when a liability to pay a levy imposed by a government should be recognised. The amendments do not have an impact on the Group’s interim financial report as the guidance is consistent with the Group’s existing accounting policies.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

3.2 Issued but not yet effective HKFRSs and HKASs

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

4 Financial risk management

4.1 Analysis of assets and liabilities by remaining maturity

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

	Repayable on demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Undated	Total
At 30 June 2014	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets								
Cash and balances with banks and other financial institutions	59,671,009	63,255,918	–	–	–	–	–	122,926,927
Placements with banks and other financial institutions	–	–	17,568,430	16,804,441	–	–	–	34,372,871
Financial assets held for trading								
– equity securities	–	–	–	–	–	–	300,425	300,425
– other debt securities	–	–	49,983	1,057,672	57,992	60,606	–	1,226,253
Financial assets designated at fair value through profit or loss	–	–	–	215,139	–	–	–	215,139
Derivative financial instruments	467,919	1,324,019	1,065,416	3,983,340	554,664	479,296	–	7,874,654
Advances and other accounts	47,292,338	65,461,227	37,286,897	85,359,478	47,440,691	72,808,787	–	355,649,418
Available-for-sale financial investments								
– equity securities	–	–	–	–	–	–	479,946	479,946
– certificates of deposit held	–	–	–	1,936,767	1,783,381	–	–	3,720,148
– other debt securities	213,173	4,123,615	1,954,696	9,238,370	30,055,743	2,845,939	8,153	48,439,689
Held-to-maturity financial investments								
– treasury bills	–	–	–	3,160,505	–	–	–	3,160,505
– other debt securities	–	–	349,747	323,808	13,880,459	2,861,443	–	17,415,457
Investment in an associate	–	–	–	–	–	–	260,535	260,535
Goodwill and other intangible assets	–	–	–	–	–	–	1,074,960	1,074,960
Investment properties	–	–	–	–	–	–	58,524	58,524
Property, plant and equipment	–	–	–	–	–	–	827,887	827,887
Other assets, including deferred tax assets	250,532	85,793	1,811,302	411,331	432,988	874	788,194	3,781,014
Total assets	107,894,971	134,250,572	60,086,471	122,490,851	94,205,918	79,056,945	3,798,624	601,784,352
Liabilities								
Deposits from banks and other financial institutions	32,387,255	39,035,423	2,551,060	5,003,157	–	–	–	78,976,895
Derivative financial instruments	297,034	1,281,144	1,099,397	3,847,416	564,766	271,024	–	7,360,781
Deposits from customers	112,007,248	113,682,423	73,260,067	89,080,184	6,476,354	–	–	394,506,276
Certificates of deposit issued	–	995,519	13,304,880	27,705,909	1,795,536	–	–	43,801,844
Debt securities in issue								
– Designated at fair value through profit or loss	–	–	–	–	–	–	–	–
– Amortised cost	–	4,134,505	2,868,818	4,176,866	374,090	–	–	11,554,279
Subordinated debts measured at amortised cost	–	–	–	–	–	9,574,273	–	9,574,273
Other liabilities, including current and deferred tax liabilities	714,436	1,281,635	3,365,710	2,303,491	107,542	–	372,193	8,145,007
Total liabilities	145,405,973	160,410,649	96,449,932	132,117,023	9,318,288	9,845,297	372,193	553,919,355
Net liquidity gap	(37,511,002)	(26,160,077)	(36,363,461)	(9,626,172)	84,887,630	69,211,648	3,426,431	47,864,997

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

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

At 31 December 2013	Repayable on demand HK\$'000	Up to 1 month HK\$'000	1-3 months HK\$'000	3-12 months HK\$'000	1-5 years HK\$'000	Over 5 years HK\$'000	Undated HK\$'000	Total HK\$'000
Assets								
Cash and balances with banks and other financial institutions	67,846,915	69,227,182	–	–	–	–	–	137,074,097
Placements with banks and other financial institutions	–	–	16,875,496	11,670,745	–	–	–	28,546,241
Financial assets held for trading								
– equity securities	–	–	–	–	–	–	301,395	301,395
– other debt securities	–	–	–	16,695	–	6,884	–	23,579
Financial assets designated at fair value through profit or loss	–	116,511	–	78,257	218,015	–	–	412,783
Derivative financial instruments	165,628	542,845	845,290	2,624,507	945,663	306,736	–	5,430,669
Advances and other accounts	34,547,879	21,544,581	47,276,157	77,119,532	106,033,886	35,808,300	–	322,330,335
Available-for-sale financial investments								
– equity securities	–	–	–	–	–	–	450,408	450,408
– certificates of deposit held	–	1,544,403	1,771,859	1,543,046	1,744,622	–	–	6,603,930
– other debt securities	–	568,367	966,289	9,850,813	41,504,332	2,880,914	8,153	55,778,868
Held-to-maturity financial investments								
– treasury bills	–	–	699,799	464,593	–	–	–	1,164,392
– other debt securities	–	652,417	38,135	798,458	1,228,121	1,015,331	–	3,732,462
Investment in an associate	–	–	–	–	–	–	249,728	249,728
Goodwill and other intangible assets	–	–	–	–	–	–	1,087,712	1,087,712
Investment properties	–	–	–	–	–	–	58,524	58,524
Property, plant and equipment	–	–	–	–	–	–	845,166	845,166
Other assets, including deferred tax assets	75,780	2,532,864	363,090	1,341,980	393,362	10,545	949,010	5,666,631
Total assets	102,636,202	96,729,170	68,836,115	105,508,626	152,068,001	40,028,710	3,950,096	569,756,920
Liabilities								
Deposits from banks and other financial institutions	31,776,199	42,428,567	14,385,260	12,351,707	–	–	–	100,941,733
Derivative financial instruments	22,637	583,997	749,493	2,946,703	938,438	213,362	–	5,454,630
Deposits from customers	94,746,492	102,607,039	65,327,126	63,442,530	14,376,403	963,384	–	341,462,974
Certificates of deposit issued	–	2,202,632	11,541,087	25,024,049	1,798,955	–	–	40,566,723
Debt securities in issue								
– Designated at fair value through profit or loss	–	310,192	233,104	155,795	–	–	–	699,091
– Amortised cost	–	8,634,027	5,074,049	6,515,333	600,000	–	–	20,823,409
Subordinated debts measured at amortised cost	–	–	–	–	–	9,622,817	–	9,622,817
Other liabilities, including current and deferred tax liabilities	679,192	941,528	1,197,428	2,402,386	244,234	23	261,009	5,725,800
Total liabilities	127,224,520	157,707,982	98,507,547	112,838,503	17,958,030	10,799,586	261,009	525,297,177
Net liquidity gap	(24,588,318)	(60,978,812)	(29,671,432)	(7,329,877)	134,109,971	29,229,124	3,689,087	44,459,743

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

4.2 Fair values of financial assets and liabilities

Financial instruments measured at fair value using a valuation technique

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques.

OTC (i.e. non-exchange traded) derivatives classified in Level 2 are valued using valuation models. For other vanilla derivative products, such as forward exchange contracts, interest rate swaps and options, the modelling approaches used are standard across the industry. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the end of the reporting period.

For more complex derivative products classified in Level 2, inputs to valuation models are determined from observable market data wherever possible, including prices available from exchanges, dealers, brokers or providers of consensus pricing. Certain inputs may not be observable in the market directly, but can be determined from observable prices via model calibration procedures. Examples of inputs that are generally observable include foreign exchange spot and forward rates, benchmark interest rate curves and volatility surfaces for commonly traded option products.

For debt securities classified in Level 2 (where quoted market price from an active market is unavailable), fair value is determined by reference to quoted market prices for similar instruments.

Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognises the difference between the transaction price and fair value (a “Day 1” profit) in “net trading income”. In cases where data which is not observable is used, the difference between the transaction price and model value is only recognised in the income statement when the inputs become observable, or when the instrument is derecognised.

Determination of fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: fair values measured based on quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs).

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

4.2 Fair values of financial assets and liabilities (continued)

30 June 2014	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Financial assets				
Derivative financial instruments				
Forward foreign exchange contracts	–	6,587,957	–	6,587,957
Structured foreign exchange contracts	–	163,104	–	163,104
Currency swaps	–	355,542	–	355,542
FX options	–	126,592	–	126,592
Interest rate swaps	–	640,269	–	640,269
Quanto swaps	–	–	–	–
Interest rate futures	–	621	–	621
Commodity forward	–	–	–	–
Equity options	–	569	–	569
	–	7,874,654	–	7,874,654
Financial assets held for trading				
Debt securities	134,851	1,149,504	–	1,284,353
Equities	242,323	–	–	242,323
	377,174	1,149,504	–	1,526,678
Financial assets designated at fair value through profit or loss				
Debt securities	215,139	–	–	215,139
	215,139	–	–	215,139
Available-for-sale financial investments				
Debt securities	32,419,730	19,731,953	–	52,151,683
Equities	409,712	49,228	–	458,940
	32,829,442	19,781,181	–	52,610,623
Total financial assets	33,421,755	28,805,339	–	62,227,094
Financial liabilities				
Derivative financial instruments				
Forward foreign exchange contracts	–	6,339,377	–	6,339,377
Structured foreign exchange contracts	–	163,903	–	163,903
Currency swaps	–	242,887	–	242,887
FX options	–	122,480	–	122,480
Interest rate swaps	–	488,502	–	488,502
Interest rate futures	–	2,879	–	2,879
Quanto swaps	–	184	–	184
Commodity forward	–	–	–	–
Equity options	–	569	–	569
Total financial liabilities	–	7,360,781	–	7,360,781
Financial liabilities designated at fair value through profit or loss				
Debt securities in issue	–	–	–	–
	–	–	–	–
Total financial liabilities	–	7,360,781	–	7,360,781

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
4 Financial risk management (continued)
4.2 Fair values of financial assets and liabilities (continued)

31 December 2013	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Financial assets				
Derivative financial instruments				
Forward foreign exchange contracts	–	4,593,882	–	4,593,882
Structured foreign exchange contracts	–	20,144	–	20,144
Currency swaps	–	296,739	–	296,739
FX options	–	33,616	–	33,616
Interest rate swaps	–	484,133	–	484,133
Quanto swaps	–	1	–	1
Interest rate futures	–	102	–	102
Commodity forward	–	539	–	539
Equity options	–	1,513	–	1,513
	–	5,430,669	–	5,430,669
Financial assets held for trading				
Debt securities	23,579	–	–	23,579
Equities	242,868	58,527	–	301,395
	266,447	58,527	–	324,974
Financial assets designated at fair value through profit or loss				
Debt securities	412,783	–	–	412,783
	412,783	–	–	412,783
Available-for-sale financial investments				
Debt securities	33,992,300	28,382,346	–	62,374,646
Equities	423,178	–	–	423,178
	34,415,478	28,382,346	–	62,797,824
Total financial assets	35,094,708	33,871,542	–	68,966,250
Financial liabilities				
Derivative financial instruments				
Forward foreign exchange contracts	–	4,665,756	–	4,665,756
Structured foreign exchange contracts	–	20,178	–	20,178
Currency swaps	–	275,809	–	275,809
FX options	–	33,495	–	33,495
Interest rate swaps	–	456,484	–	456,484
Interest rate futures	–	856	–	856
Quanto swaps	–	–	–	–
Commodity forward	–	539	–	539
Equity options	–	1,513	–	1,513
Total financial liabilities	–	5,454,630	–	5,454,630
Financial liabilities designated at fair value through profit or loss				
Debt securities in issue	–	699,091	–	699,091
	–	699,091	–	699,091
Total financial liabilities	–	6,153,721	–	6,153,721

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

4.2 Fair values of financial assets and liabilities (continued)

Movements in Level 3 financial instruments measured at fair value

The following table shows a reconciliation of the opening and closing amounts of Level 3 financial assets which are recorded at fair value:

	At 1 January 2014 HK\$'000	Total gains/(losses) recorded in profit or loss HK\$'000	Total gains/(losses) recorded in equity HK\$'000	At 30 June 2014 HK\$'000
Financial assets				
Available-for-sale financial investments				
Debts securities	—	—	—	—
Total Level 3 financial assets	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

	At 1 January 2013 HK\$'000	Total gains/(losses) recorded in profit or loss HK\$'000	Total gains/(losses) recorded in equity HK\$'000	At 31 December 2013 HK\$'000
Financial assets				
Available-for-sale financial investments				
Debts securities	4,589	(676)	(3,913)	—
Total Level 3 financial assets	<u>4,589</u>	<u>(676)</u>	<u>(3,913)</u>	<u>—</u>

During the half year ended 30 June 2014, there was no transfer into or out of Level 3.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

4.2 Fair values of financial assets and liabilities (continued)

Significant transfers between Level 1 and 2

The following tables show significant transfers between Level 1 and Level 2 of the fair value hierarchy for financial assets which are recorded at fair value:

	Transfers from level 1 to level 2	
	2014	2013
	HK\$'000	HK\$'000
Available-for-sale financial investments		
Debts securities	187,642	781,317

The above financial assets were transferred from Level 1 to Level 2 as they ceased to be actively traded during the half year ended 30 June 2014 and fair values were consequently obtained using valuation techniques using observable market inputs.

	Transfers from level 2 to level 1	
	2014	2013
	HK\$'000	HK\$'000
Available-for-sale financial investments		
Debts securities	74,838	1,082,422

The above financial assets were transferred from Level 2 to Level 1 as they have been actively traded during the half year ended 30 June 2014 and fair values were no longer obtained using valuation techniques by using observable market inputs.

Transfers between levels of the fair value hierarchy are deemed to occur at the end of the reporting period.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

4.3 Fair values of non-financial assets and liabilities

Fair value hierarchy

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

Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

Level 3 valuations: Fair value measured using significant unobservable inputs

Fair value at 30 June 2014

	HK\$'000	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000
Recurring fair value measurement				
Bank premises and properties	544,432	–	–	544,432
Investment properties	58,524	–	–	58,524

Fair value at 31 December 2013

	HK\$'000	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000
Recurring fair value measurement				
Bank premises and properties	560,129	–	–	560,129
Investment properties	58,524	–	–	58,524

During the half year ended 30 June 2014, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

All of the Group's investment properties and bank premises and properties were revalued as at 30 June 2014. The valuations on the Banks's investment properties and bank premises and properties were carried out by an independent professionally qualified valuer, A.G. Wilkinson & Associates. The investment properties and bank premises and properties of the Bank's subsidiary were carried out by an independent professionally qualified valuer in the Mainland China, Shenzhen GuoZhongLian Asset and Real Estate Appraisal Consulting Co., Ltd. The valuers are with recent experience in the location and category of property being valued. The Group's management has discussion with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each interim and annual reporting date.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

4.3 Fair values of non-financial assets and liabilities (continued)

Information about Level 3 fair value measurements

	Valuation techniques	Unobservable input	Range
<i>Investment properties Commercial – Hong Kong</i>	Investment method	Market Yield	2.60%
<i>Bank premises and properties and Investment properties Commercial – Hong Kong and Mainland China</i>	Direct comparison approach	Premium (discount) on characteristic of the properties	-4% to -34%
<i>Bank premises and properties Commercial – Mainland China</i>	Discounted cash flow	Risk-adjusted discount rate	6%
		Expected market rental growth	2%
		Expected occupancy rate	92% to 96%

For investment properties classified under Level 3, the fair values are valued by:

- i.) investment method of valuation and have assessed the contractual rental income and the expected future market rental income after allowing for outgoings and maintenance requirements at appropriate market yields as perceived in the actual market;
- ii.) using direct comparison approach to value properties in their respective existing states and uses on the market basis assuming sale with immediate vacant possession and by making reference to comparable sales evidence. The valuations take into account the characteristic of the properties which included the location, size, shape, view, floor level, year of completion and others factors collectively. Higher premium for properties with higher characteristic will result in a higher fair value measurement.

For bank premises and properties classified under Level 3, the fair values are determined by:

- i.) discounting a projected cash flow series associated with the properties using risk adjusted discount rates. The valuation takes into account expected market rental growth and occupancy rate of the respective properties. The discount rates used have been adjusted for the quality and location of the buildings and the tenant credit quality. The fair value measurement is positively correlated to the expected market rental growth and the occupancy rate, and negatively correlated to the risk-adjusted discount rates;

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

4 Financial risk management (continued)

4.3 Fair values of non-financial assets and liabilities (continued)

Information about Level 3 fair value measurements (continued)

- ii.) using direct comparison approach to value properties in their respective existing states and uses on the market basis assuming sale with immediate vacant possession and by making reference to comparable sales evidence. The valuations take into account the characteristic of the properties which included the location, size, shape, view, floor level, year of completion and others factors collectively. Higher premium for properties with higher characteristic will result in a higher fair value measurement.

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

Bank premises and properties:	HK\$'000
At 1 January 2014	560,129
Addition for the period	2,280
Exchange adjustment	656
Depreciation charge for the period	(22,335)
Surplus on revaluation	3,702
At 30 June 2014	544,432
Investment properties:	HK\$'000
At 1 January 2014	58,524
Fair value adjustment	—
At 30 June 2014	58,524
Bank premises and properties:	HK\$'000
At 1 January 2013	528,722
Addition for the year	10,755
Exchange adjustment	(1,581)
Depreciation charge for the year	(32,032)
Surplus on revaluation	54,265
At 31 December 2013	560,129
Investment properties:	HK\$'000
At 1 January 2013	53,423
Fair value adjustment	5,101
At 31 December 2013	58,524

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS**5 Segment reporting****5.1 Class of business**

The Group comprises seven operating segments. Commercial banking represents commercial lending and trade financing. Retail banking represents retail banking, hire purchase and leasing, and credit card business. Global markets and trading represents foreign exchange, money market and capital market activities. Corporate and investment banking mainly comprises corporate banking, the provision of debt capital market and investment banking. Institutional banking represents financial institution business. Chinese Mercantile Bank represents the business of the Bank's subsidiary in Mainland China. Unallocated items mainly comprise the central management unit, bank premises, inter-segment elimination entries and any items which cannot be reasonably allocated to specific operating segments.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

5 Segment reporting (continued)

5.1 Class of business (continued)

	Corporate and investment banking	Commercial banking	Retail banking	Global markets and trading	Institutional banking	Chinese Mercantile Bank	Unallocated	Total
30 June 2014	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net interest income	551,664	939,568	502,600	403,968	294,093	1,231,671	189,810	4,113,374
Fee and commission income	181,641	239,900	250,912	–	142,231	69,039	5,490	889,213
Fee and commission expense	(21,463)	(11,532)	(106,791)	–	–	(17,777)	1,277	(156,286)
Net fee and commission income	160,178	228,368	144,121	–	142,231	51,262	6,767	732,927
Net trading income/(expense)	44,361	127,679	27,383	128,209	26,121	(12,785)	301	341,269
Net gain on financial assets and liabilities designated at fair value through profit or loss	–	1,232	–	3,113	–	–	–	4,345
Dividend income from financial Investments	–	–	–	–	–	–	4,431	4,431
Other operating income	–	20	183	1,104	–	1,401	3,943	6,651
Operating income	756,203	1,296,867	674,287	536,394	462,445	1,271,549	205,252	5,202,997
Operating expenses	(97,648)	(253,986)	(450,828)	(139,618)	(74,444)	(236,347)	(9,208)	(1,262,079)
Operating profit before impairment losses	658,555	1,042,881	223,459	396,776	388,001	1,035,202	196,044	3,940,918
Charge for impairment losses on loans and advances	(24,918)	(48,011)	(20,006)	(155)	(15,558)	(164,769)	(864)	(274,281)
Charge for impairment losses on available-for-sale financial investments	–	–	–	–	–	–	–	–
Operating profit after impairment losses	633,637	994,870	203,453	396,621	372,443	870,433	195,180	3,666,637
Revaluation gain on investment properties	–	–	–	–	–	–	–	–
Net loss from disposal/reversal of revaluation deficits of property, plant and equipment	–	–	(1,683)	–	–	–	(302)	(1,985)
Gain on disposal of loans and advances	–	477	–	–	–	–	–	477
Net gain on disposal of available-for-sale financial investments	–	–	–	46,972	–	–	–	46,972
Operating profit	633,637	995,347	201,770	443,593	372,443	870,433	194,878	3,712,101
Share of profit of an associate	–	–	–	–	–	–	10,807	10,807
Profit before tax	633,637	995,347	201,770	443,593	372,443	870,433	205,685	3,722,908
Segment assets	95,382,079	126,816,804	34,914,923	208,646,604	51,894,505	105,686,293	(35,704,257)	587,636,951
Investment in an associate	–	–	–	–	–	–	260,535	260,535
Unallocated assets	–	–	–	–	–	–	13,886,866	13,886,866
Total assets	95,382,079	126,816,804	34,914,923	208,646,604	51,894,505	105,686,293	(21,556,856)	601,784,352
Segment liabilities	97,967,079	128,828,632	52,252,003	169,322,687	81,418,245	97,932,294	(36,148,375)	591,572,565
Unallocated liabilities	–	–	–	–	–	–	(37,653,210)	(37,653,210)
Total liabilities	97,967,079	128,828,632	52,252,003	169,322,687	81,418,245	97,932,294	(73,801,585)	553,919,355
Capital expenditure	11	154	8,978	2,264	347	3,061	23,465	38,280
Depreciation and amortisation charges	87	375	16,306	2,434	781	27,640	24,981	72,604

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

5 Segment reporting (continued)

5.1 Class of business (continued)

(Restated) 30 June 2013	Corporate and investment banking HK\$'000	Commercial banking HK\$'000	Retail banking HK\$'000	Global markets and trading HK\$'000	Institutional banking HK\$'000	Chinese Mercantile Bank HK\$'000	Unallocated HK\$'000	Total HK\$'000
Net interest income	713,770	967,274	341,236	338,648	150,833	664,443	108,610	3,284,814
Fee and commission income	182,000	307,622	260,646	9	54,038	64,137	1,758	870,210
Fee and commission expense	(30,314)	(11,817)	(99,034)	—	—	(6,075)	1,026	(146,214)
Net fee and commission income	151,686	295,805	161,612	9	54,038	58,062	2,784	723,996
Net trading income/(expense)	22,024	115,325	26,013	19,910	10,833	(22,241)	69,047	240,911
Net gain on financial assets and liabilities designated at fair value through profit or loss	—	—	—	5,054	—	—	—	5,054
Dividend income from financial Investments	—	—	—	—	—	—	4,832	4,832
Other operating income	145	51	216	2	—	4,602	6,168	11,184
Operating income	887,625	1,378,455	529,077	363,623	215,704	704,866	191,441	4,270,791
Operating expenses	(82,822)	(220,076)	(412,182)	(104,352)	(53,706)	(192,160)	(6,448)	(1,071,746)
Operating profit before impairment losses	804,803	1,158,379	116,895	259,271	161,998	512,706	184,993	3,199,045
Charge for impairment losses on loans and advances	(30,394)	(55,367)	(10,081)	105	(18,492)	(21,550)	(4,908)	(140,687)
Charge for impairment losses on available-for-sale financial investments	—	—	—	(676)	—	—	—	(676)
Operating profit after impairment losses	774,409	1,103,012	106,814	258,700	143,506	491,156	180,085	3,057,682
Revaluation gain on investment properties	—	—	—	—	—	—	2,700	2,700
Net loss from disposal/reversal of revaluation deficits of property, plant and equipment	—	(3)	(152)	—	—	—	(38)	(193)
Gain on disposal of loans and advances	—	—	—	—	—	—	—	—
Net (loss)/gain on disposal of available-for-sale financial investments	—	—	—	5,882	—	5,195	—	11,077
Operating profit	774,409	1,103,009	106,662	264,582	143,506	496,351	182,747	3,071,266
Share of profit of an associate	—	—	—	—	—	—	10,572	10,572
Profit before tax	774,409	1,103,009	106,662	264,582	143,506	496,351	193,319	3,081,838
Segment assets	87,064,989	121,943,151	34,517,539	169,466,514	31,778,871	98,782,143	(22,687,943)	520,865,264
Investment in an associate	—	—	—	—	—	—	238,777	238,777
Unallocated assets	—	—	—	—	—	—	2,692,900	2,692,900
Total assets	87,064,989	121,943,151	34,517,539	169,466,514	31,778,871	98,782,143	(19,756,266)	523,796,941
Segment liabilities	86,302,937	124,257,574	35,018,597	142,387,971	46,809,742	92,252,009	(16,217,675)	510,811,155
Unallocated liabilities	—	—	—	—	—	—	(28,646,278)	(28,646,278)
Total liabilities	86,302,937	124,257,574	35,018,597	142,387,971	46,809,742	92,252,009	(44,863,953)	482,164,877
Capital expenditure	43	77	30,458	164	5,520	3,332	31,727	71,321
Depreciation and amortisation charges	92	405	14,259	1,602	287	20,657	21,875	59,177

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

5 Segment reporting (continued)

5.2 Geographical area

The Group operates predominantly in Hong Kong. The geographical analysis, which has been classified by the location of the principal operations, is as follows:

For the six months ended 30 June 2014

	Hong Kong HK\$'000	Asia Pacific (excluding Hong Kong) HK\$'000	Consolidated HK\$'000
Operating income (net of interest expense)	3,809,521	1,393,476	5,202,997
Profit before tax	2,729,774	993,134	3,722,908
Total assets	496,101,365	105,682,987	601,784,352
Total liabilities	455,990,502	97,928,853	553,919,355
Contingent liabilities and commitments	142,829,789	65,522,747	208,352,536
Capital expenditure during the period	35,219	3,061	38,280

For the six months ended 30 June 2013

	Hong Kong HK\$'000	Asia Pacific (excluding Hong Kong) HK\$'000	Consolidated HK\$'000
Operating income (net of interest expense)	3,412,495	858,296	4,270,791
Profit before tax	2,433,019	648,819	3,081,838
Total assets	425,018,509	98,778,432	523,796,941
Total liabilities	389,918,648	92,246,229	482,164,877
Contingent liabilities and commitments	192,651,570	18,724,331	211,375,901
Capital expenditure during the period	67,989	3,332	71,321

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
6 Net interest income

	30 Jun 2014	(Restated) 30 Jun 2013
	HK\$'000	HK\$'000
Interest income on:		
Cash and balances with banks and other financial institutions	1,331,610	290,272
Placements with banks and other financial institutions	720,240	377,763
Loans and advances to customers and banks	5,043,705	4,387,095
Financial investments – available-for-sale	935,399	1,032,398
Financial investments – held-to-maturity	183,899	843
	8,214,853	6,088,371
Financial assets held for trading	–	–
Financial assets designated at fair value through profit or loss	–	–
	8,214,853	6,088,371
Interest expense on:		
Deposits from banks and other financial institutions	556,913	545,604
Deposits from customers	2,691,436	1,776,814
Certificates of deposit issued	423,513	131,650
Debt securities in issue measured at amortised cost	126,755	112,387
Subordinated debts measured at amortised cost	246,187	157,597
Others	54,024	79,505
	4,098,828	2,803,557
Financial liabilities designated at fair value through profit or loss	2,651	–
	4,101,479	2,803,557
Net interest income	4,113,374	3,284,814

Included in the above is interest income accrued on impaired financial assets of HK\$7,608,000 (First half of 2013: HK\$14,399,000), including unwinding of discounts on loan impairment losses of HK\$4,130,000 (First half of 2013: HK\$7,999,000).

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
7 Net fee and commission income

	30 Jun 2014	30 Jun 2013
	HK\$'000	HK\$'000
Loans, overdrafts and guarantees	363,411	343,503
Securities and brokerage	76,942	72,945
Trade finance	170,458	184,238
Credit cards	117,829	118,036
Remittance	33,263	31,487
Insurance	13,636	17,853
Other retail and commercial banking services	19,960	7,394
Securities arrangement fee	39,355	21,902
Others	54,359	72,852
Fee and commission income	889,213	870,210
Fee and commission expense	(156,286)	(146,214)
Net fee and commission income	<u>732,927</u>	<u>723,996</u>
Of which:		
Net fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are neither held for trading nor designated at fair value through profit or loss	533,868	527,741
Net fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	7,784	9,641
Of which:		
Fee and commission income by product line constituting not less than 10% of the total amount of fee and commission income:		
– term loan	151,655	108,484
– syndication loan	126,146	161,706
– credit card	117,829	118,036

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
8 Net trading income

	30 Jun 2014	(Restated) 30 Jun 2013
	HK\$'000	HK\$'000
Equity investments	493	9,733
Debt securities – financial assets held for trading	10,043	1,553
– available-for-sale financial investments	(10,086)	(4,113)
Derivatives	182,837	58,306
Foreign exchange	152,128	172,502
	335,415	237,981
Gain/(loss) from hedging activities		
Fair value hedges		
– Net loss on hedged items attributable to the hedged risk	(26,417)	(112,486)
– Net gain on hedging instruments	32,271	115,416
	5,854	2,930
Total net trading income	341,269	240,911

There is no gain or loss on financial liabilities measured at amortised cost which is included in total net trading income for first half of 2014 (First half of 2013: Nil).

9 Net gain on financial assets and liabilities designated at fair value through profit or loss

	30 Jun 2014	(Restated) 30 Jun 2013
	HK\$'000	HK\$'000
Financial assets designated at fair value through profit or loss	3,114	5,054
Financial liabilities designated at fair value through profit or loss	1,231	–
Total net gain on financial assets and liabilities designated at fair value through profit or loss	4,345	5,054

10 Dividend income from financial investments

	30 Jun 2014	30 Jun 2013
	HK\$'000	HK\$'000
Dividend income from listed financial assets held for trading	1,705	1,332
Dividend income from unlisted available-for-sale financial investments	2,726	3,500
Total dividend income from financial investments	4,431	4,832

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

11 Other operating income

	30 Jun 2014 HK\$'000	30 Jun 2013 HK\$'000
Management fee income	3,000	3,000
Rental income from investment properties	1,725	1,326
Less: Direct operating expenses arising from investment properties that generated rental income during the period	(44)	(48)
Others	<u>1,970</u>	<u>6,906</u>
Total other operating income	<u><u>6,651</u></u>	<u><u>11,184</u></u>

12 Operating expenses

	30 Jun 2014 HK\$'000	30 Jun 2013 HK\$'000
Staff costs		
– Salaries and other costs	621,184	529,718
– Retirement benefit costs	<u>31,658</u>	<u>30,152</u>
	<u>652,842</u>	<u>559,870</u>
Premises and equipment expenses, excluding depreciation and amortisation		
– Rental of premises	193,680	180,323
– Others	<u>50,511</u>	<u>42,649</u>
	<u>244,191</u>	<u>222,972</u>
Depreciation and amortisation expenses	72,604	59,177
Auditors' remuneration	2,545	2,912
General administration expenses	32,313	28,631
Business promotion expenses	47,737	32,388
Communication expenses	40,343	32,756
Other operating expenses	<u>169,504</u>	<u>133,040</u>
Total operating expenses	<u><u>1,262,079</u></u>	<u><u>1,071,746</u></u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

13 Charge for impairment losses on loans and other accounts

	30 Jun 2014	30 Jun 2013
	HK\$'000	HK\$'000
Charge for impairment losses on loans and other accounts		
Individually assessed		
– New allowances	36,971	12,720
– Releases	(45,173)	(15,749)
– Recoveries	(12,461)	(6,544)
Net write-back for impairment losses on individually assessed loans and other accounts	<u>(20,663)</u>	<u>(9,573)</u>
Collectively assessed		
– New allowances	<u>294,944</u>	150,260
Net charge for impairment losses on collectively assessed loans and other accounts	<u>294,944</u>	150,260
Net charge to the income statement	<u>274,281</u>	<u>140,687</u>

14 Taxation

Hong Kong profits tax has been provided at the rate of 16.5% (2013: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable for overseas subsidiaries have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

The amount of tax charged to the consolidated income statement represents:

	30 Jun 2014	30 Jun 2013
	HK\$'000	HK\$'000
Current tax – Provision for Hong Kong profits tax for the period	474,559	424,301
– Provision for overseas tax for the period	340,234	235,205
Overprovision in respect of prior years	(69,322)	(112)
Deferred taxation relating to the origination and reversal of temporary differences	<u>(22,356)</u>	<u>(23,879)</u>
	<u>723,115</u>	<u>635,515</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

14 Taxation (continued)

The difference between the tax expense for the Group's profit before tax and the theoretical amount that would arise using the current tax rate is as follows:

	30 Jun 2014 HK\$'000	30 Jun 2013 HK\$'000
Profit before tax	3,722,908	3,081,838
Calculated at a tax rate of 16.5% (2013: 16.5%)	614,280	508,502
Effect of different tax rates in other countries	176,144	123,096
Income not subject to tax	(2,752)	(6,837)
Expenses not deductible for tax purposes	6,548	12,610
Adjustments in respect of tax of previous periods	(69,322)	(112)
Share of tax of an associate	(1,783)	(1,744)
Tax charge	<u>723,115</u>	<u>635,515</u>

15 Interim dividend

At a meeting held on 26 August 2014, the Board has not recommended the payment of interim dividend for the six months ended 30 June 2014 (First half of 2013: Nil).

16 Earnings per share

Basic earnings per share amount is calculated by dividing the profit for the period attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the period.

	30 Jun 2014	30 Jun 2013
Profit attributable to equity holders of the Bank (HK\$'000)	2,999,793	2,446,323
Weighted average number of ordinary shares in issue (thousands)	2,064,748	2,064,748
Basic earnings per share	HK\$1.45	HK\$1.18

Diluted earnings per share amount for the periods ended 30 June 2014 and 30 June 2013 were the same as basic earnings per share, as the Group had no potential dilutive ordinary shares in issue during those periods.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

17 Cash and balances with banks and other financial institutions

	30 Jun 2014 HK\$'000	31 Dec 2013 HK\$'000
Cash on hand	652,831	727,675
Balances with central banks	38,251,448	33,384,044
Balances with other banks and financial institutions	20,766,731	33,735,196
Placements with banks and other financial institutions maturing within one month	<u>63,255,917</u>	<u>69,227,182</u>
	<u>122,926,927</u>	<u>137,074,097</u>

18 Placements with banks and other financial institutions

	30 Jun 2014 HK\$'000	31 Dec 2013 HK\$'000
Placements with banks and other financial institutions maturing between one and twelve months	<u>34,372,871</u>	<u>28,546,241</u>

In respect of reverse repurchase transactions, the fair value of collateral held by the Group which were permitted to be sold or repledged amounted to HK\$2,148,310,000 as at 30 June 2014 (31 December 2013: HK\$13,496,606,000). No collateral has been actually sold or repledged by the Group as at 30 June 2014 and 31 December 2013. The transactions are conducted on terms that are usual and customary to standard lending activities.

19 Financial assets held for trading

	30 Jun 2014 HK\$'000	31 Dec 2013 HK\$'000
Debt securities, at fair value:		
Listed in Hong Kong	134,851	23,579
Unlisted	<u>1,149,504</u>	<u>—</u>
	<u>1,284,355</u>	<u>23,579</u>
Equity securities, at fair value:		
Listed in Hong Kong	242,323	242,868
Unlisted	<u>—</u>	<u>58,527</u>
	<u>242,323</u>	<u>301,395</u>
Total financial assets held for trading	<u>1,526,678</u>	<u>324,974</u>
Financial assets held for trading are analysed by category of issuer as follows:		
Central governments and central banks	53,630	—
Public sector entities	75,141	—
Banks and other financial institutions	687,932	234,650
Corporate entities	<u>709,975</u>	<u>90,324</u>
	<u>1,526,678</u>	<u>324,974</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

20 Financial assets designated at fair value through profit or loss

	30 Jun 2014 HK\$'000	31 Dec 2013 HK\$'000
Debt securities, at fair value:		
Listed in Hong Kong	79,260	80,370
Listed outside Hong Kong	<u>135,879</u>	<u>332,413</u>
Total financial assets designated at fair value through profit or loss	<u>215,139</u>	<u>412,783</u>
Financial assets designated at fair value through profit or loss are analysed by category of issuer as follows:		
Public sector entities	–	194,768
Corporate entities	<u>215,139</u>	<u>218,015</u>
	<u>215,139</u>	<u>412,783</u>

21 Derivative financial instruments

The Group enters into the following equity, foreign exchange and interest rate related derivative financial instruments for trading and risk management purposes:

Currency forwards represent commitments to purchase and sell foreign currencies on a future date.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an exchange of currencies, interest rates (for example, fixed rate for floating rate), or a combination of all these (i.e., cross-currency interest rate swaps). Except for certain currency swap contracts, no exchange of principal takes place.

Foreign currency, interest rate and equity options are contractual agreements under which the seller (writer) grants the purchaser (holder) the rights, but not an obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of the financial instrument at a predetermined price. In consideration for the assumption of foreign exchange and interest rate risk, the seller receives a premium from the purchaser. Options are negotiated OTC between the Group and its counterparty or traded through the stock exchange (for example, exchange-traded stock options).

The contractual/notional amounts and fair values of derivative financial instruments held by the Group are set out in the following tables. The contractual/notional amounts of these instruments indicate the volume of transactions outstanding at the end of the reporting periods and certain of them provide a basis for comparison with fair value instruments recognised on the consolidated statement of financial position. However, they do not necessarily indicate the amounts of future cash flows involved or the current fair values of the instruments and, therefore, do not indicate the Group's exposure to credit or market risks. The derivative financial instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign exchange rates and equity relative to their terms. The aggregate fair values of derivative financial instruments (assets and liabilities) can fluctuate significantly from time to time.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

21 Derivative financial instruments (continued)

The Group trades derivative products (both exchange-traded or OTC) mainly for customer business. The Group strictly follows risk management policies in providing derivative products to the customers and in trading derivative products in the interbank market.

Derivatives are also used to manage the interest rate risk of the banking book. A derivative instrument must be included in the approved product list before any transactions for that instrument can be made. There are limits to control the notional amount of exposure arising from derivative transactions and the maximum tenor of the deal and management alert limit in profit or loss is set. Every derivative transaction must be input into the relevant system for settlement, mark to market revaluation, reporting and control.

The following tables summarise the contractual/notional amounts of each significant type of derivative financial instrument as at 30 June 2014 and 31 December 2013:

As at 30 June 2014	Contractual/ notional amount HK\$'000	Fair value assets HK\$'000	Fair value liabilities HK\$'000
1) Derivatives held for trading			
a) Foreign exchange derivatives			
– Currency forwards	806,888,620	6,932,566	(6,582,264)
– OTC currency options purchased	12,930,650	126,592	–
– OTC currency options written	13,370,042	–	(122,480)
– Structured foreign exchange instruments	1,221,247	163,104	(163,903)
Total foreign exchange derivatives		<u>7,222,262</u>	<u>(6,868,647)</u>
b) Interest rate derivatives			
– Interest rate swaps	80,030,785	418,532	(342,614)
– Interest rate futures	16,974,252	621	(2,879)
– Quanto swaps	6,456,087	–	(184)
Total interest rate derivatives		<u>419,153</u>	<u>(345,677)</u>
c) Equity derivatives			
– Equity options	209,825	569	(569)
Total equity derivatives		<u>569</u>	<u>(569)</u>
d) Commodity contract	85,104	–	–
Total derivative assets/(liabilities) held for trading		<u><u>7,641,984</u></u>	<u><u>(7,214,893)</u></u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
21 Derivative financial instruments (continued)

As at 30 June 2014	Contractual/ notional amount HK\$'000	Fair value assets HK\$'000	Fair value liabilities HK\$'000
2) Derivatives held for hedging			
a) Derivatives designated as fair value hedges			
– Interest rate swaps	2,834,779	–	(99,741)
– Cross currency swaps	262,755	<u>10,933</u>	<u>–</u>
		<u>10,933</u>	<u>(99,741)</u>
b) Derivatives designated as cash flow hedges			
– Interest rate swaps	11,018,481	<u>221,737</u>	<u>(38,989)</u>
		<u>221,737</u>	<u>(38,989)</u>
Total derivative assets/(liabilities) held for hedging		<u><u>232,670</u></u>	<u><u>(138,730)</u></u>
3) Derivatives not qualified as hedges for accounting purposes but which are managed in conjunction with the financial instruments designated at fair value through profit or loss			
– Interest rate swaps	209,272	<u>–</u>	<u>(7,158)</u>
Total derivative assets/(liabilities) not qualified as hedges		<u><u>–</u></u>	<u><u>(7,158)</u></u>
Total recognised derivative assets/(liabilities)		<u><u>7,874,654</u></u>	<u><u>(7,360,781)</u></u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
21 Derivative financial instruments (continued)

As at 31 December 2013	Contractual/ notional amount HK\$'000	Fair value assets HK\$'000	Fair value liabilities HK\$'000
1) Derivatives held for trading			
a) Foreign exchange derivatives			
– Currency forwards	464,443,860	4,887,102	(4,935,077)
– OTC currency options purchased	5,405,415	33,616	–
– OTC currency options written	5,299,780	–	(33,495)
– Structured foreign exchange instruments	1,242,626	20,144	(20,178)
Total foreign exchange derivatives		4,940,862	(4,988,750)
b) Interest rate derivatives			
– Interest rate swaps	63,757,161	331,457	(265,272)
– Interest rate futures	8,645,710	102	(856)
– Quanto swaps	172,707	1	–
Total interest rate derivatives		331,560	(266,128)
c) Equity derivatives			
– Equity options	126,661	1,513	(1,513)
Total equity derivatives		1,513	(1,513)
d) Commodity contract	66,043	539	(539)
Total derivative assets/(liabilities) held for trading		5,274,474	(5,256,930)
2) Derivatives held for hedging			
a) Derivatives designated as fair value hedges			
– Interest rate swaps	3,967,690	–	(136,241)
– Cross currency swaps	473,773	3,519	(6,489)
		3,519	(142,730)
b) Derivatives designated as cash flow hedges			
– Interest rate swaps	10,939,784	152,676	(40,953)
		152,676	(40,953)
Total derivative assets/(liabilities) held for hedging		156,195	(183,683)
3) Derivatives not qualified as hedges for accounting purposes but which are managed in conjunction with the financial instruments designated at fair value through profit or loss			
– Interest rate swaps	558,288	–	(14,017)
Total derivative assets/(liabilities) not qualified as hedges		–	(14,017)
Total recognised derivative assets/(liabilities)		5,430,669	(5,454,630)

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

21 Derivative financial instruments (continued)

The contractual or notional amounts of contingent liabilities and commitments and derivative financial instruments provide only an indication of the volume of business outstanding at the end of the reporting period and bear little relation to the underlying risks of the exposures.

Among the above derivative financial instruments, certain of them were designated as hedging instruments.

Fair value hedges are used by the Group to protect it against changes in the fair value of financial assets due to movements in market interest rates. The financial instruments hedged for interest rate risk mainly include available-for-sale debt securities. The Bank uses interest rate swaps and cross currency swaps to hedge interest rate risk.

The effectiveness of the hedge based on changes in fair value of the derivatives and the hedged items attributable to the hedged risk recognised in the income statement during the period is presented as follows:

	30 Jun 2014 HK\$'000	30 Jun 2013 HK\$'000
Gain/(loss) arising from fair value hedge, net:		
– Hedging instruments	32,271	115,416
– Hedged items attributable to the hedged risk	(26,417)	(112,486)
	<u>5,854</u>	<u>2,930</u>

Cash flow hedge consists of interest rate swaps entered into that are used to protect the Group against exposures to variability of floating-rate assets and liabilities. Gains and losses on the effective portion of the swaps are initially recognised directly in equity, in the cash flow hedge reserve, and are transferred to the income statement when the forecast cash flows affect the income statement. The gains and losses on ineffective portions of such derivatives are recognised immediately in the income statement. During the period, there was no ineffectiveness recognised in the income statement that arose from cash flow hedges (2013: Nil).

Below is a schedule indicating as at 30 June 2014 and 31 December 2013, the periods when the hedged cash flows are expected to occur and when they are expected to affect profit or loss:

	Within 1 year HK\$ million	1-3 years HK\$ million	3-8 years HK\$ million	Over 8 years HK\$ million
30 June 2014				
Cash inflows (assets)	18	24	31	–
Cash outflows (liabilities)	(4)	(5)	(6)	(1)
Net cash flows	14	19	25	(1)
31 December 2013				
Cash inflows (assets)	23	28	37	–
Cash outflows (liabilities)	(4)	(4)	(4)	–
Net cash flows	19	24	33	–

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

21 Derivative financial instruments (continued)

During the period, realised gain amounting to HK\$49,660,000 previously recognised in equity under the cash flow hedge reserve was transferred to the income statement and included in the net interest income (First half of 2013: Realised gain of HK\$45,240,000).

There were no transactions for which cash flow hedge accounting had to be ceased in the first half of 2014 as a result of the highly probable cash flows no longer being expected to occur.

The aggregate replacement costs and credit risk weighted amounts of the above contingent liabilities and commitments and derivative financial instruments are:

	30 Jun 2014		31 Dec 2013	
	Replacement cost	Credit risk weighted amount	Replacement cost	Credit risk weighted amount
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Contingent liabilities and commitments	–	21,031,026	–	16,929,440
Exchange rate contracts				
– Forwards	6,428,961	3,083,199	4,338,559	2,193,306
– Swaps	355,659	1,480,565	296,739	664,070
– Options	47,771	51,578	17,725	34,147
– Structured FX	163,104	2,807,734	17,878	3,090,959
	<u>6,995,495</u>	<u>7,423,076</u>	<u>4,670,901</u>	<u>5,982,482</u>
Interest rate contracts				
– Swaps	640,262	783,126	484,134	623,300
– Futures	409	28,467	403	10,212
	<u>640,671</u>	<u>811,593</u>	<u>484,537</u>	<u>633,512</u>
Equity contracts				
– Options	569	1,373	1,513	1,063
	<u>569</u>	<u>1,373</u>	<u>1,513</u>	<u>1,063</u>
Debt securities or other commodities				
– Commodities	2,077	12,401	539	8,035
– US Treasury Futures Product	213	31,991	5,810	60,863
	<u>2,290</u>	<u>44,392</u>	<u>6,349</u>	<u>68,898</u>
	<u>7,639,025</u>	<u>29,311,460</u>	<u>5,163,300</u>	<u>23,615,395</u>

The replacement costs and credit risk weighted amounts of the exposures do not have the effects of bilateral netting arrangements.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

22 Advance and other accounts

22.1 Loans and advance to customers, bank and trade bills

	30 Jun 2014 HK\$'000	31 Dec 2013 HK\$'000
Advances to customers	280,440,511	254,566,567
Advances to banks	3,059,135	5,898,696
Trade bills	73,711,736	63,215,858
Gross loans and advance to customers, bank and trade bills	357,211,382	323,681,121
Accrued interest	895,071	853,029
	358,106,453	324,534,150
Less: impairment allowances		
– Individually assessed	(752,610)	(781,143)
– Collectively assessed	(1,704,425)	(1,422,672)
	355,649,418	322,330,335
	30 Jun 2014 HK\$'000	31 Dec 2013 HK\$'000
Gross impaired loans and advances	1,344,231	1,411,567
Impairment allowances made in respect of such loans	752,610	781,143
Gross impaired loans and advances as a percentage of total gross loans and advances	0.38%	0.44%
Market value of collateral	1,092,641	863,020

Impaired loans and advances are defined as those loans which are individually determined to have objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event has an impact on the estimated future cash flows of the loans that can be reliably estimated.

Loss event refers to situations such as credit downgrade of the loan borrowers; or loan outstandings become overdue.

There were no impaired advances to banks as at 30 June 2014 and 31 December 2013; nor were there any individual impairment allowances made for them on these two dates.

The market value of the collateral is readily determinable or can be reasonably established and verified.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

22 Advance and other accounts (continued)

22.2 Overdue advances to customers and banks (excluding trade bills and receivables)

The gross amount of the Group's advances to customers and banks (excluding trade bills and receivables) which have been overdue is analysed as follows:

	Gross advances HK\$'000	% of advances to customers	Market value of collateral HK\$'000	Amount of secured balance HK\$'000	Amount of unsecured balance HK\$'000	Individual impairment allowance HK\$'000
As at 30 Jun 2014						
Six months or less but over three months	8,816	0.0	11,597	5,255	3,561	3,326
One year or less but over six months	23,543	0.0	2,143	1,918	21,625	21,069
Over one year	470,205	0.2	158,498	158,498	311,707	322,949
	<u>502,564</u>	<u>0.2</u>	<u>172,238</u>	<u>165,671</u>	<u>336,893</u>	<u>347,344</u>
As at 31 Dec 2013						
Six months or less but over three months	5,231	0.0	2,108	1,807	3,424	3,269
One year or less but over six months	25,349	0.0	14,648	11,150	14,199	13,712
Over one year	699,931	0.3	179,901	172,997	526,934	485,784
	<u>730,511</u>	<u>0.3</u>	<u>196,657</u>	<u>185,954</u>	<u>544,557</u>	<u>502,765</u>

The criteria for eligible collateral are as follows:

- The market value of the collateral is readily determinable or can be reasonably established and verified;
- The collateral is marketable and there exists a readily available secondary market for disposing of the collateral;
- The Bank's rights to repossess the collateral is legally enforceable and without impediment; and
- If the collateral is a moveable asset, it should be under the Bank's custody, or its whereabouts can be located by the Bank.

The eligible collaterals are mainly properties, deposits and shares.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

22 Advance and other accounts (continued)

22.3 Other overdue assets

	30 Jun 2014 Accrued interest HK\$'000	30 Jun 2014 Other assets HK\$'000	31 Dec 2013 Accrued interest HK\$'000	31 Dec 2013 Other assets HK\$'000
Six months or less but over three months	1	–	16	–
One year or less but over six months	–	–	–	–
Over one year	–	10,764	–	11,530
	<u>1</u>	<u>10,764</u>	<u>16</u>	<u>11,530</u>

Other assets refer to trade bills and receivables.

22.4 Rescheduled advances

	30 Jun 2014 HK\$'000	As % of advances to customers	31 Dec 2013 HK\$'000	As % of advances to customers
Rescheduled advances (excluding loans overdue over three months)	<u>1,896</u>	<u>0.00</u>	<u>1,672</u>	<u>0.00</u>

Rescheduled advances which have been overdue for more than three months under the revised repayment terms are included in the analysis of overdue advances in note 22.2 above.

There were no advances to banks which were overdue; nor were there any rescheduled advances to banks as at 30 June 2014 and 31 December 2013.

22.5 Repossessed assets

At 30 June 2014, the Group has no repossessed assets (31 December 2013: Nil). These are properties which the Group has acquired access to or control of (e.g., through legal actions or voluntary actions by the borrowers concerned) for releasing in full or in part the obligations of the borrowers.

22.6 Cash collateral on securities borrowed and reverse repurchase agreements (the “Reverse Repo”)

In respect of reverse repurchase transactions, the fair value of collateral held by the Group which were permitted to be sold or repledged amounted to HK\$1,696,677,000 as at 30 June 2014 (31 December 2013: HK\$748,387,000). No collateral has been actually sold or repledged by the Group as at 30 June 2014 and 31 December 2013. The transactions are conducted on terms that are usual and customary to standard lending activities.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
23 Available-for-sale financial investments

	30 Jun 2014	31 Dec 2013
	HK\$'000	HK\$'000
Debt securities:		
Listed in Hong Kong	9,398,794	9,657,943
Listed outside Hong Kong	12,426,620	18,262,880
Unlisted	30,334,109	34,461,975
	<u>52,159,523</u>	<u>62,382,798</u>
Equity securities:		
Listed in Hong Kong	409,712	423,178
Unlisted	70,548	27,230
	<u>480,260</u>	<u>450,408</u>
Total available-for-sale financial investments	<u>52,639,783</u>	<u>62,833,206</u>
Market value of listed securities	<u>22,235,126</u>	<u>28,344,001</u>
Debt securities after taking into account impairment losses comprise the following items:		
Certificates of deposit held	3,720,148	6,603,930
Other debt securities	48,439,375	55,778,868
	<u>52,159,523</u>	<u>62,382,798</u>
Available-for-sale financial investments are analysed by category of issuer as follows:		
Central governments and central banks	6,161,732	746,414
Public sector entities	917,517	910,213
Banks and other financial institutions	23,016,939	34,716,600
Corporate entities	22,528,595	26,459,603
Others	15,000	376
	<u>52,639,783</u>	<u>62,833,206</u>
Movement in individual impairment allowances on available-for-sale financial investments		
	30 Jun 2014	31 Dec 2013
	HK\$'000	HK\$'000
At 1 January	77,540	77,512
Charge for the period/year	–	676
Write-off during the period/year	–	(676)
Exchange difference	(32)	28
At 30 June/31 December	<u>77,508</u>	<u>77,540</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

24 Held-to-maturity financial investments

	30 Jun 2014 HK\$'000	31 Dec 2013 HK\$'000
Debt securities:		
– Listed in HK	7,179,091	1,352,766
– Listed outside HK	2,899,924	890,686
– Unlisted	10,496,947	2,653,402
Total held-to-maturity financial investments	<u>20,575,962</u>	<u>4,896,854</u>
Market value of listed securities	<u>10,241,221</u>	<u>2,256,686</u>
Debt securities after taking into account impairment losses comprise the following items:		
Treasury bills	3,160,505	1,164,392
Other debt securities	17,415,457	3,732,462
	<u>20,575,962</u>	<u>4,896,854</u>
Held-to-maturity financial investments are analysed by category of issuer as follows:		
Central governments and central banks	7,182,595	1,293,532
Public sector entities	–	38,135
Banks and other financial institution	5,463,774	1,146,857
Corporate entities	7,929,593	2,418,330
	<u>20,575,962</u>	<u>4,896,854</u>

There was no collective impairment allowance made against the held-to-maturity financial investments during the period (2013: Nil).

25 Investment properties

	30 Jun 2014 HK\$'000	31 Dec 2013 HK\$'000
Carrying amount at 1 January	58,524	53,423
Transfer out during the period/year	–	–
Disposals	–	–
Net revaluation gain	–	5,101
Carrying amount at 30 June/31 December	<u>58,524</u>	<u>58,524</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
26 Property, plant and equipment

	Bank premises and properties HK\$'000	Leasehold improvements HK\$'000	Furniture and equipment HK\$'000	Total HK\$'000
At 31 December 2013 and 1 January 2014:				
Cost or valuation	773,765	308,463	353,073	1,435,301
Accumulated depreciation and impairment	(213,636)	(164,651)	(211,848)	(590,135)
Net book value at 31 December 2013 and 1 January 2014	560,129	143,812	141,225	845,166
Additions	2,280	10,167	22,896	35,343
Disposals	–	(1,874)	(606)	(2,480)
Revaluation	3,702	–	–	3,702
Depreciation provided during the period	(22,335)	(15,358)	(19,609)	(57,302)
Exchange rate and other adjustments	656	–	2,802	3,458
Net book value at 30 June 2014	544,432	136,747	146,708	827,887
At 30 June 2014:				
Cost or valuation	729,993	310,885	371,103	1,411,981
Accumulated depreciation and impairment	(185,561)	(174,138)	(224,395)	(584,094)
Net book value at 30 June 2014	544,432	136,747	146,708	827,887
The analysis of cost or valuation of the above assets is as follows:				
At 30 June 2014:				
At cost	–	310,885	371,103	681,988
At valuation	544,432	–	–	544,432
	544,432	310,885	371,103	1,226,420

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
26 Property, plant and equipment (continued)

	Bank premises and properties HK\$'000	Leasehold improvements HK\$'000	Furniture and equipment HK\$'000	Total HK\$'000
At 31 December 2012 and 1 January 2013:				
Cost or valuation	678,890	262,829	300,464	1,242,183
Accumulated depreciation and impairment	<u>(150,168)</u>	<u>(143,040)</u>	<u>(192,713)</u>	<u>(485,921)</u>
Net book value at 31 December 2012 and 1 January 2013	<u>528,722</u>	<u>119,789</u>	<u>107,751</u>	<u>756,262</u>
Additions	10,755	51,853	66,195	128,803
Disposals	–	(20)	(1,175)	(1,195)
Revaluation	54,265	–	–	54,265
Depreciation provided during the year	(32,032)	(27,810)	(32,416)	(92,258)
Exchange rate and other adjustments	<u>(1,581)</u>	<u>–</u>	<u>870</u>	<u>(711)</u>
Net book value at 31 December 2013	<u>560,129</u>	<u>143,812</u>	<u>141,225</u>	<u>845,166</u>
At 31 December 2013:				
Cost or valuation	773,765	308,463	353,073	1,435,301
Accumulated depreciation and impairment	<u>(213,636)</u>	<u>(164,651)</u>	<u>(211,848)</u>	<u>(590,135)</u>
Net book value at 31 December 2013	<u>560,129</u>	<u>143,812</u>	<u>141,225</u>	<u>845,166</u>
The analysis of cost or valuation of the above assets is as follows:				
At 31 December 2013:				
At cost	–	308,463	353,073	661,536
At valuation	<u>560,129</u>	<u>–</u>	<u>–</u>	<u>560,129</u>
	<u>560,129</u>	<u>308,463</u>	<u>353,073</u>	<u>1,221,665</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

27 Other assets

	30 Jun 2014 HK\$'000	31 Dec 2013 HK\$'000
Interest receivable	1,295,086	1,268,722
Prepayments	141,175	128,347
Settlement accounts	1,325,771	3,181,068
Margin deposit paid	329,141	532,739
Factoring receivables	421,580	337,764
Others	268,261	151,845
	<u>3,781,014</u>	<u>5,600,485</u>

28 Deposits from customers

	30 Jun 2014 HK\$'000	31 Dec 2013 HK\$'000
Demand deposits and current accounts	61,292,501	23,850,089
Savings deposits	50,714,746	57,005,732
Time, call and notice deposits	282,499,029	260,607,153
	<u>394,506,276</u>	<u>341,462,974</u>

29 Deferred income tax

Deferred income tax is calculated in full on temporary differences under the liability method using a principal taxation rate of 16.5% (2013: 16.5%).

The movements in the deferred income tax asset/(liabilities) accounts are as follows:

	30 Jun 2014 HK\$'000	31 Dec 2013 HK\$'000
At 1 January	(19)	(241,560)
Credited to income statement	22,356	5,493
(Debited)/Credited to equity	(59,256)	240,716
Exchange and other adjustments	<u>(2,706)</u>	<u>(4,668)</u>
At 30 June/31 December	<u>(39,625)</u>	<u>(19)</u>

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same taxation authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated statement of financial position.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

29 Deferred income tax (continued)

The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	30 Jun 2014 HK\$'000	31 Dec 2013 HK\$'000
Net deferred income tax assets recognised in the consolidated statement of financial position	–	66,146
Net deferred income tax liabilities recognised in the consolidated statement of financial position	<u>(39,625)</u>	<u>(66,165)</u>
At 30 June/31 December	<u>(39,625)</u>	<u>(19)</u>
	30 Jun 2014 HK\$'000	31 Dec 2013 HK\$'000
Deferred income tax assets, net		
to be recovered after more than 12 months	145,794	237,698
to be recovered within 12 months	<u>35,075</u>	<u>–</u>
	<u>180,869</u>	<u>237,698</u>
Deferred income tax liabilities, net		
to be settled after more than 12 months	(182,912)	(237,717)
to be settled within 12 months	<u>(37,582)</u>	<u>–</u>
	<u>(220,494)</u>	<u>(237,717)</u>
Deferred income tax liabilities, net	<u>(39,625)</u>	<u>(19)</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

30 Subordinated debts measured at amortised cost

	30 Jun 2014		31 Dec 2013	
	Interest rate		Interest rate	
	HK\$'000	%	HK\$'000	%
Subordinated fixed rate notes				
– with a final maturity on 30 November 2020	3,855,132	5.125%	3,855,158	5.125%
– with a final maturity on 4 November 2021 (callable on 5 November 2016)	1,865,086	6%	1,911,486	6%
– with a final maturity on 4 November 2023 (callable on 5 November 2018)	<u>3,854,055</u>	4.5%	<u>3,856,173</u>	4.5%
	<u>9,574,273</u>		<u>9,622,817</u>	

Subordinated debts were raised by the Bank for the development and expansion of business. These notes have been qualified and included as the Bank's supplementary capital in accordance with the Capital Rules.

The Bank has not had any default of principal or interest or other breaches with respect to the subordinated debts during the period (2013: Nil).

31 Other liabilities

	30 Jun 2014	31 Dec 2013
	HK\$'000	HK\$'000
Interest payable	2,269,386	2,175,984
Salaries and welfare payable	309,461	338,145
Settlement accounts	3,000,840	1,351,789
Margin deposit received	605,258	493,233
Factoring payables	421,580	337,764
Others	<u>910,330</u>	<u>849,784</u>
	<u>7,516,855</u>	<u>5,546,699</u>

The Group have not had any default of principal, interest or other breaches with respect to their liabilities during the period (2013: Nil).

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

32 Share capital

	Number of shares (in thousands)	Ordinary shares HK\$'000	Ordinary share premium HK\$'000
At 1 January 2014	2,064,748	4,129,497	19,462,335
Transition to no-par value regime on 3 March 2014	—	19,462,335	(19,462,335)
At 30 June 2014	<u>2,064,748</u>	<u>23,591,832</u>	<u>—</u>
At 1 January 2013 & 31 December 2013	<u>2,064,748</u>	<u>4,129,497</u>	<u>19,462,335</u>

The total number of ordinary shares is 2,580 million shares as at 30 June 2014 (2013: 2,580 million shares). All issued shares are fully paid and rank equally in terms of voting rights and dividends. With effect from 3 March 2014, the concept of “authorized share capital” and “par value” no longer exists under the new Hong Kong Companies Ordinance. The amount standing to the credit of the share premium has become part of share capital of the Bank under the transitional provisions set out in section 37 of Schedule 11 to the Hong Kong Companies Ordinance. These changes do not have any impact on the relative entitlements to the issued shares of the member.

33 Reserves

The general reserve of the Group for the period comprised of:

- the transfer of retained earnings which is distributable to the shareholders of the Group; and
- a statutory surplus reserve of a subsidiary represents 10% of the profit after tax appropriation and 1% of the book value of risk assets as required by law and regulation in PRC. This reserve is used to offset accumulated losses or increase in capital.

As at 30 June 2014, the Group has earmarked a “Regulatory Reserve” of HK\$3,832,353,000 (31 December 2013: HK\$3,594,385,000) from retained earnings. The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purpose. Movements in the reserve are made directly through retained earnings and in consultation with the Hong Kong Monetary Authority.

The consolidated profit attributable to equity holders of the Group includes a profit of HK\$2,143,707,000 (31 December 2013: HK\$4,192,670,000) which has been dealt with in the accounts of the Bank.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

34 Related party transactions

Listed out below is a summary of the transactions entered into during the ordinary course of business with the ultimate holding company and fellow subsidiaries and associates, including the acceptance of placement of interbank deposits, corresponding banking transactions and off-balance sheet transactions. The activities were priced at the relevant market rates at the time of transactions.

34.1 Ultimate holding company

	Six months ended	
	30 Jun 2014	30 Jun 2013
	HK\$'000	HK\$'000
Interest income	959,711	436,777
Interest expense	485,956	436,563
Other operating income ^{1,2}	36,096	35,448
Other operating expenses ^{3,4}	29,938	52,178
	30 Jun 2014	31 Dec 2013
	HK\$'000	HK\$'000
Amounts due from	65,384,297	59,330,460
Amounts due to	66,274,230	93,110,489

1. In accordance with the collaboration agreement dated 3 July 2001 and the supplemental collaboration agreements dated 4 February 2005 and 13 February 2008 and the memorandum of Understanding dated 13 May 2011, and amendment and restatement agreement to the memorandum of Understanding dated 21 December 2012, management fee income was received from the Hong Kong Branch of ICBC (the "Branch") for the provision of services such as accounting and budgeting, internal audit, marketing and back office settlement and clearing. In accordance with the collaboration agreement dated 28 September 2007, management fee income was received from the ultimate holding company for the provision of management, administrative and marketing services of its credit card business.
2. In accordance with the custodian and trustee services agreement dated 4 September 2007 and the supplemental custodian and trustee services agreements dated 16 May 2008 and 31 December 2009, services fees were paid by the ultimate holding company to the Bank for providing custodian, settlement and clearing services in relation to the investments outside the PRC in certain investment products by the customers of the ultimate holding company in connection with the Qualified Domestic Institutional Investor Scheme of the PRC.
3. In accordance with the service levels agreements with the Bank dated 21 February 2002 (as amended and supplemented by supplemental agreements), and the service levels agreement with a subsidiary of the Bank dated 19 March 2008, service fee expense was paid to the ultimate holding company for the provision of data processing services to the Bank and its subsidiary.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

34 Related party transactions (continued)

34.1 Ultimate holding company (continued)

4. In accordance with the tenancy agreement dated 23 May 2012, rental expense was paid to the ultimate holding company for the leasing of property located in Hong Kong.

The transactions with the ultimate holding company included the issuance of certificates of deposit and subordinated floating rate notes, which were both fully subscribed by the ultimate holding company and its branches. As at 30 June 2014, the Bank has issued certificates of deposit with a nominal value of USD500,000,000 to the ultimate holding company (First half of 2013: certificates of deposit with a nominal value of US\$1,600,000,000 and CNY500,000,000).

As at 30 Jun 2014, the Bank has committed facilities to the ultimate holding company in the amount of RMB700,000,000 (2013: RMB700,000,000). The Bank also received conglomerate guarantee on loan from the ultimate holding company in the amount of HK\$24,241,012,000 (2013: HK\$27,394,679,000).

Other material transactions

- i. Undertaking from the ultimate holding company

To demonstrate its support to the Bank, a Letter of Comfort dated 3 July 2001 was executed by the ultimate holding company, pursuant to which it will provide the Bank with such funding as may be required by the Bank to ensure that it will maintain sufficient capital and liquidity levels.

Simultaneously on 3 July 2001, the ultimate holding company and the Bank entered into a guarantee agreement whereby the ultimate holding company agreed to guarantee to the extent of HK\$9,000,000,000, being the payment obligations of certain customers whose “large exposures” were transferred to the Bank pursuant to the business transfer agreement and to indemnify the Bank in respect of any losses incurred if any obligation of such customers becomes unenforceable. There are no on-balance sheet large exposures of the Bank covered by this guarantee as at 30 June 2014 (First half of 2013: HK\$ Nil).

- ii. Sub-participation of loans

During the period, the Bank entered into various capital market transactions with the Branch, which include arranging participation/sub-participation in loans, acquiring and disposing of interests in syndicated or individual loans, subscribing to and/or issuing of debt securities and tax efficient financing. These transactions included sub-participation in loans of the Bank by the ultimate holding company and/or the Branch for a total of HK\$50,359,215,000 (First half of 2013: HK\$72,542,740,000). For both the first half of 2014 and 2013, there was no sub-participation in loans of the Branch by the Bank. The total fee attributable to the above transactions of approximately HK\$31,244,000 (First half of 2013: HK\$41,303,000) was paid by the Bank to the Branch. These transactions were priced based either on the terms of the underlying loan agreement, if applicable, or prevailing market rates if such comparable rates were available, or on terms that were no less favourable than those available to other independent loan members.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS
34 Related party transactions (continued)
34.2 Fellow subsidiaries

	Six months ended	
	30 Jun 2014	30 Jun 2013
	HK\$'000	HK\$'000
Interest income	170,397	16,807
Interest expense	19,085	9,150
Other operating income	3,856	4,936
	30 Jun 2014	31 Dec 2013
	HK\$'000	HK\$'000
Amounts due from	5,864,905	3,091,732
Amounts due to	381,624	3,478,443

34.3 Associates

	Six months ended	
	30 Jun 2014	30 Jun 2013
	HK\$'000	HK\$'000
Interest income	1,525	1,738
Interest expense	225	40
	30 Jun 2014	31 Dec 2013
	HK\$'000	HK\$'000
Amounts due from	106,841	124,975
Amounts due to	66,106	53,408

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

34 Related party transactions (continued)

34.4 Transactions with government authorities and other state-controlled entities

Transactions with the following government authorities and state-controlled entities of the People's Republic of China (the "PRC") are included:

- The Ministry of Finance of the PRC
- Central Huijin Investment Limited ("Huijin")
- Other banks and financial institutions under the direction of the PRC government in which Huijin has equity interests

	Six months ended	
	30 Jun 2014	30 Jun 2013
	HK\$'000	HK\$'000
Interest income	420,489	133,703
Interest expense	15,429	32,944
Other operating income	(423)	1,817
	30 Jun 2014	31 Dec 2013
	HK\$'000	HK\$'000
Amounts due from	51,735,654	35,262,793
Amounts due to	383,149	9,907

In addition, the Group may also enter into transactions with other state-owned entities, including but not limited to lending, deposit taking and the provision of financial products or services. In the opinion of management, transactions with these state-owned entities were conducted in the ordinary course of business under normal terms and conditions and at market rates. As a result, none of these transactions are considered individually significant.

34.5 Key management personnel remuneration

Remuneration for key management personnel is as follows:

	Six months ended	
	30 Jun 2014	30 Jun 2013
	HK\$'000	HK\$'000
Employee benefits	11,080	11,195

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

34 Related party transactions (continued)

34.6 Material transactions with key management personnel

During the period, the Group entered into certain banking transactions consisting of loans and advances, deposits and other financial related transactions with related parties in the normal course of business. The related parties include key management personnel of the Bank, their close family members and companies controlled or significantly influenced by them.

	Six months ended	
	30 Jun 2014	30 Jun 2013
	HK\$'000	HK\$'000
Interest income	—	—
Interest expense	274	220
	30 Jun 2014	31 Dec 2013
	HK\$'000	HK\$'000
Loans and advances	—	—
Deposits	53,998	51,767

35 Transferred financial assets

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties. In some cases where these transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases the transferred assets do not qualify for derecognition as the Group has retained substantially all the risks and rewards of these assets, the Group continued to recognise the transferred assets.

Repurchase transactions and securities lending transactions

Transferred financial assets that do not qualify for derecognition mainly include debt securities held by counterparties as collateral under repurchase agreements and debt securities lent to counterparties under securities lending agreements. The counterparties are allowed to sell or repledge those securities sold under agreements to repurchase in the absence of default by the Group, but has an obligation to return the securities at the maturity of the contract. If the securities increase or decrease in value, the Group may in certain circumstances require or be required to pay additional cash collateral. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. In addition, it recognises a financial liability for cash received as collateral.

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

35 Transferred financial assets (continued)

The following table analyses the carrying amount of the abovementioned financial assets transferred to third parties that did not qualify for derecognition and their associated financial liabilities:

	30 Jun 2014		31 Dec 2013	
	Carrying amount of transferred assets HK\$'000	Carrying amount of associated liabilities HK\$'000	Carrying amount of transferred assets HK\$'000	Carrying amount of associated liabilities HK\$'000
Securities lending agreements	2,379,749	2,372,550	–	–

Discounted bills transactions

The Group enters into discounted bills transactions in the normal course of business by which it transfers discounted bills to third parties in the PRC with recourse term which would give rise to the Group's continuing involvement in the transferred assets. As at 30 June 2014, the Group retained obligation on those PRC discounted bills transferred but not matured with a carrying amount of HK\$447 million (31 December 2013: Nil).

36 Off-balance sheet exposures

36.1 Contingent liabilities and commitments

The following are the summaries of the contractual amounts of each significant class of contingent liabilities and commitments:

	30 Jun 2014 Contractual amount HK\$'000	30 Jun 2014 Credit risk weighted amount HK\$'000	31 Dec 2013 Contractual amount HK\$'000	31 Dec 2013 Credit risk weighted amount HK\$'000
Direct credit substitutes	16,888,376	11,426,956	10,725,859	6,227,129
Transaction-related contingencies	29,413	5,789	52,414	11,527
Trade-related contingencies	13,550,792	2,159,375	15,803,432	2,494,627
Forward forward deposits placed	2,024,167	404,833	3,506,917	701,383
Other commitments				
– Unconditionally cancellable	160,428,272	–	167,177,213	–
– With original maturity of less than one year	1,262,700	252,540	998,699	194,740
– With original maturity of over one year	14,168,816	6,781,533	15,368,055	7,300,034
	<u>208,352,536</u>	<u>21,031,026</u>	<u>213,632,589</u>	<u>16,929,440</u>

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

36 Off-balance sheet exposures (continued)

36.2 Capital commitments

Capital commitments for property, plant and equipment outstanding as at 30 June 2014 and 31 December 2013 not provided for in the financial statements are as follows:

	30 Jun 2014 HK\$'000	31 Dec 2013 HK\$'000
Expenditure contracted, but not provided for	18,314	38,293
Expenditure authorized, but not contracted for	600	1,370
	<u>18,914</u>	<u>39,663</u>

36.3 Operating lease commitments

The Group had future aggregate minimum lease payments under non-cancellable operating leases as at 30 June 2014 and 31 December 2013 as follows:

	30 Jun 2014 HK\$'000	31 Dec 2013 HK\$'000
Land and buildings		
– Not later than one year	341,111	276,933
– Later than one year and within five years	976,368	344,285
– More than five years	102,257	–
	<u>1,419,736</u>	<u>621,218</u>

36.4 Operating lease arrangements

The Group leases its investment properties (see Note 25) under operating lease arrangements, with leases negotiated for terms ranging from two to six years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 30 June 2014, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 Jun 2014 HK\$'000	31 Dec 2013 HK\$'000
Within one year	3,014	3,065
In the second to fifth years, inclusive	8,375	9,062
After five years	685	1,755
	<u>12,074</u>	<u>13,882</u>

During the period, the Group had no unrecognised contingent rentals receivable (2013: Nil).

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

37 Offsetting of financial assets and financial liabilities

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

Amounts not set off in the balance sheet

	Gross amounts of recognized financial assets	Gross amounts offset in the balance sheet	Net amounts presented in the balance sheet	Financial instruments	Cash collateral received	Net amount
At 30 June 2014	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Derivatives financial assets	6,743,440	–	6,743,440	(4,827,239)	–	1,916,201
Other assets	94,167	–	94,167	(71,991)	–	22,176
	6,837,607	–	6,837,607	(4,899,230)	–	1,938,377

Amounts not set off in the balance sheet

	Gross amounts of recognized financial liabilities	Gross amounts offset in the balance sheet	Net amounts presented in the balance sheet	Financial instruments	Cash collateral received	Net amount
At 30 June 2014	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Derivatives financial liabilities	6,548,213	–	6,548,213	(4,827,239)	(235,575)	1,485,399
Other liabilities	126,782	–	126,782	(71,991)	–	54,791
	6,674,995	–	6,674,995	(4,899,230)	(235,575)	1,540,190

Amounts not set off in the balance sheet

	Gross amounts of recognized financial assets	Gross amounts offset in the balance sheet	Net amounts presented in the balance sheet	Financial instruments	Cash collateral received	Net amount
At 31 December 2013	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Derivatives financial assets	4,552,596	–	4,552,596	(2,244,654)	–	2,307,942
Other assets	247,851	–	247,851	(129,248)	–	118,603
	4,800,447	–	4,800,447	(2,373,902)	–	2,426,545

NOTES TO THE INTERIM FINANCIAL DISCLOSURE STATEMENTS

37 Offsetting of financial assets and financial liabilities (continued)

Amounts not set off in the balance sheet

	Gross amounts of recognized financial liabilities	Gross amounts offset in the balance sheet	Net amounts presented in the balance sheet	Financial instruments	Cash collateral received	Net amount
At 31 December 2013	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Derivatives financial liabilities	4,447,922	–	4,447,922	(2,244,654)	(444,387)	1,758,881
Other liabilities	301,737	–	301,737	(129,248)	–	172,489
	4,749,659	–	4,749,659	(2,373,902)	(444,387)	1,931,370

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

Derivatives and reverse repurchase/repurchase agreements included in amounts not set off in the balance sheet relate to transactions where:

- the counterparty has an offsetting exposure with the Group and a master netting or similar arrangement is in place with a right of set off only in the event of default, insolvency or bankruptcy, or the offset criteria are otherwise not satisfied; and
- cash collateral received/pledged in respect of the transactions described above.

38 Comparative amounts

During the period, management reviewed the presentation of “interest income from financial assets held for trading” in the income statement and determined that it improves the comparability to classify the item as Net Trading Income rather than Net Interest Income as previously disclosed. The amount was reclassified as Net Trading Income in the current period and accordingly the comparative figure amounted to HK\$1,121,000 was reclassified from Net Interest Income to Net Trading Income to conform with the current period’s presentation.

During the period, management also reviewed the presentation of “interest income from financial assets designated at fair value through profit or loss” in the income statement and determined that it improves the comparability to classify the item as Net gain on financial assets and liabilities designated at fair value through profit or loss rather than Net Interest Income as previously disclosed. The amount was reclassified as Net gain on financial assets and liabilities designated at fair value through profit or loss in the current period and accordingly the comparative figure amounted to HK\$12,225,000 was reclassified from Net Interest Income to Net gain on financial assets and liabilities designated at fair value through profit or loss to conform with the current period’s presentation.

In addition to the above items, certain comparative amounts have been amended to conform with current period’s presentation.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

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

1 Capital adequacy and capital base

Capital adequacy ratios were compiled in accordance with the Banking (Capital) Rules (the “Capital Rules”) issued by the HKMA. The ratios as of 30 June 2014 were compiled in accordance with the amended Capital Rules effective from 1 January 2013 for the implementation of the “Basel III” capital accord. In view of the Capital Rules, the Bank has adopted the “standardised (credit risk) approach” for the calculation of the risk-weighted assets for credit risk, “basic indicator approach” for the calculation of the operational risk and the “standardised (market risk) approach” for the calculation of market risk.

The basis of consolidation for financial accounting purposes is in accordance with Hong Kong Financial Reporting Standards (“HKFRS”), as described in Note 2 on the notes to the interim financial disclosure statements. Subsidiaries included in the consolidation for regulatory purposes are specified in a notice from the HKMA in accordance with section 3C(1) of the Capital Rules.

Under the Capital Rules, the basis of consolidation in calculating the capital ratios follows that of the financial reporting with the exclusion of subsidiaries which are “regulated financial entities” (e.g., insurance and securities companies) as defined by the Capital Rules. Accordingly, the investment costs of these unconsolidated subsidiaries are deducted from the capital base. There is no capital shortfall of these unconsolidated subsidiaries.

A list of these unconsolidated subsidiaries is shown below:

	Principal activities	At 30 June 2014	
		Total assets HK\$'000	Total equity HK\$'000
ICBC (Asia) Asset Management Company Limited	Provision of asset management services	814	810
ICBC (Asia) Bullion Company Limited	Inactive	7,949	7,937
ICBC (Asia) Futures Company Limited	Provision of futures business	102,638	102,638
ICBC (Asia) Investment Management Company Limited	Provision of asset management services	20,861	17,035
ICBC (Asia) Securities Limited	Provision of securities brokerage services	908,161	609,798
ICBC (Asia) Trustee Company Limited	Provision of trustee services	6,743	6,264
ICBC (Asia) Wa Pei Nominees Limited	Inactive	–	–
UB China Business Management Co. Ltd.	Inactive	–	–
Greater China Fund	Trust fund	398,129	344,930

As at 30 June 2014, there are no subsidiaries which are included within both the accounting scope of consolidation and the regulatory scope of consolidation but the method of consolidation differs. There are also no subsidiaries which are included within the regulatory scope of consolidation but not included within the accounting scope of consolidation.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)
1 Capital adequacy and capital base (continued)

The Group operates a subsidiary in other countries and territories where capital is governed by local rules and there may be restrictions on the transfer of regulatory capital and funds between members of the Group.

	30 Jun 2014 HK\$'000	31 Dec 2013 HK\$'000
Common Equity Tier 1 ("CET1") Capital		
CET1 capital instruments	4,129,496	4,129,496
Share premium arising from CET1 capital instruments	19,462,335	19,462,335
Retained earnings	20,382,567	17,424,661
of which: unaudited profit or loss of the current financial year and profit or loss of the immediately preceding financial year pending audit completion	2,957,907	5,130,192
Disclosed reserves	3,054,422	2,648,961
of which: available-for-sale investment reserve	490,866	(119,576)
CET1 Capital before deductions	47,028,820	43,665,453
Deduct:		
Cumulative cash flow hedge reserves that relate to the hedging of financial instruments that are not fair valued on the balance sheet	(154,949)	(113,763)
Cumulative fair value gain or losses on liabilities of the institution that are fair-valued and result from changes in the own credit risk	–	(475)
Cumulative fair value gains arising from the revaluation of land and buildings	(490,921)	(588,056)
Regulatory reserve for general banking risk	(3,832,353)	(3,594,385)
Goodwill (net of related deferred tax liability)	(980,154)	(980,154)
Other intangible assets (net of related deferred tax liability)	(73,350)	(86,102)
Deferred tax assets in excess of deferred tax liabilities	–	(66,146)
Debit valuation adjustments in respect of derivative contracts	(47,265)	(33,435)
CET1 Capital after deductions	41,449,828	38,202,937
Tier 2 ("TIER 2") Capital		
Tier 2 capital instruments issued and share premium	8,804,661	9,240,187
of which: amount that is subject to phase out	3,084,415	3,471,400
Reserve attributable to fair value gains on revaluation of holdings of land and buildings	220,914	264,625
Regulatory reserve for general banking risks and collective provisions included in Tier 2 Capital (Limited to 1.25% of risk-weighted amount)	4,427,425	4,133,971
TIER 2 Capital before deductions	13,453,000	13,638,783
Deductions	–	–
TIER 2 Capital after deductions	13,453,000	13,638,783
Total capital base after deductions	54,902,828	51,841,720

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)
1 Capital adequacy and capital base (continued)

	30 Jun 2014	31 Dec 2013
	HK\$'000	HK\$'000
Risk-weighted assets		
Credit risk	357,690,550	333,165,709
Market risk	30,534,950	28,694,900
Operational risk	15,607,338	14,174,163
Deduct: Portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 capital	(1,109,353)	(883,086)
Portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in Tier 2 capital	(270,007)	(323,431)
Total risk-weighted assets	<u>402,453,478</u>	<u>374,828,255</u>
	30 Jun 2014	31 Dec 2013
CET1 capital ratio	10.30%	10.19%
Tier 1 capital ratio	10.30%	10.19%
Total capital ratio	13.64%	13.83%

To comply with the Banking (Disclosure) Rules, the Group will establish a new section “Regulatory Capital Disclosure” on its website to house all the information relating to the disclosure of regulatory capital instruments and the reconciliation to the Group’s published interim financial disclosure statements.

The disclosure will be published on its website (www.icbcasia.com) according to the Banking (Disclosure) Rules and will include the following information:

- A description of the main features and the full terms and conditions of the Group’s CET1 capital, Additional Tier 1 capital, Tier 2 capital.
- A detailed breakdown of the Group’s CET1 capital, Additional Tier 1 capital, Tier 2 capital and regulatory deductions, using the standard template as specified by the HKMA.
- A full reconciliation between the Group’s accounting and regulatory balance sheets, using the standard template as specified by the HKMA.

2 Liquidity ratio

The average liquidity ratio for the period is the simple average of each calendar month’s average liquidity ratio, which is computed on the consolidated basis as required by the Hong Kong Monetary Authority for its regulatory purposes, and is computed in accordance with the Fourth Schedule to the Hong Kong Banking Ordinance.

	30 Jun 2014	30 Jun 2013
Average liquidity ratio for the six months ended	<u>46.55%</u>	<u>39.16%</u>

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)
3 Segmental information
3.1 Advances to customers by geographical area

The Group's gross advances to customers by country or geographical area after taking into account any risk transfers are as follows:

	Gross advances to customers	Overdue advances for over three months	Impaired loans and advances	Individual impairment allowances	Collective impairment allowances
30 June 2014	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	130,482,213	223,985	920,075	454,779	689,359
Mainland China	144,996,173	255,825	255,821	129,772	700,167
Macau	455,316	–	–	–	1,705
Asia Pacific Region excluding Hong Kong, Mainland China and Macau	1,552,234	–	–	120	28,867
Others	2,954,574	22,757	168,334	167,940	55,471
	<u>280,440,510</u>	<u>502,567</u>	<u>1,344,230</u>	<u>752,611</u>	<u>1,475,569</u>
	Gross advances to customers	Overdue advances for over three months	Impaired loans and advances	Individual impairment allowances	Collective impairment allowances
31 December 2013	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	106,330,277	224,368	899,626	453,210	427,267
Mainland China	140,043,630	286,516	286,512	121,165	688,494
Macau	834,731	–	–	–	2,684
Asia Pacific Region excluding Hong Kong, Mainland China and Macau	1,553,220	–	–	–	10,762
Others	5,804,709	219,627	225,429	196,062	19,500
	<u>254,566,567</u>	<u>730,511</u>	<u>1,411,567</u>	<u>770,437</u>	<u>1,148,707</u>

Risk transfers are only made 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 a bank whose head office is located in another country.

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

3 Segmental information (continued)

3.2 Cross-border claims

The Group analyses cross-border claims by geographical area. In determining this analysis, the Group has taken into account the transfers of risk with respect to claims guaranteed by a party in a country different from that of the counterparty. Those areas that constitute 10% or more of the aggregate cross-border claims are as follows:

	Banks and other financial institutions HK\$ million	Public sector entities HK\$ million	Others HK\$ million	Total HK\$ million
30 June 2014				
Asia Pacific excluding Hong Kong	<u>183,387</u>	<u>35,160</u>	<u>119,616</u>	<u>338,163</u>
31 December 2013				
Asia Pacific excluding Hong Kong	<u>173,614</u>	<u>25,826</u>	<u>126,215</u>	<u>325,655</u>

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)
3 Segmental information (continued)
3.3 Non-bank Mainland exposures

The analysis of non-bank Mainland China exposures is based on the categories of non-bank counterparties and the types of direct exposures defined by the HKMA under the Banking (Disclosure) Rules with reference to the completion instructions in Note 6 of the “Returns of Quarterly Analysis of Loans and Advances and Provisions – MA(BS)2A”, which includes the Mainland China exposures extended by the Bank and its overseas subsidiary and branch.

	On-balance sheet exposure HK\$'000	Contingent liabilities HK\$'000	FX and derivatives contract HK\$'000	Total exposures HK\$'000	Individually assessed allowances HK\$'000
30 June 2014					
Type of counterparties					
(a) ITICs and their subsidiaries	1,433,464	–	–	1,433,464	–
(b) Red-chip companies and their subsidiaries	28,855,001	3,989,200	664	32,844,865	–
(c) H-shares companies and their subsidiaries	5,366,313	489,643	59,467	5,915,423	–
(d) Other state, provincial or municipal government owned entities and their subsidiaries	44,814,982	2,416,932	311,480	47,543,394	–
(e) Other entities incorporated or established in Mainland China	32,914,346	4,087,434	186,173	37,187,953	–
(f) Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	13,381,294	105,636	–	13,486,930	333,249
(g) Other counterparties where the exposure is considered by the Bank to be non-bank Mainland China exposure	<u>43,726,821</u>	<u>2,171,855</u>	<u>985,349</u>	<u>46,884,025</u>	<u>204,377</u>
	170,492,221	13,260,700	1,543,133	185,296,054	537,626
Companies and individuals for purchasing properties in Mainland China under (a) to (g)	2,078,011	–	–	2,078,011	–
(h) Exposures incurred by banking subsidiary in Mainland China	50,189,847	24,602,798	212,635	75,005,280	129,671

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

3 Segmental information (continued)

3.3 Non-bank Mainland exposures (continued)

	On-balance sheet exposure HK\$'000	Contingent liabilities HK\$'000	FX and derivatives contract HK\$'000	Total exposures HK\$'000	(Restated) Individually assessed allowances HK\$'000
31 December 2013					
Type of counterparties					
(a) ITICs and their subsidiaries	1,738,034	–	–	1,738,034	–
(b) Red-chip companies and their subsidiaries	27,573,004	4,350,905	–	31,923,909	–
(c) H-shares companies and their subsidiaries	3,836,136	769,947	92,230	4,698,313	–
(d) Other state, provincial or municipal government owned entities and their subsidiaries	26,775,049	2,756,937	440,030	29,972,016	–
(e) Other entities incorporated or established in Mainland China	27,438,136	4,364,131	269,449	32,071,716	–
(f) Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	13,844,778	80,214	22,046	13,947,038	335,794
(g) Other counterparties where the exposure is considered by the Bank to be non-bank Mainland China exposure	39,479,731	3,798,000	1,066,483	44,344,214	232,246
	140,684,868	16,120,134	1,890,238	158,695,240	568,040
Companies and individuals for purchasing properties in Mainland China under					
(a) to (g)	2,707,836	–	–	2,707,836	–
(h) Exposures incurred by banking subsidiary in Mainland China	56,867,425	13,545,674	–	70,413,099	121,165

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)
4 Advances to customers by industry sector

	30 Jun 2014	30 Jun 2014	31 Dec 2013	31 Dec 2013
	Gross	% of secured	Gross	% of secured
	advances	advances	advances	advances
	HK\$'000		HK\$'000	
Loans for use in Hong Kong				
Industrial, commercial and financial				
– Property development	16,388,974	6.57%	17,856,874	10.16%
– Property investment	20,282,698	55.13%	15,788,165	69.60%
– Financial concerns	5,761,417	1.69%	7,162,734	1.40%
– Stockbrokers	6,503,074	18.30%	2,295,321	40.91%
– Wholesale and retail trade	22,992,738	14.57%	22,631,998	14.48%
– Civil engineering works	694,549	21.95%	315,717	45.71%
– Manufacturing	7,211,910	33.48%	7,492,417	36.93%
– Transport and transport equipment	19,741,680	28.50%	18,031,233	24.73%
– Electricity and gas	1,879,789	–	2,011,907	–
– Information technology	12,894,762	0.46%	12,698,096	0.51%
– Recreational activities	6,318	61.24%	20,239	75.29%
– Hotels, boarding houses and catering	949,131	81.95%	2,497,290	85.19%
– Others	26,925,368	5.51%	21,905,959	7.86%
Individuals				
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	463,399	95.34%	481,562	95.26%
– Loans for the purchase of other residential properties	11,384,282	98.66%	11,160,908	98.67%
– Credit card advances	178,981	–	344,185	–
– Others	3,135,246	74.98%	2,834,485	75.72%
Trade finance	9,871,720	21.91%	9,822,630	23.34%
Loans for use outside Hong Kong	<u>113,174,475</u>	25.75%	<u>99,214,847</u>	37.60%
	<u>280,440,511</u>	25.94%	<u>254,566,567</u>	32.07%

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)
4 Advances to customers by industry sector (continued)

Individually impaired loans, overdue loans and advances over three months, impairment allowances and impaired loans and advances written off in respect of industry sectors that constitute 10% or more of the total advances to customers are as follows:

	30 Jun 2014 HK\$'000	31 Dec 2013 HK\$'000
(a) Loans for use outside Hong Kong		
Individually impaired loans	1,119,246	1,167,542
Overdue loans and advances over three months	368,514	564,309
Individual impairment allowances	630,686	624,692
Collective impairment allowances	1,190,397	720,117
New impairment allowances charged to the income statement	478,957	280,801
Impaired loans and advances written off during the period/year	–	–

5 Currency concentration

The table below summarises the net foreign currency positions of the Group. The net structural and non-structural positions in a foreign currency is disclosed when the currency constitutes 10% or more of the total net position of all foreign currencies.

June 2014	US\$ HK\$'000	RMB HK\$'000	Other foreign currencies HK\$'000	Total HK\$'000
Non-structural position				
Spot assets	229,419,602	190,830,536	7,683,308	427,933,446
Spot liabilities	(162,622,392)	(166,649,169)	(11,860,445)	(341,132,006)
Forward purchases	326,576,665	128,136,996	155,028,454	609,742,115
Forward sales	(409,132,963)	(134,608,070)	(150,636,536)	(694,377,569)
Net option position	(196,024)	176,247	28,547	8,770
Net long/(short) position	(15,955,112)	17,886,540	243,328	2,174,756
Net structural position	187,984	5,561,582	–	5,749,566

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)
5 Currency concentration (continued)

December 2013	US\$ HK\$'000	RMB HK\$'000	Other foreign currencies HK\$'000	Total HK\$'000
Non-structural position				
Spot assets	209,476,527	181,959,666	11,256,914	402,693,107
Spot liabilities	(174,233,308)	(163,517,814)	(15,608,056)	(353,359,178)
Forward purchases	190,872,151	112,381,240	68,080,650	371,334,041
Forward sales	(244,531,034)	(110,967,798)	(63,682,236)	(419,181,068)
Net option position	<u>42,162</u>	<u>(48,933)</u>	<u>(455)</u>	<u>(7,226)</u>
Net long/(short) position	<u>(18,373,502)</u>	<u>19,806,361</u>	<u>46,817</u>	<u>1,479,676</u>
Net structural position	188,061	4,857,592	–	5,045,653

Foreign currency exposures include those arising from the trading position. The net option position is calculated using the delta equivalent approach. The net structural position of the Group includes the structural positions of the Bank's capital investment in an overseas subsidiary, Chinese Mercantile Bank.