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BANKING

Illustrative Financial Statements under Hong Kong Financial Reporting Standards Authorised Institutions

December 2013

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Illustrative Financial Statements under Hong Kong Financial Reporting Standards for Authorised Institutions

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Contents

Abbreviations

Example of abbreviation used	Sources
HKICPA	Hong Kong Institute of Certified Public Accountants
HKFRS	Hong Kong Financial Reporting Standard
HKAS	Hong Kong Accounting Standard
HK (IFRIC)	HK (IFRIC) Interpretation
HK (SIC)	HK (SIC) Interpretation
HK (INT)	HK Interpretation
HKSA	Hong Kong Standards on Auditing
HKSA 700.17(a)	Paragraph 17(a) of Hong Kong Standard on Auditing 700
SAS	Statement of Auditing Standards
SAS 510.28	Paragraph 28 of Hong Kong Statement of Auditing Standards 510
PNote 600.1(17)	Paragraph 17 of Practice Note 600.1 issued by HKICPA
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standard
IAS	International Accounting Standard
IFRIC	IFRS Interpretations Committee
S129D(3)	Sub-section (3) of Section 129D of the Hong Kong Companies Ordinance
10th Sch (12(2))	Paragraph 12(2) of the Tenth Schedule to the Hong Kong Companies Ordinance
Ord S97A(1)	Sub-section (1) of Section 97A of the Hong Kong Banking Ordinance
SEHK	The Stock Exchange of Hong Kong Limited
HKMA	Hong Kong Monetary Authority
MBLRs	Main Board Listing Rules of the SEHK
A16(2)	Paragraph 2 of Appendix 16 to the MBLRs
R17.07(1)	Paragraph 1 of Rule 17.07 of the MBLRs
PN5(3.2)	Paragraph 3.2 of Practice Note 5 of the MBLRs
CP	Current common practice in Hong Kong or recommended by KPMG (but not specifically required or recommended in any of the various guidelines or standards)
GAAP	Generally accepted accounting principles
BDR	Banking (Disclosure) Rules
BCR	Banking (Capital) Rules
CA-D-1	Guideline on the Application of the BDR issued by HKMA

Foreword

This guide has been prepared primarily to give guidance in respect of Hong Kong incorporated authorised institutions (AI) listed on the Main Board of The Stock Exchange of Hong Kong Limited (SEHK), which are required to prepare their annual reports in accordance with the applicable disclosure provisions of the Main Board Listing Rules of the SEHK (MBLRs) and the Banking (Disclosure) Rules (BDR) made by the Hong Kong Monetary Authority (HKMA) under section 60A of the Hong Kong Banking Ordinance (HKBO).

This guide includes:

- an illustrative annual report for the year ended 31 December 2013 issued by a fictitious Main Board listed AI which includes:
  - a report of the directors,
  - an independent auditor's report to the shareholders of the AI,
  - annual financial statements prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong, the Hong Kong Companies Ordinance (HKCO) and the applicable disclosure provisions of the MBLRs,
  - unaudited supplementary financial information prepared in accordance with BDR , and
  - five year summary as required by Appendix 16 to the MBLRs, *Disclosure of financial information*;
- further information on recent developments in HKFRSs, including a brief overview of their scope and requirements;
- a complete index of all HKFRSs, including their Interpretations, in issue as of 16 September 2013; and
- a list of exposure drafts in issue as of 16 September 2013.

Recent financial reporting developments

Appendix A to this Guide sets out a complete list of recent developments in HKFRSs which are first effective for annual periods beginning on or after 1 January 2013, including a brief overview of these new developments. The list is current as of 16 September 2013 and contains two tables:

- table A1 lists those amendments to HKFRSs which are required to be adopted in annual accounting periods beginning on or after 1 January 2013; and
- table A2 lists other developments which are available for early adoption in these periods, but are not yet mandatory.

All of these developments arise from the HKICPA adopting equivalent changes made to IFRSs by the IASB, word for word and with the same effective dates and transitional provisions. As of 16 September 2013 there are no recent amendments to IFRSs which the HKICPA has yet to adopt.

As can be seen from table A1, there are a wide range of changes which become effective in 2013 for the first time. Some of them introduce changes to presentation and disclosure requirements; while a number of them may require a change in accounting policy for some entities, depending on their facts and circumstances. Details of the new developments which have been illustrated in this guide are discussed below:

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

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

- HKFRS 10, *Consolidated financial statements*

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

  Entities are required to test whether there is a change in the control conclusion for its investees under the new control model at the date of initial application of HKFRS 10, i.e. at the beginning of the annual reporting period for which the standard is adopted for the first time. For those entities with a December year end this would be 1 January 2013, unless the standard had been adopted early. In situations where the control assessment is straightforward e.g. when power over an investee is obtained directly and solely from the voting rights granted by equity instruments, it is likely that the control conclusion will remain unchanged given the similarities between the control concept under the old HKAS 27 and HKFRS 10. Therefore, consistent with many group situations, in these illustrative financial statements it is assumed that, while the adoption of HKFRS 10 results in changes in the accounting policy which defines a subsidiary, the change in policy has no material impact on the monetary amounts included in these financial statements. However, entities should take care to check their own facts and circumstances - in more complicated situations, e.g. where potential voting rights are involved in the assessment, or in the situation when the reporting entity has de facto control over another entity whose shareholders are widely dispersed, then the adoption of HKFRS 10 may lead to needing to consolidate a particular entity that has not been previously consolidated, or excluding from the consolidation an entity that has previously been consolidated. If there has been such a change in the control conclusion in respect of any of the group's investees then retrospective adjustments to comparatives will be required.

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

  HKFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements and associates. It also introduces new disclosure requirements for unconsolidated structured entities. The disclosures required in HKFRS 12 are generally more extensive than those previously required by the respective standards for these investees. In the first year of adoption, the disclosure requirements generally apply to both the current period and the immediately preceding period. As an exception to this, entities need not provide comparative information for the disclosure in respect of interests in unconsolidated structured entities. Illustration of the disclosures required by HKFRS 12 can be found in notes 28-29 to these financial statements to the extent applicable to ABC Bank's assumed circumstances, e.g. additional information has been disclosed about one of ABC Bank's subsidiaries which has non-controlling interests material to ABC Bank.

- HKFRS 13, *Fair value measurement*

  HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. The standard is effective prospectively; entities need not provide comparative information in the first year of adoption of HKFRS 13.

  In these illustrative financial statements, ABC Bank's assets and liabilities within the disclosure scope of HKFRS 13 are investment properties, properties held for own use and financial instruments. The disclosures for investment properties and properties held for own use in note 30 and for financial instruments in note 50 have been expanded in accordance with HKFRS 13. So far as measurement is concerned, it is assumed that the adoption of HKFRS 13 does not have material impact on the fair value measurements of ABC Bank's assets and liabilities.

- Amendments to HKFRS 7, *Financial instruments: Disclosures - Disclosures – Offsetting financial assets and financial liabilities*

  The amendments introduce new disclosures in respect of offsetting financial assets and financial liabilities, which are required for all recognised financial instruments that are set off in accordance with HKAS 32, *Financial instruments: Presentation.* These new disclosure are also required for financial assets and financial liabilities that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with HKAS 32. In accordance with paragraph B41 of the Application Guidance attached to HKFRS 7, loans and customer deposits at the same institution and financial instruments that are subject only to a collateral agreement are outside the scope of the disclosures introduced by the amendments. Disclosure on offsetting in respect of financial instruments in note 49(a) has been expanded accordingly.

- Amendments to HKAS 36, *Impairment of assets – Recoverable amount disclosures for nonfinancial assets*

  HKFRS 13 introduces consequential amendments to HKAS 36's disclosure requirements in respect of each cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated. In June 2013 the HKICPA issued additional amendments to HKAS 36 i.e. the *Recoverable amount disclosures for non-financial assets* amendments, to modify some of the consequential amendments made by HKFRS 13. The additional amendments issued in 2013 remove the requirement made by HKFRS 13 to disclose the recoverable amount of a CGU which is not impaired. Meanwhile, the 2013 amendments expand the disclosure requirements for an individual asset (including goodwill) and a CGU for which an impairment loss has been recognised or reversed during the reporting period.

  The subsequent additional amendments issued in 2013 need not be applied until annual periods beginning on or after 1 January 2014, i.e. one year later than the effective date of HKFRS 13, but can be early adopted to align with the adoption of HKFRS 13. In these illustrative financial statements, ABC Bank has chosen to early adopt the 2013 additional amendments and therefore adopted in a single step in 2013 the changes to HKAS 36 made by HKFRS 13 as modified by the subsequent additional amendments. Disclosure in respect of the impairment loss recognised for fixed assets in note 30 and CGU in note 31 has been updated accordingly.

Since the impact of adopting the new or revised standards varies from one entity to another, depending on their facts and circumstances, care should be taken to tailor the disclosures to suit the entity's circumstances, particularly in the discussion of changes in accounting policies resulting from the new standards.

In order to give some indication as to the future developments to watch out for, the current exposure drafts in issue are set out in Appendix C to this Guide. Even if entities have no wish to adopt the changes earlier than required, it is important to keep track of these developments as HKAS 8, *Accounting policies, changes in accounting estimates and errors*, contains a requirement to disclose an advance warning concerning their possible effect on the entity's future financial statements once the requirements have been finalised.

More insight into the changes introduced by a particular development can be obtained from our Financial Reporting Updates (FRUs), and IFRS publications, including First Impressions and IFRS Practice Issues series, issued by KPMG International's International Standards Group. All of these publications can be obtained at www.kpmg.com.cn under "Research/Audit/Audit publications". The full text of the HKFRSs is available from the HKICPA's website, www.hkicpa.org.hk, under "Standards & regulation/Standards/Financial reporting". We also advise you to check regularly the HKICPA's and IASB's websites, www.hkicpa.org.hk and www.ifrs.org respectively, for their latest announcements.

Illustrative Annual Report

(for an authorised institution listed on the Main Board of the Stock Exchange of Hong Kong)

31 December 2013

Prepared in accordance with
generally accepted accounting principles
in Hong Kong

"Illustrative annual report" is for the use of clients, partners and staff of KPMG. The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity, or to illustrate all the regulatory or HKFRS disclosures that may need to be made to reflect the particular circumstances of a reporting entity.

Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation. All entities and persons mentioned herein are fictitious. Any resemblance to any entities or persons is purely coincidental.

Information for users of this illustrative annual report

The following annual report is prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong (GAAP), the Hong Kong Companies Ordinance (HKCO), the applicable disclosure provisions of the Main Board Listing Rules of the SEHK (MBLRs) and the Banking (Disclosure) Rules (BDR) made by the Hong Kong Monetary Authority (HKMA) under section 60A of the Hong Kong Banking Ordinance (HKBO).

The annual report is assumed to have been issued by a fictitious Main Board listed authorised institution incorporated in Hong Kong, ABC Bank Limited (the Bank), for the financial year ended 31 December 2013. The Bank and its subsidiaries are primarily involved in the business of banking and related financial services in and outside Hong Kong.

The Bank is assumed to have been applying HKFRSs issued by the HKICPA in prior periods. Authorised institutions applying HKFRSs for the first time in their annual financial reports will also need to consider the application of HKFRS 1, *First-time adoption of Hong Kong Financial Reporting Standards*, when making the transition from previous GAAP to HKFRSs.

The following annual report illustrates the effects of certain changes that may commonly affect Hong Kong authorised institutions. However, it should not be relied upon to identify all of the significant changes that an authorised institution may need to make as a result of the new or revised HKFRSs first effective from 1 January 2013.

As further discussed in the Foreword to this guide, to assist in the assessment of the effects of the new and revised standards, the appendices to this guide contain further information on the new HKFRSs. The full text of the HKFRSs is available from the HKICPA's website, www.hkicpa.org.hk, under "Standards & regulation/Standards/Financial reporting".

Use of the illustrative annual report

The format and wording of this annual report are illustrative only and hence are not intended to be mandatory. Other methods or styles of presentation adopted may be equally acceptable provided that they comply with the disclosure provisions of the HKFRSs, HKCO, MBLRs, and BDR and that the financial statements as a whole present a true and fair view.

The illustrative annual report does not include certain information required or recommended by the HKFRSs or MBLRs that is expected to vary significantly from one authorised institution to the next and to be particular to the authorised institution's circumstances. Examples of such information are disclosure information under Parts 5, 6 and 7 of the BDR, discount rates, specific details of hedging strategies, connected transactions, biographical details of the directors and senior managers, a separate statement containing a discussion and analysis of the listed Group's performance during the financial year and the issuer's corporate governance report.

The illustrative annual report illustrates a range of common accounting policies and transactions but should not be used as a substitute for referring to the rules, standards and interpretations themselves. In addition, care should be taken to take account of the impact of any changes in requirements that may result from the finalisation of current exposure drafts or other current projects of the SEHK, HKICPA, IASB or its interpretive body, IFRS Interpretations Committee, between the date of this publication and the finalisation of your annual report.

References

Where the HKFRSs, HKCO, MBLRs or BDR state that a specific item should be disclosed, references to the relevant paragraphs are provided. For example, the reference "HKAS 1.10(b)" is given at the start of the consolidated statement of comprehensive income as paragraph 10(b) of HKAS 1 specifies that a complete set of financial statements should include such a statement. We have used "CP" to indicate disclosures that, while not required, are common practice or, in our view, are likely to be considered best practice.

The information which is not generally required to be disclosed in the directors' report or the financial statements of an unlisted authorised institution or group is highlighted by the use of black italics (see for example, the information on major customers given on page 12).

Compliance with International Financial Reporting Standards (IFRSs)

Since the completion of the IFRS convergence project with effect from 1 January 2005, the HKICPA has maintained its policy of adopting word for word all amendments and Interpretations from their IFRS equivalents and with the same effective dates. Hence the body of HKFRSs is almost identical to the body of IFRSs.

However, some legacy differences remain and these may still result in financial statements prepared under HKFRSs showing different amounts and disclosures than would have been shown by an authorised institution that had adopted IFRSs. For example, entities which carried property, plant and equipment at revalued amounts in financial statements relating to periods ended before 30 September 1995 are not required to make regular revaluations in accordance with paragraphs 31 and 36 of HKAS 16, *Property, plant and equipment*, even if the carrying amounts of the revalued assets are materially lower than the asset's fair values, provided that they have not revalued their property, plant and equipment subsequent to 30 September 1995.

Further information on these differences between HKFRSs and IFRSs can be found from a detailed comparison maintained by the HKICPA on their website at www.hkicpa.org.hk under "Standards & regulation/Standards/Financial reporting/References Materials".

In addition, when an entity transitions to IFRSs for the first time it is required to apply IFRS 1, *First time application of IFRSs*, to the preparation of its financial statements in that first year. IFRS 1 contains a number of elections that can be made on first time adoption of IFRSs and a number of other mandatory transitional treatments. This process of transition could therefore also lead to differences between financial statements prepared in accordance with IFRSs and those that would have been prepared in accordance with HKFRSs (or other local GAAP) had the entity not transitioned to IFRSs.

Listed issuers which prepare their annual reports in accordance with IFRSs should check carefully the impact of these differences before using this guide for reference.

ABC Bank Limited[1]

(Stock code: ••••)[2]

[insert Chinese name where applicable]

2013

Annual Report
for the year ended 31 December 2013

HKAS 1.51(a) [1] The name of the reporting entity or other means of identification, and any change in that information from the preceding reporting period should be prominently displayed and repeated where necessary for a proper understanding of the information presented.

R13.51A [2] A listed issuer shall set out its stock code in a prominent position on the cover page or, where there is no cover page, the first page of all announcements, circulars and other documents published by it pursuant to the MBLRs.

NB In June 2006, the SEHK published on its website further guidance on the practical application of Rule 13.51A in the form of an answer to one of the "frequently asked questions" on the "minor and housekeeping rule amendments" effective on 1 March 2006. This guidance states that where an issuer publishes a financial report with a glossy cover, it is acceptable to include the stock code in the corporate or shareholder information section of the document, provided the stock code is displayed prominently in such information. It also states that this application is a modification to the strict wording of Rule 13.51A, for which the SEHK has obtained consent from the Securities and Futures Commission. If in any doubt about whether such guidance is still current at the time of preparing the annual report, SEHK's Listing Division should be consulted.

Contents

Report of the directors

S129D(1) The directors have pleasure in submitting[3] their annual report together with the audited financial statements for the year ended 31 December 2013.

Principal place of business

HKAS 1.138(a) ABC Bank Limited (the Bank) is a licensed bank incorporated and domiciled in Hong Kong and has its registered office and principal place of business at 11/F New View Building, 100 Smith Street, Central, Hong Kong[4].

Principal activities

S129D(3)(a) The principal activities of the Bank are the provision of banking and related financial services. The principal activities and other particulars of the Bank's subsidiaries are set out in note 28 to the financial statements.

CP *The analyses of the principal activities and geographical locations of the operations of the Bank and its subsidiaries (the Group) during the financial year are set out in note 18 to the financial statements.*

Major customers

A16(31) *The directors believe that the five largest customers of the Group accounted for less than 30% of the total of interest income and other operating income of the Group for the financial year.*

Financial statements

S129D(1) The profit of the Group for the financial year ended 31 December 2013 and the state of the Bank's and the Group's affairs as at that date are set out in the financial statements on pages 21 to 199.

Transfer to reserves[5]

S129D(3)(c) Profit attributable to shareholders, before dividends, of HK$X (2012: HK$X) has been transferred to reserves. Other movements in reserves are set out in the consolidated statement of changes in equity.

S129D(3)(b) An interim dividend of HK$X per share (2012: HK$X per share) was paid on 18 September 2013. The directors now recommend the payment of a final dividend of HK$X per share (2012: HK$X per share) in respect of the financial year ended 31 December 2013.

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[3] Where a loss has been made "submit herewith" may be inserted to replace "have pleasure in submitting".

HKAS 1.138(a) [4] HKAS 1 requires disclosure of the address of the registered office of the Bank (or its principal place of business if different from its registered office) if this information is not disclosed elsewhere in information published with the financial statements.

S129D(3) [5] Section 129D(3) of the HKCO requires a number of disclosures in the Directors' Report, such as the amount of transfer to reserves, the amount of dividends recommended by directors, particulars of significant changes in the fixed assets of the Bank and its subsidiaries, details of shares or debentures issued during the financial year. Although not required, negative statements explaining that there are no such items during the financial year are best practice.

Charitable donations

S129D(3)(e) Charitable donations made by the Group during the financial year amounted to HK$X (2012: HK$X)[6].

Fixed assets[5 on page 12]

S129D(3)(f) During the year, the Group acquired two properties for approximately HK$X as branch premises. Details of these acquisitions and other movements in fixed assets are set out in note 30 to the financial statements.

Share capital[5 on page 12]

S129D(3)(g) Details of the movements in share capital of the Bank during the financial year are set out in note 42 to the financial statements. Shares were issued during the financial year on exercise of share options.

A16(10)(4)
R10.06(4)(b) *Except as set out in note 42 to the financial statements, there were no purchases, sales or redemptions of the Bank's listed securities by the Bank or any of its subsidiaries during the financial year.*

Directors

S129D(3)(i) The directors during the financial year were:

Non-executive Chairman

Hon WS Tan

Executive directors

SK Ho, Chief Executive Officer
YK Ng
PK Smith (alternate: BB Nash)
CJ Wang (appointed on 18 June 2013)
BC Tong (resigned on 31 March 2013)

Independent non-executive directors

TY Sham
YH Li
AC Man

CP The following directors were appointed after the end of the financial year:

AB Clark (appointed on 25 March 2014)
EF Graves (appointed on 25 March 2014)

CP Messrs CJ Wang, AB Clark and EF Graves, having been appointed to the board since the date of the last annual general meeting, retire at the forthcoming annual general meeting in accordance with article X of the Bank's articles of association and, being eligible, offer themselves for re-election.

S129D(3)(d), (e) [6] The disclosure requirements in respect of donations only apply if an entity is not a wholly owned subsidiary of a company incorporated in Hong Kong. Furthermore, donations are not required to be disclosed if total donations during the financial year fall below a specified de-minimus limit, as set out in section 129D, sub-paragraphs 3(d) and (e) of the HKCO. This limit varies depending on whether or not the Bank has subsidiaries as follows:

- if the Bank does not have any subsidiaries, it should disclose all donations for charitable and other purposes if the total of such donations exceeds $10,000; whereas
- if the Bank does have subsidiaries, it should disclose all donations for charitable and other purposes made by the Bank and its subsidiaries if the total of such donations exceeds $1,000.

CP In accordance with article X of the Bank's articles of association, Mr PK Smith retires from the board by rotation at the forthcoming annual general meeting and, being eligible, offers himself for re-election.

A16(14) *No director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Bank or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.*

A16(13)(1) ***Directors'[7] interests and short positions in shares, underlying shares and debentures***

A16(13)(2) PN5(3.2) & (3.3)(1) *The directors of the Bank who held office at 31 December 2013 had the following interests in the shares of the Bank, its holding company, subsidiaries and other associated corporations (within the meaning of the Securities and Futures Ordinance (SFO)) at that date as recorded in the register of directors' and chief executives' interests and short positions required to be kept under section 352 of the SFO:*

(i) Interests in issued shares

	Ordinary shares of HK$X each					
	Personal interests (Note 1)	*Family interests*	*Corporate interests*	*Trustee interests*	*Total number of shares held*	*% of total issued shares*
Beneficial Interests						
ABC Bank Limited						
Hon WS Tan	*X*	*X (Note 2)*	*X (Note 3)*	-	*X*	*X%*
PK Smith	*X*	-	*X (Note 3)*	-	*X*	*X%*
CJ Wang	*X*	-	-	-	*X*	*X%*
ABC Holding Limited						
Hon WS Tan (Note 3)	*X*	-	-	-	*X*	*X%*
PK Smith (Note 3)	*X*	-	-	-	*X*	*X%*
ABC Finance (Bahamas) Limited						
Hon WS Tan	-	*X (Note 2)*	-	-	*X*	*X%*
PK Smith	*X*	-	-	-	*X*	*X%*
PQR Finance Limited						
CJ Wang	*X*	-	-	-	*X*	*X%*
Non-beneficial Interests						
ABC Bank Limited						
YK Ng	-	-	-	*X (Note 4)*	*X*	*X%*

PN5(3.2) *Notes:*

1 The shares are registered under the names of the directors who are the beneficial shareholders.

2 The spouse of Hon WS Tan is the beneficial shareholder.

PN5(4) *3 Hon WS Tan and Mr PK Smith are beneficial shareholders of X% and X% respectively of the issued share capital of ABC Holding Limited which owned X shares in the Bank at 31 December 2013[8].*

4 Mr YK Ng is one of the trustees of XYZ Pension Scheme which owned X shares in the Bank at 31 December 2013[9].

A16(13)(1) [7] This disclosure should be extended to include disclosure of the chief executive's interests, to the same extent as is disclosed for the directors, where the chief executive is not a member of the board.

PN5(3.2) PN5(4) [8] Where the corporation holding the interest or short position is not wholly-owned by the person / corporation making the disclosure, the percentage interest held by such person / corporation in that corporation should be disclosed. Where there is any duplication between the interests, the extent of this duplication should be clearly stated.

[9] Note that sections 25 and 27 of the Hong Kong Occupational Retirement Schemes Ordinance contain provisions which restrict the extent to which (a) an employee of the relevant employer can be a trustee of a registered scheme and (b) a registered scheme can hold shares in the relevant employer. Similar restrictions may also exist in overseas jurisdictions.

(ii) Interests in underlying shares

The directors of the Bank have been granted options under the Bank's share option scheme, details of which are set out in the section "Share option scheme" below.

A16(13)(1) *Apart from the foregoing, none of the directors of the Bank or any of their spouses or children under eighteen years of age has interests or short positions in the shares, underlying shares or debentures of the Bank, or any of its holding company, subsidiaries or other associated corporations, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Bank pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.*

Share option scheme

R17.09 *The Bank has a share option scheme which was adopted on 1 March 2005 whereby the directors of the Bank are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options to subscribe for shares of the Bank. The purpose of the scheme is to provide an opportunity for employees of the Group to acquire an equity participation in the Bank and to encourage them to work towards enhancing the value of the Bank and its shares for the benefit of the Bank and its shareholders as a whole. The share option scheme shall be valid and effective for a period of ten years ending on 28 February 2015, after which no further options will be granted.*

The exercise price of options is the highest of the nominal value of the shares, the closing prices of the shares on The Stock Exchange of Hong Kong Limited (SEHK) on the date of grant and the average closing price of the shares on the SEHK for the five business days immediately preceding the date of the grant[10]*. The options vest after one year from the date of grant and are then exercisable within a period of two years.*

R17.09(3) *The total number of shares available for issue under the share option scheme as at 31 December 2013 was X shares (including options for X shares that have been granted but not yet lapsed or exercised) which represented X% of the issued share capital of the Bank at 31 December 2013.*

R17.09(4) *The number of securities issued and to be issued upon exercise of the options granted to each participant in any 12-month period is limited to X% of the Bank's ordinary shares in issue.*

S129D(3)(k)
A16(10)(1) &(2)
A16(13)(2)
R17.07
PN 5(3.2) &(3.3)(1)

At 31 December 2013, the directors and employees of the Bank had the following interests in options to subscribe for shares of the Bank (market value per share at 31 December 2013 was HK$X) granted for nil consideration under the share option scheme of the Bank. The options are unlisted. Each option gives the holder the right to subscribe for one ordinary share of HK$1 each of the Bank.[11]

R17.10 [10] Chapter 17 of the MBLRs requires the disclosure of the basis of determining the exercise price under the terms of the share option scheme. This would include separate disclosure of the bases adopted before and after 1 September 2001 if the bases differed and the scheme adopted before 1 September 2001 was still in existence.

R17.07 [11] The information set out in the table is required to be disclosed in relation to each of the issuer's directors, chief executive and substantial shareholders. Where there are also share options granted to suppliers of goods or services and any other participants, the information set out in the table is also required to be disclosed in relation to the aggregate figures for (i) suppliers of goods or services and (ii) all other participants.

Furthermore, where shares issued and to be issued upon exercise of options granted to a single participant are in excess of the maximum entitlement for each participant under the MBLRs that can be issued without additional shareholder approval (see Rule 17.03(4)), the information set out in the table is also required to be disclosed in relation to this particular participant.

	No. of options outstanding at the beginning of the year	*No. of options granted during the year*	*No. of shares acquired on exercise of options during the year*	*No. of options forfeited during the year*	*No. of options outstanding at the year end*	*Date granted*	*Period during which options are exercisable*	*Exercise price per share*	*Market value per share at date of grant of options**	*Market value per share on exercise of options**
Directors										
YK Ng	*X*	*-*	*(X)*	*-*	*-*	*1 November 2010*	*1 November 2011 to 31 October 2013*	*HK$X*	*HK$X*	*HK$X*
	X	*-*	*(X)*	*-*	*-*	*1 July 2012*	*1 July 2013 to 30 June 2015*	*HK$X*	*HK$X*	*HK$X*
PK Smith	*X*	*-*	*(X)*	*-*	*X*	*1 July 2012*	*1 July 2013 to 30 June 2015*	*HK$X*	*HK$X*	*HK$X*
BC Tong	*X*	*-*	*-*	*(X)*	*-*	*1 July 2012*	*1 July 2013 to 30 June 2015*	*HK$X*	*HK$X*	*-*
Employees	*X*	*-*	*-*	*-*	*X*	*1 July 2012*	*1 July 2013 to 30 June 2015*	*HK$X*	*HK$X*	*-*
	-	*X*	*-*	*-*	*X*	*1 May 2013*	*1 May 2014 to 30 April 2016*	*HK$X*	*HK$X*	*-*

The options granted to the directors are registered under the names of the directors who are also the beneficial owners.

R17.07(3) * *being the weighted average closing price of the Bank's ordinary shares immediately before the dates on which the options were granted or exercised, as applicable.*

R17.08 *Information on the accounting policy for share options granted and the weighted average value per option [12] is provided in note 1(o)(ii) and note 41 to the financial statements respectively.*

CP Apart from the foregoing, at no time during the financial year was the Bank, or any of its holding company, subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors of the Bank to acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other body corporate[13].

R17.08 [12] According to Rule 17.08 of the MBLRs, entities listed on the Main Board of the SEHK are encouraged to disclose in their annual report the value of options granted during the financial year and the accounting policy adopted for the share options. However, as these disclosures are also required by HKFRS 2, *Share-based payment,* they are included as part of ABC Bank's annual financial statements instead of in the report of directors.

Notes to Rule 17.08 set out details on how the options should be valued. Where the listed issuer considers that disclosure of the value of options granted is not appropriate, the reason for such non-disclosure should be made.

S129D(3)(k),CP [13] Unlisted entities need only comply with the disclosure requirements of section 129D(3)(k) of the HKCO (which requires a statement explaining the effect of certain option arrangements which are beneficial to the directors and the names of the directors who held shares or debentures acquired through these arrangements). Although not required, a negative statement explaining that no such arrangement exists is best practice.

Substantial shareholders' and other persons'[14] interests and short positions in shares and underlying shares

A16(13)(3) PN5(3.2), (3.4)(1) & (3.5)(1)

The Bank has been notified of the following interests in the Bank's issued shares at 31 December 2013 amounting to 5% or more of the ordinary shares in issue:

	Ordinary shares of HK$X each			
	Registered shareholders	*Corporate interests*	*Total number of ordinary shares held*	*% of total issued shares*
Substantial shareholders				
CDE International Holding Ltd	-	*X (Note)*	*X*	*X%*
CDE Company Ltd (Note)	*X*	-	*X*	*X%*
ABC Holding Limited	*X*	-	*X*	*X%*
Other persons				
EFG Company Ltd	*X*	-	*X*	*X%*

PN 5(4)

Note: The register of interests in shares and short positions kept under section 336 of the SFO indicates that the interest disclosed by CDE International Holding Ltd is the same as the X shares disclosed by CDE Company Ltd, its 100% owned subsidiary[8] on page 14 Apart from the foregoing, no other interests required to be recorded in the register kept under section 336 of the SFO have been notified to the Bank.

Sufficiency of public float

A16(34A)

Based on the information that is publicly available to the Bank and within the knowledge of the directors of the Bank as at the date of this annual report, the Bank has maintained the prescribed public float under the Rules Governing the Listing of Securities on the SEHK (Listing Rules).

Directors' interests in contracts

A16(15) CP

No contract of significance to which the Bank, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a director of the Bank had a material interest, subsisted at the end of the financial year or at any time during the financial year[15].

R1

[14] "Substantial shareholders" are persons (including holders of depository receipts other than depositaries) who are entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting of the Bank. Note that this definition is modified in the case of Rule 14A, *Equity securities – Connected Transactions*, of the MBLRs by the provision of rule 14A.13(1)(b)(i).

PN5(3.1)

"Other persons" are persons who are required pursuant to Part XV of the SFO to notify the Bank of their interests and short positions in the Bank's shares and underlying shares, but who are not substantial shareholders, directors or chief executives of the Bank.

[15] A16(15) of the MBLRs requires disclosure of particulars of any contract of significance subsisting during or at the end of the financial year, in which a director of the listed issuer is or was materially interested. A similar requirement applies under A16(16) in respect of contracts of significance between a listed issuer, or one of its subsidiary companies, and a controlling shareholder (as defined in the MBLRs) or one of its subsidiaries. In addition, section 129D(3)(j) of the HKCO extends the disclosure of directors' interests in contracts to contracts between the director and any holding company of the Bank or a subsidiary of any holding company of the Bank, but only to the extent that the directors regard the contract as being one which is of significance in relation to the Bank's business. Where there have been contracts of significance, care should also be taken to follow the requirements of Chapter 14A of the MBLRs concerning approval and disclosure of connected transactions and to ensure that the financial statements contain sufficient information to comply with HKAS 24, *Related party disclosures*.

A16(15) explicitly requires a negative statement if there have been no such contracts with directors. A16(16) and section 129D of the HKCO are silent on this point, however a negative statement is commonly given.

Five year summary

A16(19) *A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 221 to 222 of the annual report.*

Retirement schemes

A16(26)(1) *The Group operates a Mandatory Provident Fund Scheme which covers X% of the Group's employees. Particulars of the retirement scheme are set out in note 9(a) to the financial statements.*

Confirmation of independence

A16(12B) *The Bank has received from each of the independent non-executive directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive directors to be independent.*

CP **Compliance with the Banking (Disclosure) Rules**

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

Auditors

A16(30) *KPMG were first appointed as auditors of the Bank in 2011 upon the retirement of Wood & Co*[16].

CP KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Bank is to be proposed at the forthcoming Annual General Meeting.[17]

By order of the board

F. Cullen
Secretary

Hong Kong, 28 March 2014

A16(30) [16] Disclosure of a statement of any change in auditors in any of the preceding three financial years is required under the MBLRs.

[17] Disclosure of such information relating to auditors is optional, but commonly done.

KPMG

HKSA 700. 21 & 22

CP

Independent auditor's report to the shareholders of ABC Bank Limited

(Incorporated in Hong Kong with limited liability)[18 on page 20]

S141(1) HKSA 700.23

We have audited the consolidated financial statements of ABC Bank Limited (the Bank) and its subsidiaries (together "the Group") set out on pages 21 to 199, which comprise the consolidated and Bank statements of financial position as at 31 December 2013, the consolidated income statement, the consolidated statement of comprehensive income[19 on page 20], the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

HKSA 700.24-27

Directors' responsibility for the financial statements

The directors of the Bank are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

HKSA 700.28-33

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.[20 on page 20]

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

HKSA 700.34-37

Opinion

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

HKSA 700.40

HKSA 700.42

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

HKSA 700.41

28 March 2014

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[18] In Hong Kong, it is a common practice to disclose the place of incorporation of the Bank in the auditor's report. The auditor's report illustrated here is suitable for Hong Kong incorporated AIs preparing consolidated financial statements.

HKSA 700.23(c), HKAS 1.10A

[19] Paragraph 23(c) of HKSA 700, *Forming an opinion and reporting on financial statements*, requires the title of each of the financial statements that comprise the complete set of financial statements be identified in the introductory paragraph of the auditor's report. As the AI has chosen to present income and expenses using a two-statement format, i.e. by presenting both a consolidated income statement and a consolidated statement of comprehensive income (see footnote 21 on page 22 to these illustrative financial statements), the introductory paragraph of the auditor's report has identified both the consolidated income statement and the consolidated statement of comprehensive income as parts of the complete set of financial statements.

[20] In May 2003, the HKICPA issued a Professional Risk Management Bulletin No.2, Auditors' duty of care to third parties and the audit report ("the Bulletin"), recommending to its practising members revised wording for the statement of auditors' responsibilities in statutory audit reports. The purpose of the revised statement of responsibilities is to clarify that the auditors' duty of care and responsibilities are owed under the HKCO to the shareholders, as a body, and not to third parties. It does not change the duty and responsibilities of auditors under the HKCO. Our firm follows the recommendation in the Bulletin and adopts the revised statement in our reports.

S125(1)
HKAS 1.12, 51 & 81

Consolidated income statement[21, 22, 23, 24 on pages 22 and 23] for the year ended 31 December 2013

(Expressed in Hong Kong dollars)

		Note	*2013* $'000	*2012* $'000
HKAS 1.113 HKFRS 7.7 BDR 35(4) A15(1)(l)(n) A16(2)(2) HKAS 1.51(e)				
A15(1)(l)(a) HKAS 1.82(b)	Interest income[25 on page 23]	3(a)	X	X
A15(1)(l)(b)	Interest expense	3(b)	(X)	(X)
	Net interest income		X	X
	Fee and commission income[25 on page 23]	4(a)	X	X
	Fee and commission expense	4(b)	(X)	(X)
	Net fee and commission income		X	X
HKFRS 7.20(a)(i) BDR 35(1)(a)(i)(B)	Net trading income	5	X	X
HKFRS 7.20(a)(i) BDR 35(1)(a)(i)(A)	Net income from financial instruments designated at fair value through profit or loss	6	X	X
HKAS 1.85	Net hedging income	7	X	X
A15(1)(l)(c)	Other operating income[25 on page 23]	8	X	X
	Operating income		X	X
A15(1)(l)(d)	**Operating expenses**	9	(X)	(X)
			X	X
HKFRS 7.20(e) BDR 35(1)(a)(iv)	Impairment losses on loans and advances	12	(X)	(X)
HKFRS 7.20(e) BDR 35(1)(a)(ii) A15(1)(l)(h)	Impairment losses on available-for-sale financial assets		(X)	(X)
HKFRS 7.20(e) BDR 35(1)(a)(iii) A15(1)(l)(h)	Impairment losses on held-to-maturity investments	27	(X)	(X)
	Impairment losses on fixed assets	30(a)	(X)	-
	Impairment losses on goodwill	31	(X)	-
	Impairment losses[26 on page 23]		(X)	(X)
HKFRS 7.20(a)(iii) BDR 35(1)(a)(iii)	Net profit on sale of held-to-maturity investments		X	X
HKFRS 7.20(a)(ii) BDR 35(1)(a)(ii)	Net profit on sale of available-for-sale financial assets	13	X	X
	Operating profit		X	X
BDR 35(1)(h) A16(4)(1)(l)	Net profit on sale of fixed assets[27 on page 23]		X	X
HKAS 1.85 BDR 35(1)(g) A16(4)(1)(m)	Valuation gains on investment property[28 on page 23]	30(a)	X	X
HKAS 1.82(c) HKAS 28.38	Share of profits less losses of associates		X	X
A16(4)(1)(b)	**Profit before taxation**		X	X
HKAS 1.82(d) HKAS 12.77	Income tax	14(a)	(X)	(X)
HKAS 1.81A(a)	**Profit for the year**		X	X

S125(1)
HKAS 1.12, 51 & 81
HKFRS 7.7
BDR 35(4)
A15(1)(l)(n)
A16(2)(2)

Consolidated income statement for the year ended 31 December 2013 (continued)

(Expressed in Hong Kong dollars)

		Note	2013 $'000	2012 $'000
HKAS 1.113				
HKAS 1.51(e)				
HKAS 1.83(a)	**Attributable to:**			
A16(4)(1)(e)	Equity shareholders of the Bank	15	X	X
A16(4)(1)(d) HKAS 27.28	Non-controlling interests	43	X	X
HKAS 1.82(f)	**Profit for the year**		X	X
HKAS 33.66 A15 (1)(l)(m) A16(4)(1)(g)	***Earnings per share***[29 on page 23]	17		
	Basic		*HK$ X*	*HK$ X*
	Diluted		*HK$ X*	*HK$ X*

A16(4)(1)(f) 10th Sch(13(1)(j))

The notes on pages 35 to 199 form part of these financial statements. Details of dividends payable to equity shareholders of the Bank attributable to the profit for the year are set out in note 42(b)[30] on page 23.

HKAS1.10,10A [21] The amendments to HKAS 1, *Presentation of items of other comprehensive income*, effective for annual periods beginning on or after 1 July 2012, change the titles "Income statement" to "Statement of profit or loss" and "Statement of comprehensive income" to "Statement of profit or loss and other comprehensive income". However, entities are still allowed to use other titles, such as the old titles. If the entity decides to use the new titles in the financial statements, care should be taken to ensure that the titles are applied consistently in the financial statements to avoid confusion, including the references to the relevant statement in the accounting policy notes. In this illustration, ABC Bank Limited has chosen not to use the new titles.

HKAS 1.106 [22] HKAS 1 requires separate presentation of non-owner changes in equity (i.e. items of income and expense) from owner changes in equity (i.e. all other changes in equity, such as from capital injections or dividends paid).

HKAS 1.7, 81A-82A For non-owner changes in equity, the standard uses the term "total comprehensive income" to refer to all items of income and expense, whether or not recognised in profit or loss. HKAS 1 allows a choice of format for disclosing comprehensive income between either:

(i) presenting an income statement to arrive at "profit or loss", and then immediately afterwards presenting a "statement of comprehensive income" which begins with "profit or loss" for the period (as derived from the income statement) and then presents all other items of comprehensive income (such as changes in revaluation surplus on property, plant and equipment under paragraphs 39 and 40 of HKAS 16, *Property, plant and equipment*) in order to arrive at "total comprehensive income"; or

(ii) presenting all items of total comprehensive income in a single "statement of comprehensive income".

In these illustrative financial statements ABC Bank Limited has opted for the two-statement approach. For an illustration of the alternative single-statement format, please refer to issue 40 of our Financial Reporting Update on HKAS 1.

HKAS 1.8

23 Although HKAS 1 uses the terms "other comprehensive income", "profit or loss" and "total comprehensive income", an entity may use other terms to describe the totals as long as the meaning is clear. For example, an entity may use the term "net income" to describe profit or loss, and the titles "profit and loss account" or "statement of profit or loss" could be used instead of "income statement". Whatever terms are adopted, care should be taken to ensure that they are used consistently throughout the financial statements.

HKAS 1.113

24 Each item on the face of the income statement shall be cross-referenced to any related information in the notes. There are a variety of acceptable presentation methods, the above presentation is just a recommended method.

HKAS 1.82(a)

25 Turnover, in the context of an authorised institution (AI), would generally comprise gross interest income, gross fee and commission income and would generally comprise other operating income. Therefore, the requirement in HKAS 1 to present turnover on the face of the income statement is met by disclosing these amounts on the face of the income statement. Note that gains are not a form of revenue (since they are, by definition, net of any associated costs) and should not be reported as such.

26 If any material impairment loss is incurred on placements with banks and financial institutions, the amounts should be disclosed separately.

BDR 35(1)(g)

27 It is assumed throughout these financial statements that the disposal of investment property is immaterial. If there are any material net gains or net losses on disposal of investment properties by the AIs, the amounts should be disclosed separately.

HKAS 1.45 & 85

28 Neither HKAS 1, *Presentation of financial statements*, nor HKAS 40, *Investment property*, prescribes where movements in the fair value of investment property should be presented on the face of the income statement / the statement of comprehensive income, nor whether they should be separately presented from other items of income and expense. However, once a form of presentation has been adopted by an AI, it should be followed consistently from one period to the next unless it is apparent that another presentation would be more appropriate.

HKAS 33.4, 4A & 66

29 As stated in footnote 21 on page 22, HKAS 1 allows entities to present comprehensive income using either a one-statement (i.e. a single "statement of comprehensive income") or a two-statement (i.e. an "income statement" together with a "statement of comprehensive income") approach. HKAS 33, *Earnings per share*, requires the presentation of basic and diluted earnings per share in the separate income statement if such a statement is presented or in the statement of comprehensive income if an entity opts for the single-statement approach. In addition, where the entity has reported amounts relating to discontinued operations, basic and diluted earnings per share amounts should be disclosed in the relevant statement for both (a) profit or loss from continuing operations attributable to the parent entity and (b) profit or loss attributable to the parent entity (i.e. profit or loss including discontinued operations). Also, all these disclosures shall be made separately for each class of ordinary share that has a different right to share in profit for the period.

HKAS 1.IN16, 107, BC75

30 HKAS 1 does not permit an entity to disclose the amount of dividends to equity owners in either the income statement or the statement of comprehensive income. Instead, as such dividends are an owner change in equity, they are required to be reported in the statement of changes in equity or in the notes. However, as it has been common place to refer to dividends in the income statement, we expect that users will find useful a cross reference, such as is illustrated here, to where details of the dividends can be found in the financial statements. This also serves to demonstrate compliance with paragraph 4(1)(f) of appendix 16 to the MBLRs and paragraph 13(1)(j) of the 10th Schedule to the HKCO, both of which, as of the time of writing, still regard dividends as being information to be associated with the income statement.

HKAS 1.10(b) & 51

Consolidated statement of comprehensive income[21 on page 22, 31]
for the year ended 31 December 2013

(Expressed in Hong Kong dollars)

HKAS 1.113 HKAS 1.51(e)		*Note*	*2013* $'000	*2012* $'000
HKAS 1.81A(a)	**Profit for the year**		X	X
HKAS 1.81A(b)	**Other comprehensive income[32] for the year (after tax[33] and reclassification adjustments[34 on page 26])**	16		
HKAS 1.82A(a)	Items that will not be reclassified to profit or loss:			
	Surplus on revaluation of land and buildings held for own use	30(d)	X	X
			X	X
HKAS 1.82A(b)	Items that may be reclassified subsequently to profit or loss:			
	Exchange differences on translation of:			
	- financial statements of overseas branches, subsidiaries and associates		(X)	X
	- related borrowings		X	(X)
			(X)	X
	Cash flow hedge:			
HKFRS 7.23(c)	- effective portion of changes in fair value		(X)	(X)
HKFRS 7.23(d), HKAS 1.92	- net amount transferred to profit or loss		(X)	(X)
	Available-for-sale financial assets: net movement in the available-for-sale fair value reserve		X	X
			X	X
HKAS 1.81A(c)	**Total comprehensive income for the year**		X	X
	Attributable to:			
HKAS 1.81B(b)	Equity shareholders of the Bank		X	X
HKFRS 10.B94	Non-controlling interests		X	X
HKAS 1.82(i)	**Total comprehensive income for the year**		X	X

The notes on pages 35 to 199 form part of these financial statements.

HKAS 1.113 [31] Each item on the face of the statement of comprehensive income shall be cross-referenced to any related information in the notes.

HKAS 1.82A [32] The amendments to HKAS 1, *Presentation of items of other comprehensive income*, effective for annual periods beginning on or after 1 July 2012, introduce a new requirement to present line items for amounts of other comprehensive income that may be reclassified to profit or loss in the future (e.g. realised gains or losses on available-for-sale financial assets) separately from those that would never be reclassified to profit or loss (e.g. revaluation surplus of property, plant and equipment). This amendment does not change the existing option to present total comprehensive income in one or two statements.

HKAS 1.90-91 [33] Entities are allowed to present the items of other comprehensive income on the face of the statement of comprehensive income either (a) net of related tax effects, or (b) before related tax effects with the aggregate tax shown separately. If the alternative (b) is elected, then the "aggregate" amount should be allocated between the items that may be reclassified subsequently to profit or loss and those that will not be reclassified subsequently to profit or loss. Irrespective of the approach taken, the entity should disclose the tax amount relating to each item of other comprehensive income in the notes, to the extent that this information is not provided on the face of the statement of comprehensive income.

In these illustrative financial statements, ABC Bank Limited has taken the alternative (a), i.e. presenting the after-tax amounts in the statement of comprehensive income. Disclosure of the tax attributable to individual items of other comprehensive income is given in note 16 to the financial statements.

S125(1)
HKAS 1.10(a), 51
HKFRS 7.7
A15(1)(II)(g)
A16(2)(1)

Consolidated statement of financial position at 31 December 2013[35 on page 26, 36 on page 27]

(Expressed in Hong Kong dollars)

HKAS 1.113

	Note	31 December 2013 $'000	31 December 2012 $'000
HKAS 1.51(e)			
Assets			
HKAS 1.54(i) BDR 36(1)(a)(i) A15(1)(II)(a) Cash and balances with banks, central banks and other financial institutions	19	X	X
BDR 36(1)(a)(ii) Placements with banks, central banks and other financial institutions	20	X	X
Hong Kong SAR Government certificates of indebtedness[37 on page 27]	21	X	X
Trade bills	22	X	X
HKFRS 7.8(a)(ii) BDR 36(1)(a)(iii)(B) Trading assets[38 on page 27]	23	X	X
HKFRS 7.8(a)(i) BDR 36(1)(a)(iii)(A) Financial assets designated at fair value through profit or loss[38 on page 27]	24	X	X
HKFRS 7.8(c) BDR 36(1)(a)(v)(A) A15(1)(II)(c) Loans and advances to customers	25	X	X
HKFRS 7.8(d) BDR 36(1)(a)(vi) Available-for-sale financial assets	26	X	X
HKFRS 7.8(b) BDR 36(1)(a)(iv) Held-to-maturity investments	27	X	X
HKAS 1.54(e) BDR 36(1)(a)(vii) Interest in associates	29	X	X
10th Sch(4(2)) BDR 36(1)(a)(viii) A16(4)(2)(a) Fixed assets	30(a)		
HKAS 1.54(b) - Investment property		X	X
HKAS 1.54(a) - Other property and equipment		X	X
HKAS 1.55 - Interests in leasehold land held for own use under operating leases		X	X
10th Sch(9(1)(b)) HKAS 1.54(c) Goodwill and intangible assets	31	X	X
HKAS 1.54(o) Deferred tax assets	38(b)	X	X
Other assets	32	X	X
TOTAL ASSETS		X	X
Equity and liabilities			
Hong Kong SAR currency notes in circulation[37 on page 27]	21	X	X
BDR 36(1)(b)(i) Deposits and balances of banks and other financial institutions	33	X	X
HKFRS 7.8(f) Deposits from customers	34	X	X
HKFRS 7.8(e)(ii) Trading liabilities[38 on page 27]	35	X	X
HKFRS 7.8(e)(i) Financial liabilities designated at fair value through profit or loss[38 on page 27]	36	X	X
HKFRS 7.8(f) BDR 36(1)(b)(iii)(B) A15(1)(II)(e) Certificates of deposit issued		X	X
HKFRS 7.8(f) BDR 36(1)(b)(iv)(B) A15(1)(II)(e) Debt securities issued	37	X	X
HKAS 1.54(n) Current taxation	38(a)	X	X
HKAS 1.54(o) BDR 36(1)(b)(v) 10th Sch (6) Deferred tax liabilities	38(b)	X	X
BDR 36(1)(b)(vi) A15(1)(II)(f) Other liabilities	39	X	X
BDR 36(1)(b)(viii) Subordinated liabilities	40	X	X
Total liabilities		X	X

S125(1)
HKAS 1.10(a), 51
HKFRS 7.7
A15(1)(II)(g)
A16(2)(1)

Consolidated statement of financial position at 31 December 2013 (continued)

(Expressed in Hong Kong dollars)

HKAS 1.113

HKAS 1.51(e)

	Note	31 December 2013 $'000	31 December 2012 $'000
HKAS 1.54(r) A16(4)(2)(g) BDR 36(1)(b)(x) **Equity**			
Share capital	42(c)	X	X
10th Sch(6) Reserves		X	X
Total equity attributable to equity shareholders of the Bank		X	X
HKAS 1.54(q) HKAS 27.33 BDR 36(1)(b)(ix) A16(4)(2)(h) **Non-controlling interests**	43	X	X
Total equity		X	X
TOTAL EQUITY AND LIABILITIES		X	X

HKAS 10.17 Approved and authorised for issue by the board of directors on 28 March 2014.

Hon WS Tan)
YK Ng)
SK Ho) Directors[39 on page 27]

Secretary[40 on page 27]
F. Cullen

The notes on pages 35 to 199 form part of these financial statements.

HKAS1.92-94 [34] Individual HKFRSs specify whether and when amounts that were previously recognised in other comprehensive income are reclassified to profit or loss as follows:

- Items that will not be reclassified to profit or loss:
  - changes in the revaluation surplus on property, plant and equipment recognised under paragraphs 39 and 40 of HKAS 16 or on intangible assets under paragraphs 85 and 86 of HKAS 38;
- Items that may be reclassified subsequently to profit or loss:
  - gain and losses arising from translating the financial statements of a foreign operation in accordance with paragraphs 32 and 39 of HKAS 21;
  - gains and losses on re-measuring available-for-sale investments in accordance with paragraph 55 of HKAS 39; and
  - the effective portion of gains and losses on hedging instruments in a cash flow hedge or hedge of a net investment in a foreign operation in accordance with paragraphs 95 and 102 of HKAS 39.

Reclassification adjustments are included with the related components of other comprehensive income in the period these adjustments are reclassified to profit or loss. The adjustments should be either separately disclosed on the face of the statement of comprehensive income, or in the notes. In these illustrative financial statements, the reclassification adjustments are presented separately in note 16 to the financial statements, with the net amounts for each item of other comprehensive income being presented in the statement of comprehensive income. For example, the amount of gains and losses on re-measuring available-for-sale financial assets that is reported as "other comprehensive income" has been reduced by the amount of gains or losses transferred from equity to profit or loss for the period in accordance with paragraph 55(b) of HKAS 39, Financial instruments: Recognition and measurement, as a result of disposal or impairment of these financial assets during the period.

HKAS1.10 [35] HKAS 1 uses the title "the statement of financial position" to refer to the balance sheet. If an entity decides to use this title in their financial statements, care should be taken to ensure that consequential wording changes are applied consistently to avoid confusion. For example, instead of referring to the "balance sheet date", the entity could use the phrase "end of the reporting period".

HKAS1.60, 1.63 HKAS1.113 [36] AIs generally present assets and liabilities in order of their liquidity because such information is more relevant than separate current and non-current classifications. Each material item on the face of the statement of financial position should be cross-referenced to the related information in the notes. There are a variety of acceptable presentation methods, the above presentation is just a recommended method.

HKAS 1.54(i) [37] This item is only applicable to the three note-issuing banks in Hong Kong.

HKFRS 7.8 (a),(e) [38] Alternatively, financial instruments classified as trading and designated at fair value through profit or loss can be combined on the face of the statement of financial position and shown separately in the notes to the financial statements.

S129B(2) [39] For licensed banks, the statement of financial position shall be signed by at least 3 directors if there are more than 3 directors, or by all the directors if there are not more than 3 directors. The signature of two directors is sufficient for a restricted licence bank or a deposit-taking company.

S129B(2) [40] The statement of financial position of licensed banks shall be signed by the secretary, if any. The signature of the secretary is not necessary for a restricted licence bank or a deposit-taking company.

S122
HKAS 1.10(a), 51,
HKFRS 7.7
A15(1)(II)(g)
A16(2)(1)

Statement of financial position at 31 December 2013[35]

on page 26, 36 on page 27

HKAS 1.113
HKAS 1.51(e)

(Expressed in Hong Kong dollars)

		Note	2013 $'000	2012 $'000
	Assets			
HKAS 1.54(i) BDR 36(1)(a)(i) A15(1)(II)(a)	Cash and balances with banks, central banks and other financial institutions	19	X	X
BDR 36(1)(a)(ii)	Placements with banks, central banks and other financial institutions	20	X	X
	Hong Kong SAR Government certificates of indebtedness[37] on page 27	21	X	X
	Trade bills	22	X	X
HKFRS 7.8(a)(ii) BDR 36(1)(a)(iii)(B)	Trading assets[38] on page 27	23	X	X
HKFRS 7.8(a)(i) BDR 36(1)(a)(iii)(A)	Financial assets designated at fair value through profit or loss[38] on page 27	24	X	X
HKFRS 7.8(c) BDR 36(1)(a)(v)(A) A15(1)(II)(c)	Loans and advances to customers	25	X	X
HKFRS 7.8(d) BDR 36(1)(a)(vi)	Available-for-sale financial assets	26	X	X
HKFRS 7.8(b) BDR 36(1)(a)(iv)	Held-to-maturity investments	27	X	X
	Investments in subsidiaries	28	X	X
HKAS 1.54(e) BDR 36(1)(a)(vii)	Interest in associates	29	X	X
10th Sch(4(2)) BDR 36(1)(a)(viii) A16(4)(2)(a)	Fixed assets	30(b)	X	X
HKAS 1.54(c) 10th Sch (9(1)(b))	Intangible assets	31	X	X
	Other assets	32	X	X
	TOTAL ASSETS		X	X
	Equity and liabilities			
	Hong Kong SAR currency notes in circulation[37] on page 27	21	X	X
BDR 36(1)(b)(i)	Deposits and balances of banks and other financial institutions	33	X	X
HKFRS 7.8(f)	Deposits from customers	34	X	X
HKFRS 7.8(e)(ii)	Trading liabilities[38] on page 27	35	X	X
HKFRS 7.8(e)(i)	Financial liabilities designated at fair value through profit or loss[38] on page 27	36	X	X
HKFRS 7.8(f) BDR36(1)(b)(iii)(B) A15(1)(II)(e)	Certificates of deposit issued		X	X
HKFRS 7.8(f) BDR36(1)(b)(iv)(B) A15(1)(II)(e)	Debt securities issued	37	X	X
HKAS 1.54(n)	Current taxation	38(a)	X	X
HKAS 1.54(o) BDR 36(1)(b)(v) 10th Sch (6)	Deferred tax liabilities	38(b)	X	X
BDR 36(1)(b)(vi) A15(1)(II)(f)	Other liabilities	39	X	X
BDR 36(1)(b)(viii)	Subordinated liabilities	40	X	X
	Total liabilities		X	X

S122
HKAS 1.10(a), 51
HKFRS 7.7
A15(1)(II)(g)
A16(2)(1)

Statement of financial position at 31 December 2013 (continued)

(Expressed in Hong Kong dollars)

HKAS 1.113
HKAS 1.51 (e)
HKAS 1.54(r)
A16(4)(2)(g)
BDR 36(1)(b)(x)
10th Sch (6)

	Note	*2013* $'000	*2012* $'000
Equity			
Share capital	42(c)	X	X
Reserves		X	X
Total equity		X	X
TOTAL EQUITY AND LIABILITIES		X	X

S129B(1) Approved and authorised for issue by the board of directors on 28 March 2014.

Hon WS Tan)
YK Ng) Directors[39 on page 27]
SK Ho)

Secretary[40 on page 27]
F. Cullen

The notes on pages 35 to 199 form part of these financial statements.

HKAS 1.10(c) & 51 A16(2)(4)

Consolidated statement of changes in equity[41, 42 on page 31] for the year ended 31 December 2013

(Expressed in Hong Kong dollars)

HKAS 1.113 HKAS 1.51(e)		Note	*Attributable to equity shareholders of the Bank*											
			Share capital $'000	*Share premium* $'000	*Capital reserve* $'000	*Exchange reserve* $'000	*Land and buildings revaluation reserve* $'000	*Available-for-sale fair value reserve* $'000	*Hedging reserve* $'000	*Regulatory reserve* $'000	*Retained profits* $'000	*Total* $'000	*Non-controlling interests* $'000	*Total equity* $'000
	Balance at 1 January 2012 43 on page 31		X	X	X	X	X	X	X	X	X	X	X	X
HKAS 1.106(d)	**Changes in equity for 2012:**													
	Profit for the year		-	-	-	-	-	-	-	-	X	X	X	X
	Other comprehensive income		-	-	-	X	X	X	X	X	X	X	-	X
HKAS 1.106(a)	Total comprehensive income for the year		X	X	X	X	X	X	X	X	X	X	X	X
HKAS 1.106(c)	Dividends approved in respect of the previous year	42(b)	-	-	-	-	-	-	-	-	(X)	(X)	-	(X)
	Equity settled share-based transactions		-	-	X	-	-	-	-	-	-	X	-	X
	Dividends declared in respect of the current year	42(b)	-	-	-	-	-	-	-	-	(X)	(X)	-	(X)
	Transfer from retained profits		-	-	-	-	-	-	-	X	(X)	-	-	-
	Balance at 31 December 2012 and 1 January 2013		X	X	X	X	X	X	X	X	X	X	X	X

HKAS 1.106(d)	**Changes in equity for 2013:**													
	Profit for the year		-	-	-	-	-	-	-	-	X	X	X	X
	Other comprehensive income		-	-	-	X	X	X	X	X	X	X	-	X
HKAS 1.106(a)	Total comprehensive income for the year		X	X	X	X	X	X	X	X	X	X	X	X
HKAS 1.106(c)	Dividends approved in respect of the previous year	42(b)	-	-	-	-	-	-	-	-	(X)	(X)	-	(X)
	Shares issued under share option scheme	42(c)	X	X	(X)	-	-	-	-	-	-	X	-	X
	Equity settled share-based transactions		-	-	X	-	-	-	-	-	-	X	-	X
	Dividends declared in respect of the current year	42(b)	-	-	-	-	-	-	-	-	(X)	(X)	-	(X)
	Transfer from retained profits		-	-	-	-	-	-	-	X	(X)	-	-	-
	Balance at 31 December 2013		X	X	X	X	X	X	X	X	X	X	X	X

The notes on pages 35 to 199 form part of these financial statements.

HKAS 1.IN13 & 106-106A

[41] Under HKAS 1, the statement of changes in equity focuses on owner changes in equity. Specifically, the standard requires the following items to be included in the statement of changes in equity, analysed by each component of equity:

- total comprehensive income for the period, with profit or loss and other comprehensive income separately disclosed;
- the amounts of transactions with equity holders in their capacity as such (such as equity contributions, re-acquisitions of the entity's own equity instruments, dividends and transaction costs directly related to such transactions); and
- the effects of retrospective application of changes in policies or retrospective restatements recognised in accordance with HKAS 8, *Accounting policies, changes in accounting estimates and errors.*

Entities are required to present an analysis of other comprehensive income by item either in the statement of changes in equity or in the notes. ABC Bank has chosen to present this analysis in the note 16 on page 76).

HKAS 1.113

[42] Each item on the face of the statement of changes in equity shall be cross-referenced to any related information in the notes.

HKAS 1.54(q) & 106(a)

[43] As non-controlling interests in the equity of a subsidiary are presented as part of equity, and not as a deduction from net assets (see policy note 1(c)), they should be included in the statement of changes in equity as one of the components of total equity.

HKAS 1.10(d), 1.51, A16(2)(3) BDR 42

Consolidated cash flow statement[44] for the year ended 31 December 2013

(Expressed in Hong Kong dollars)

HKAS 1.113
HKAS 1.51(e)

	Note	2013 $'000	2012 $'000
HKAS 7.18(b) **Operating activities**			
Operating profit		X	X
Adjustments for:			
Interest expense on subordinated liabilities[50 on page 34]		X	X
Net hedging income	7	(X)	(X)
Dividend income from available-for-sale financial assets	8	(X)	(X)
Rental income from investment properties less direct outgoings	8	(X)	(X)
Impairment losses		X	X
Loans and advances written off net of recoveries		X	X
Net profit on sale of held-to-maturity investments		(X)	(X)
Net valuation gain on investment property	30(a)	(X)	(X)
Depreciation	9(b)	X	X
Amortisation of fees received from financial guarantees issued		X	X
Amortisation of land lease premium for property held for own use	9(b)	X	X
Amortisation of intangible assets	9(b)	X	X
Share of profits less losses of associates	29	(X)	(X)
Gain on sale of fixed assets		(X)	(X)
Transfer from equity on disposal of available-for-sale financial assets	13	X	X
Transfer from equity on impairment of available-for-sale financial assets		X	X
Equity-settled share-based payment expenses	9(a)	X	X
		X	X
(Increase)/decrease in operating assets:			
Treasury bills and certificates of deposit with original maturity beyond three months		(X)	(X)
Gross balances with banks, central banks and other financial institutions with original maturity beyond three months		X	X
Trade bills		X	X
Trading assets		X	X
Financial assets designated at fair value through profit or loss		(X)	(X)
Gross loans and advances to customers		(X)	(X)
Other assets		(X)	X
		(X)	X

HKAS 7.18
HKAS 1.113

[44] This cash flow statement illustrates the indirect method for reporting cash flows from operating activities. AIs are encouraged, but not required, to use the direct method. Each material item on the face of the cash flow statement should be cross-referenced to the related information in the notes.

HKAS 1.10(d), 1.51, A16(2)(3) BDR 42

Consolidated cash flow statement for the year ended 31 December 2013 (continued)

(Expressed in Hong Kong dollars)

		Note	2013 $'000	2012 $'000
HKAS 1.113 HKAS 1.51(e)				
	Increase/(decrease) in operating liabilities:			
	Deposits from customers		X	X
	Deposits of banks and other financial institutions		(X)	(X)
	Trading liabilities		X	X
	Financial liabilities designated at fair value through profit or loss		X	X
	Certificates of deposit issued[45]		(X)	(X)
	Debt securities issued[45]		X	X
	Other liabilities		(X)	(X)
			X	(X)
	Cash generated from operations[46]		X	X
HKAS 7.35	Income tax paid[47]			
	- Hong Kong Profits Tax paid		(X)	(X)
	- Overseas tax paid		(X)	(X)
HKAS 7.10	**Net cash from operating activities**		X	X
HKAS 7.21	**Investing activities[48]**			
HKAS 7.16(b)	Proceeds from sale of fixed assets		X	X
HKAS 7.16(a)	Payment for purchase of fixed assets		(X)	(X)
HKAS 7.16(d)	Proceeds from sale of available-for-sale financial assets[49]		X	X
HKAS 7.16(c)	Payment for purchase of available-for-sale financial assets[49]		(X)	(X)
	Proceeds from sale and redemption of held-to-maturity investments[49]		X	X
	Rental received from investment properties		X	X
	Payment for purchase of held-to-maturity investments[49]		(X)	(X)
	Interest received[49]		X	X
	Dividend received[49]		X	X
HKAS 7.37	New loans to associates		(X)	(X)
HKAS 7.37	Loans repaid by associates		X	X
HKAS 7.31, 37	Dividends received from associates		X	X
HKAS 7.10	**Net cash from/(used in) investing activities**		X	(X)

HKAS 7 App B

[45] If certificates of deposit and debt securities are issued as long term borrowing, their cash proceeds and repayment and interest paid should be classified as financing activities, even though HKAS 7 Appendix B illustrates certificates of deposit issued as operating liabilities.

The purpose of the borrowing would determine whether these items are classified under operating activities or financing activities. In most cases, issuing certificates of deposit would be included under operating activities because AIs usually issue them as part of their day-to-day treasury operations.

HKAS 7.18

[46] In these illustrative financial statements, ABC Bank has elected to present cash flows from operating activities using the indirect method, whereby profit or loss is adjusted for the effects of non-cash transactions, accruals and deferrals, and items of income or expense associated with investing or financing cash flows in order to arrive at "Cash generated from operations". An entity also may present operating cash flows using the direct method, disclosing major classes of gross cash receipts and payments related to operating activities.

HKAS 7.35

[47] Cash flows arising from taxes on income should be attributable to operating activities unless they can be specifically identified with financing and investing activities.

HKAS 7.43

[48] Investing and financing transactions that do not require the use of cash or cash equivalents shall be excluded from a cash flow statement. Relevant information in respect of such non-cash transactions should be disclosed elsewhere in the financial statements.

HKAS 7.33

[49] In the above consolidated cash flow statement, held-to-maturity and available-for-sale financial assets and the related interest and dividends received are included under investing activities. Alternatively, interest and dividends received may be classified as operating cash flows as this is common practice for financial institutions.

HKAS 1.10(d), 1.51, A16(2)(3) BDR 42

Consolidated cash flow statement for the year ended 31 December 2013 (continued)

(Expressed in Hong Kong dollars)

		Note	2013 $'000	2012 $'000
HKAS 1.113 HKAS 1.51(e)				
HKAS 7.21	**Financing activities**[48] on page 33			
	Proceeds from issue of new subordinated liabilities		X	X
	Repayment of subordinated liabilities		(X)	(X)
	Proceeds from issue of shares under share option scheme		X	-
	Interest paid on subordinated liabilities		(X)	(X)
HKAS 7.31	Dividends paid to equity shareholders of the Bank	42(b)	(X)	(X)
HKAS 7.31	Dividends paid to minority shareholders	43	(X)	(X)
HKAS 7.10	**Net cash from/(used in) financing activities**		X	(X)
HKAS 7(App)	**Net increase/(decrease) in cash and cash equivalents**		X	(X)
	Cash and cash equivalents at 1 January		X	X
HKAS 7.28	**Effect of foreign exchange rate changes**		(X)	(X)
	Cash and cash equivalents at 31 December	44(a)	X	X
	Cash flows from operating activities include:			
HKAS 7.31	Interest received		X	X
HKAS 7.31	Interest paid[50]		(X)	(X)
HKAS 7.31	Dividends received		X	X

The notes on pages 35 to 199 form part of these financial statements.

HKAS 7 App B

[50] Interest paid on subordinated liabilities should be excluded as it is assumed that the issuance of subordinated liabilities is for financing purposes and not for operating purposes.

HKAS 1.10(e), 51(d), 112, 113
A16(2)(6)

Notes to the financial statements[51]

(Expressed in Hong Kong dollars unless otherwise indicated)[52, 53]

BDR 34(1)
HKAS1.117
A16(2)(6)

1 Significant accounting policies[54]

HKAS 1.113 [51] Notes shall, as far as practicable, be presented in a systematic manner.

HKAS 21.53-57 [52] If the consolidated financial statements are presented in a currency different from the parent entity's functional currency, the entity should disclose that fact, its functional currency and the reason for using a different presentation currency. In addition, if an entity includes financial information in a presentation currency other than its functional currency, without complying with the requirements of HKAS 21.55 (for example, where the entity translates only selected items of information, such as on the face of the primary statements, for the convenience of the users of the financial statements), it should clearly identify the information as supplementary and should make the disclosures as required by HKAS 21.57 concerning this supplementary information.

HKAS 1.51(e) & 53 [53] HKAS 1.51(e) requires the level of rounding used in presenting amounts in the financial statements to be displayed prominently and repeated where it is necessary for a proper understanding of the information presented. HKAS 1.53 also notes that often financial statements may be made more understandable by presenting information in thousands or millions of units of the presentation currency, and that this is acceptable, provided the level of rounding is disclosed and material information is not omitted.

Generally, the financial statements should be prepared using a consistent level of precision. That is, if the primary statements are presented, for example, to the nearest 1,000, then any note disclosures which support the primary statements, such as further analysis of income statement or statement of financial position captions, would also generally be presented in round thousand amounts, so as to exactly reconcile to the amounts disclosed in the primary statements. However, occasionally it may be appropriate to present specific items of information in the financial statements using different levels of precision from that used generally.

For example, although ABC Bank generally presents its financial statements in $'000, some note disclosures are presented in a lower level of precision, due to the uncertainty surrounding the measurement of that item. For example, as illustrated in notes 47(d) and (e) on page 142, when ABC Bank is disclosing the estimated financial effect of pending law suits which are regarded as contingent liabilities, it has disclosed the estimate in $millions due to the uncertainties involved in estimating the outcome. The level of precision used in such cases should be clearly disclosed in accordance with HKAS 1.51(e) and care should be taken to ensure that material information is not omitted.

HKAS 1.117(b) [54] For the purposes of assisting the users of these illustrative financial statements, we have provided policy notes that cover a wide range of transactions and circumstances. Not all of these policies will be relevant to an individual entity's circumstances or significant. Conversely, there may be other policies which an entity needs to disclose as a result of transactions it has entered into, or policy choices it has made, which are not illustrated here. Care should be taken to meet the requirements of HKAS 1 to disclose a description of each accounting policy that is relevant to an understanding of the financial statements. In addition, other HKFRSs or the 10th Schedule to the HKCO may specifically state that the policy for the topic in question needs to be disclosed. Where this is the case, we have given the cross reference to the disclosure requirements in the left hand column (see, for example, policy note 1(n) which has cross reference to HKAS 7.46). See the content page of this publication for a full index of the accounting policies illustrated here.

It is assumed throughout these financial statements that the following items are immaterial:
- discontinued operations
- government grants
- defined benefit schemes and termination benefits
- purchase and disposal of investments in subsidiaries
- joint ventures
- purchase and disposal of investment property
- convertible bonds
- redeemable preference shares
- capitalisation, redemption and purchase of own shares
- net investment hedge
- cash settled share-based transactions
- HK(IFRIC) 4, *Determining whether an arrangement contains a lease*
- securitisation
- reclassification of financial assets

If material, the relevant accounting policies and analysis required by HKFRSs should be disclosed. Please refer to KPMG's publication "Illustrative Annual Financial Statements under Hong Kong Financial Reporting Standards December 2013" for example policies.

HKAS1.51(b)

ABC Bank Limited (the Bank) is a licensed bank incorporated and domiciled in Hong Kong and has its registered office at 11/F New View Building, 100 Smith Street, Central, Hong Kong.[4 on page 12] The consolidated financial statements for the year ended 31 December 2013 comprise the Bank and its subsidiaries (together referred to as the Group) and the Group's interest in associates.

(a) Statement of compliance

HKAS 1.16
A16(5)

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance[55]. *These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.* A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Bank. Note 2 provides information on the changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

HKAS 1.117(a)

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

- financial instruments classified as trading, designated at fair value through profit or loss and available-for-sale (see note 1(f)(ii));
- investment property (see note 1(i));
- other freehold land and buildings (see note 1(j)); and
- other leasehold land and buildings, where the leasehold land is classified as being held under a finance lease (see notes 1(j) and (k)(ii)).

HKAS 1.122,125

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

[55] For listed companies incorporated outside Hong Kong, the word "disclosure" is normally inserted before the words "requirements of the Hong Kong Companies Ordinance".

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 54.

(c) Subsidiaries and non-controlling interests

HKAS 27.42(c)

Subsidiaries are entities controlled by the Group[56]. The group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the group has power, only substantive rights (held by the group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

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

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Bank. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement [57] and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Bank.

23rd Sch(2), S123, 126

[56] Sections 123 and 126 of the HKCO now include an obligation on directors to depart from the HKCO to the extent that it is necessary in order for the financial statements to show a true and fair view (often referred to as the ''true and fair override"). Consequently, where any inconsistency arises between the definition of a subsidiary contained in HKFRS 10 and in the HKCO, management should generally depart from the requirements of the HKCO to the extent that is necessary to comply with HKFRSs, together with disclosure in the financial statements of the reasons for, and particulars and effects of, such departure. Note, however, that this is not expected to be common now that the definition of a subsidiary in the HKCO has been extended to "subsidiary undertaking", a term which includes a body corporate, a partnership or an unincorporated association carrying on a trade or business, whether for profit or not.

[57] As ABC Bank has opted for the two-statement approach to the presentation of income and expenses in these illustrative financial statements (see footnote 22 on page 22), the term "income statement" continues to be used throughout the notes to the illustrative financial statements. Where entities adopt instead the single-statement format (i.e. only a statement of comprehensive income is presented), the references to the relevant statement should be tailored accordingly.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in the income statement. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(f)) or, when appropriate, the cost on initial recognition of an investment in an associate (see note 1(d)).

HKAS 27.17(c)

In the Bank's statement of financial position, its investments in subsidiaries are stated at cost less impairment losses, if any[58] (see note 1(m)).

(d) Associates

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

An investment in an associate is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the associate's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the associate's net assets and any impairment loss relating to the investment (see notes 1(e) and (m)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the associate and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the associate's other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For these purposes, the Group's interest in the associate is the carrying amount of the investment under equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

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

HKAS 27.37, 28.35

[58] It is assumed that the Bank chooses not to account for these investments under HKAS 39 and the investment is not held for sale.

In case there are loans from holders of non-controlling interests and other contractual obligations towards these holders, these should be presented as financial liabilities in the consolidated statement of financial positions, depending on the nature of liability, and accounted for in accordance with note 1(f).

HKAS 27.17(c)

In the Bank's statement of financial position, its investments in associates are stated at cost less impairment losses, if any[58 on page 38] (see note 1(m)).

(e) Goodwill and intangible assets

(i) Goodwill

Goodwill represents the excess of

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

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

When (ii) is greater than (i), then this excess is recognised immediately in the income statement as a gain on a bargain purchase.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(m)).

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

Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

(ii) Intangible assets (other than goodwill)

Intangible assets include acquired computer software licences and capitalised development costs of computer software programmes. Expenditure on development of computer software programmes is capitalised if the programmes are technologically and commercially feasible and the Group has sufficient resources and the intention to complete the development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads. Intangible assets are stated at cost less accumulated amortisation and impairment losses (see note 1(m)).

HKAS 38.118(a) &(b)

Amortisation of intangible assets with finite useful lives is charged to the income statement on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

- acquired computer software licences	X to X years
- capitalised development costs of computer software programme	X years

Both the period and method of amortisation are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

(f) Financial instruments

HKFRS 7.21

(i) Initial recognition

The Group classifies its financial instruments into different categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred. The categories are: fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets and other financial liabilities.

HKAS 39.43
BDR 34(2)(a)
HKFRS 7.B5(e)

Financial instruments are measured initially at fair value, which normally will be equal to the transaction price[59] plus, in case of a financial asset or financial liability not held at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset or issue of the financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately.

HKAS 39.14, 38, AG55
HKFRS 7.21, 7.B5(c)

The Group recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets and financial liabilities at fair value through profit or loss is recognised using trade date accounting[60]. Other financial assets and financial liabilities are recognised using settlement date accounting. From these dates, any gains and losses arising from changes in fair value of the financial assets or financial liabilities at fair value through profit or loss are recorded.

HKFRS 7.28

[59] In accordance with HKFRS 7.28, disclosure is required for any difference between the fair value at initial recognition (ie the fair value of the consideration given or received unless conditions described in HKAS 39 AG76 are met) and the amount that would be determined at the date using its valuation technique (see HKAS 39 AG 74-79) for each class of financial instruments:

(a) the accounting policy for recognising that difference in profit or loss to reflect a change in factors (including time) that market participants would consider in setting a price (see HKAS 39 AG 76A); and

(b) the aggregate difference yet to be recognised in profit or loss at the beginning and end of the period and a reconciliation of changes in the balance of this difference.

A suggested disclosure is as follows.
Accounting policy:
If the value obtained from the valuation model differs from the transaction price, this initial difference in fair value indicated by valuation techniques is recognised in the income statement depending upon the individual facts and circumstances of each transaction and not later than when the market data becomes observable.

Note disclosure:
Unobservable inception profits
Any initial gain or loss on financial instruments, where valuation is dependent on unobservable parameters, is deferred over the life of the contract or until the instrument is redeemed, transferred or sold or fair value becomes observable. The table below sets out the aggregate difference yet to be recognised in profit or loss at the beginning and end of the year with a reconciliation of the changes of the balance during the year for trading assets and liabilities.

	Group and Bank	
	2013	*2012*
	$'000	$'000
At 1 January		
Increase due to new trades	X	X
Reduction due to passage of time	(X)	(X)
Reduction due to redemption/ sales/ transfers/ improved observability	(X)	(X)
At 31 December	X	X

HKAS 39 AG55, AG56

[60] A regular way purchase or sale of a financial asset can be recognised using either trade date accounting or settlement date accounting. For the purposes of these illustrative financial statements, we have assumed trade date accounting. Entities can choose between trade date and settlement date accounting for each category.

HKFRS 7.21

(ii) Categorisation

Fair value through profit or loss

HKAS 39.9

This category comprises financial assets and financial liabilities held for trading, and those designated at fair value through profit or loss upon initial recognition, but excludes those investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured.

HKAS 39.9(a)
BDR 34(2)(d)

Trading financial instruments are financial assets or financial liabilities which are acquired or incurred principally for the purpose of trading, or are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives that do not qualify for hedge accounting (note 1(h)) are accounted for as trading instruments.

HKAS 39.9(a)
HKFRS 7.B5(a)

Financial instruments are designated at fair value through profit or loss upon initial recognition when:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise;
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract; or
- the separation of the embedded derivative(s) from the financial instrument is not prohibited.

HKAS 39.46, 55(a), 50

Financial assets and financial liabilities under this category are carried at fair value. Changes in the fair value are included in the income statement in the period in which they arise. Upon disposal or repurchase, the difference between the net sale proceeds or the net payment and the carrying value is included in the income statement.[61]

BDR 34(2)(a)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than (a) those that the Group intends to sell immediately or in the near term, which will be classified as held for trading; (b) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or (c) those where the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available-for-sale. Loans and receivables mainly comprise loans and advances to customers, trade bills and placements with banks, central banks and other financial institutions.

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

[61] It is assumed that the reclassification of financial assets has no material impact to the Group's financial statements in accordance with HKAS 39.50 - 54. If material, disclosure in accordance with HKFRS 7.12A and HKFRS 7.42A - 7.42H should be made.

HKAS 39.46(a)

Loans and receivables and securities classified as loans and receivables are carried at amortised cost using the effective interest method, less impairment losses, if any (see note 1(m)).

Held-to-maturity investments

HKAS 39.9

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

HKAS 39.46(b)

Held-to-maturity investments are carried at amortised cost using the effective interest method less impairment losses, if any (see note 1(m)).

HKAS 39.51

If, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as held-to-maturity, it shall be reclassified as available-for-sale and remeasured at fair value.[61 on page 41]

Available-for-sale financial assets

HKAS 39.9
HKFRS 7.B5(b)

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other three categories above. They include financial assets intended to be held for an indefinite period of time, but which may be sold in response to needs for liquidity or changes in the market environment.

HKAS 39.46(c)
55(b)
HKFRS 7.B5(e)

Available-for-sale financial assets are carried at fair value. Unrealised gains and losses arising from changes in the fair value are recognised in other comprehensive income and accumulated separately in equity, except for impairment losses and foreign exchange gains and losses on monetary items such as debt securities which are recognised in the income statement. Interest income from debt securities calculated using the effective interest method and dividend income from equity securities are recognised in the income statement in accordance with the policies set out in notes 1(r)(i) and 1(r)(v) respectively.

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be measured reliably, and derivatives that are linked to and must be settled by delivery of such unquoted equity securities are carried at cost less impairment losses, if any (see note 1(m)).

When the available-for-sale financial assets are sold, gains or losses on disposal include the difference between the net sale proceeds and the carrying value, and the accumulated fair value adjustments which are previously recognised in other comprehensive income shall be reclassified from equity to the income statement.[61 on page 41]

Other financial liabilities

HKAS 39.43,47

Financial liabilities, other than trading liabilities and those designated at fair value through profit or loss, are measured at amortised cost using the effective interest method.

HKFRS 7.27 (iii) Fair value measurement principles

HKAS 39.AG71-72 The fair value of financial instruments is based on their quoted market prices at the end of reporting period without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

HKAS 39.AG74-78
HKAS 39.48A If there is no publicly available latest traded price nor a quoted market price on a recognised stock exchange or a price from a broker / dealer for non-exchange-traded financial instruments, or if the market for it is not active, the fair value of the instrument is estimated using valuation techniques[62] that provide a reliable estimate of prices which could be obtained in actual market transactions.

HKAS 39.AG79 Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is based on the relevant government yield curve as at the end of the reporting period plus an adequate constant credit spread. Where other pricing models are used, inputs are based on market data at the end of reporting period.

HKAS 39.15-23 (iv) Derecognition

HKAS 39.17 A financial asset is derecognised when the contractual rights to receive the cash flows from the financial asset expire, or where the financial asset together with substantially all the risks and rewards of ownership, have been transferred[63].

HKAS 39.39 A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

HKAS 39.39-42 The Group uses the weighted average method to determine realised gains and losses to be recognised in the income statement on derecognition[64].

(v) Offsetting

BDR 34(2)(e) Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position where there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

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[62] If there has been a change in valuation technique, the AI shall disclose that change and the reasons for making it, see note 50 on page 179.

HKFRS 7.42D [63] An AI that has transferred financial assets in such a way that part or all of the financial assets do not qualify for derecognition (see HKAS 39.15 to 39.17) should refer to HKFRS 7.42D for the disclosure requirements.

HKFRS 7.21 [64] While HKAS 39 is silent as to the method that should be used to determine the profit or loss on derecognition of financial assets (specific identification, first-in first-out, average, or weighted average), it is recommended that the basis is applied consistently and disclosed in the financial statements.

(vi) Embedded derivatives

HKAS 39.10, 11
BDR 34(2)(d)

An embedded derivative is a component of a hybrid (combined) instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. The embedded derivatives are separated from the host contract and accounted for as a derivative when (a) the economic characteristics and risks of the embedded derivative are not closely related to the host contract; and (b) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in the income statement.

HKAS 39.11

When the embedded derivative is separated, the host contract is accounted for in accordance with note (ii) above.

(g) Repurchase and reverse repurchase transactions

HKAS 39 AG36-AG52

Securities sold subject to a simultaneous agreement to repurchase these securities at a certain later date at a fixed price (repurchase agreements) are retained in the financial statements and measured in accordance with their original measurement principles. The proceeds from the sale are reported as liabilities and are carried at amortised cost.

Securities purchased under agreements to resell (reverse repurchase agreements) are reported not as purchases of the securities, but as receivables and are carried in the statement of financial position at amortised cost.

HKAS 18.30(a)

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

(h) Hedging

HKAS 39.85, 91
BDR 34(2)(d)

Hedge accounting recognises the offsetting effects on the income statement of changes in the fair values of the hedging instrument and the hedged item. The Group assesses and documents whether the financial instruments that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items attributable to the hedged risks both at hedge inception and on an ongoing basis. The Group discontinues prospectively hedge accounting when (a) the hedging instrument expires or is sold, terminated or exercised; (b) the hedge no longer meets the criteria for hedge accounting; or (c) the Group revokes the designation.

(i) Fair value hedge

HKAS 39.85, 89, 91

A fair value hedge seeks to offset risks of changes in the fair value of recognised asset or liability that will give rise to a gain or loss being recognised in the income statement. The hedging instrument is measured at fair value, with fair value changes recognised in the income statement. The carrying amount of the hedged item is adjusted by the amount of the changes in fair value of the hedging instrument attributable to the risk being hedged. This adjustment is recognised in the income statement to offset the effect of the gain or loss on the hedging instrument.

HKAS 39.101

When a hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting, or the Group revokes designation of the hedge relationship, any adjustment up to that point, to a hedged item for which the effective interest method is used, is amortised to the income statement as part of the recalculated effective interest rate of the item over its remaining life.

(ii) Cash flow hedge

HKAS 39.95

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, or the foreign currency risk of a committed future transaction, the effective part of any gain or loss on remeasurement of the derivative financial instrument to fair value is recognised in other comprehensive income and accumulated separately in equity in the hedging reserve. The ineffective portion of any gain or loss is recognised immediately in the income statement.

HKAS 39.98

If the hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated gain or loss is reclassified from equity to be included in the initial cost or other carrying amount of the non-financial asset or liability.

HKAS 39.97

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gain or loss is reclassified from equity to the income statement in the same period or periods during which the asset acquired or liability assumed affects the income statement (such as when interest income or expense is recognised).

HKAS 39.100

For cash flow hedges, other than those covered by the preceding two policy statements, the associated gain or loss is reclassified from equity to the income statement in the same period or periods during which the hedged forecast transaction affects the income statement.

HKAS 39.101

When a hedging instrument expires or is sold, terminated or exercised, or the Group revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity until the transaction occurs and is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss is reclassified from equity to the income statement immediately.

(iii) Hedge effectiveness testing

HKAS 39.88

In order to qualify for hedge accounting, the Group carries out prospective effectiveness testing to demonstrate that it expects the hedge to be highly effective at the inception of the hedge and throughout its life. Actual effectiveness (retrospective effectiveness) is also demonstrated on an ongoing basis.

HKAS 39.AG107

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method which the Group adopts for assessing hedge effectiveness will depend on its risk management strategy.

For fair value hedge relationships, the Group utilises the cumulative dollar offset method or regression analysis as effectiveness testing methodologies. For cash flow hedge relationships, the Group utilises the change in variable cash flow method or the cumulative dollar offset method using the hypothetical derivative approach.

HKAS 39.AG107A

For prospective effectiveness, the hedging instrument must be expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated. For actual effectiveness, the changes in fair value or cash flows must offset each other in the range of 80 per cent to 125 per cent for the hedge to be deemed effective.

(i) Investment property

Investment properties are land and / or buildings which are owned and / or held under a leasehold interest (see note 1(k)) to earn rental income and / or for capital appreciation. These include land held for a currently undetermined future use.

HKAS 40.75(a)

Investment properties are stated in the statement of financial position at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in the income statement. Rental income from investment properties is accounted for as described in note 1(r)(iv).

HKAS 40.75(b)

When the Group holds a property interest under an operating lease to earn rental income and / or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 1(k)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 1(k).

(j) Other property and equipment

10th Sch (4(3))
HKAS 16.73(a)

The following properties held for own use are stated in the statement of financial position at their revalued amount, being their fair value at the date of the revaluation less any subsequent accumulated depreciation:

- freehold land and buildings; and
- land classified as being held under finance leases and buildings thereon (see note 1(k)).

Revaluations are performed with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair values at the end of reporting period.

HKAS 16.73(a)

The following items of property and equipment are stated in the statement of financial position at cost less accumulated depreciation and impairment losses (see note 1(m)):

- buildings held for own use which are situated on leasehold land classified as held under operating leases (see note1(k)); and
- other items of equipment.

Changes arising on the revaluation of properties held for own use are generally dealt with in other comprehensive income and are accumulated separately in equity in the property revaluation reserve. The only exceptions are as follows:

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

Gains or losses arising from the retirement or disposal of an item of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in the income statement on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits and is not reclassified to the income statement.

HKAS 16.73(b)&(c)

Depreciation is calculated to write off the cost or valuation of items of property and equipment, less their estimated residual value, if any, using the straight line method over the estimated useful lives as follows:

- Freehold land is not depreciated.
- Buildings situated on freehold land are depreciated over their estimated useful life, being no more than 50 years after the date of completion.
- Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion.
- Equipment X - X years

Where parts of an item of property and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(k) Leases and hire purchase contracts

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification

Leases which transfer substantially all the risks and rewards of ownership to the lessee are classified as finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the lessee are classified as operating leases, with the following exceptions:

- property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 1(i)); and
- land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee, whichever is later.

(ii) Finance leases

Where the Group is a lessor under finance leases, an amount representing the net investment in the lease is included in the statement of financial position as loans and advances to customers. Hire purchase contracts having the characteristics of finance leases are accounted for in the same manner as finance leases. Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(m).

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present values of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant leases or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 1(j). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(m). Finance charges implicit in the lease payments are charged to the income statement over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are written off as an expense of the accounting period in which they are incurred.

(iii) Operating leases

Where the Group leases out assets under operating leases, the assets are included in the statement of financial position according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in note 1(j) except where the asset is classified as an investment property. Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(m). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 1(r)(iv).

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property (see note 1(i)).

(l) Repossessed assets[65]

BDR 34(2)(b)
HKFRS 7.38(b)

In the recovery of impaired loans and advances, the Group may take possession of assets held as collateral through court proceedings or voluntary delivery of possession by the borrowers. Where it is intended to achieve an orderly realisation of the impaired assets and the Group is no longer seeking repayment from the borrower, repossessed assets are reported in "Other assets". The Group does not hold the repossessed assets for its own use.[66]

Repossessed assets are recorded at the lower of the amount of the related loans and advances and fair value less costs to sell at the date of exchange. They are not depreciated or amortised.

Impairment losses on initial classification and on subsequent remeasurement are recognised in the income statement.

(m) Impairment of assets

(i) Financial assets

HKFRS 7.B5(f)

The carrying amount of the Group's assets are reviewed at each reporting period to determine whether there is objective evidence of impairment. Objective evidence that financial assets are impaired includes observable data that comes to the attention of the Group about one or more of the following loss events[67] which has an impact on the future cash flows on the assets that can be estimated reliably:

- significant financial difficulty of the issuer or borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the borrower;
- disappearance of an active market for financial assets because of financial difficulties; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

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[65] Note that the accounting treatment may vary from AI to AI due to the absence of an accounting standard in Hong Kong for repossessed assets in particular the timing of recognition of gains and losses. In these illustrative accounts, ABC Bank do not recognise any upward gains on value post initial recognition until the repossessed assets are disposed of.

Note that the charge documents of mortgage loans in Hong Kong generally give banks the rights to sell the collateral properties in case of default but not the right of possession of collateral properties.

HKFRS 7.15, 38

[66] Note that when an AI recognises financial or non-financial assets during the period as a result of taking possession of collateral it accepted as security or calling on other credit enhancements (for example, guarantees), HKFRS 7.38 requires disclosure in the financial statements of the nature and carrying amount of the assets so obtained. If the assets obtained are not readily convertible into cash, further disclosure needs to be provided regarding the AI's policies for disposing of these assets or for using them in its operations.

HKFRS 7.B5(f)

[67] HKFRS 7.B5(f) requires disclosure of the criteria used to determine that there is objective evidence that an impairment loss in respect of a financial asset has occurred. Guidance on the meaning of "objective evidence" and examples of such evidence can be found in HKAS 39.59 to 62.

If any such evidence exists, the carrying amount is reduced to the estimated recoverable amount by means of a charge to the income statement.

HKFRS 7.B5(d)

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of loans and receivables and held-to-maturity investments, which are measured at amortised cost, whose recovery is considered doubtful but not remote. In this case, the impairment losses are recorded using an allowance account[68]. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against loans and receivables or held-to-maturity investments directly and any amounts held in the allowance account relating to that borrower / investment are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in the income statement.

BDR 34(2)(a)

Loans and receivables

Impairment losses on loans and receivables are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets). Receivables with a short duration are not discounted if the effect of discounting is immaterial.

The total allowance for credit losses consists of two components: individual impairment allowances, and collective impairment allowances.

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

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[68] Although HKAS 39.63 seems to allow entities an accounting policy choice of reducing the carrying amount of financial assets impaired by credit losses either directly or through the use of an allowance account, it is noted in paragraph BC27 of the Basis for Conclusions to HKFRS 7 that in practice, HKAS 39's requirement to consider impairment on a collective basis would necessitate the use of an allowance or similar account for virtually all entities. In addition, an entity may use an allowance account for recording impairment losses that have been assessed on an individual basis, where there is still some possibility of recovery even though not considered probable. Further guidance on HKAS 39's requirements to assess financial assets carried at amortised cost individually and collectively for impairment can be found in HKAS 39.64 and HKAS 39.AG84-AG92.

HKFRS 7.B5(d)

When an entity records the impairment of financial assets as a result of credit losses in an allowance account, rather than directly reducing the carrying amount of the asset, HKFRS 7.B5(d) requires the disclosure of accounting policies in this regard, including:

- the criteria for determining when the carrying amount of impaired financial assets is reduced directly (or, in the case of a reversal of a write-down, increased directly) and when the allowance account is used; and
- the criteria for writing off amounts charged to the allowance account against the carrying amount of impaired financial assets.

HKAS 39.63 requires the financial assets to be stated in the statement of financial position net of the related allowances for impairment. However, if references are made in the financial statements to the use of an allowance account, AIs are recommended, as a matter of best practice and to avoid confusion, to clearly state whether references to the carrying amounts of the related financial assets (for example, loans and advances) are to amounts before or net of the allowance account.

The individual impairment allowance is based upon management's best estimate of the present value of the cash flows which are expected to be received discounted at the original effective interest rate. In estimating these cash flows, management makes judgements about the borrower's financial situation and the net realisable value of any underlying collateral or guarantees in favour of the Group. Each impaired asset is assessed on its own merits.

In assessing the need for collective impairment allowances, management uses statistical modelling and considers historical trends of factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, the Group makes assumptions both to define the way the Group models inherent losses and to determine the required input parameters, based on historical experience and current economic conditions.

The accuracy of the impairment allowances the Group makes depends on how well the Group can estimate future cash flows for individually assessed impairment allowances and the model assumptions and parameters used in determining collective impairment allowances. While this necessarily involves judgement, the Group believes that the impairment allowances on loans and advances to customers are reasonable and supportable.

HKAS 39.65
HKFRS 7.B5(d)

Any subsequent changes to the amounts and timing of the expected future cash flows compared to the prior estimates that can be linked objectively to an event occurring after the write-down, will result in a change in the impairment allowances on loans and receivables and be charged or credited to the income statement. A reversal of impairment losses is limited to the loans and receivables' carry amount that would have been determined had no impairment loss been recognised in prior years.

HKFRS 7.B5(d)

When there is no reasonable prospect of recovery, the loan and the related interest receivables are written off.

HKFRS 7.B5(g)
HKFRS 7.IG27

Loans and receivables with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Renegotiated loans and receivables are subject to ongoing monitoring to determine whether they remain impaired or past due.

Held-to-maturity investments

HKAS 39.58, 63

Impairment on held-to-maturity investments is considered at both an individual and collective level. The individual impairment allowance is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the asset's original effective interest rate, where the effect of discounting is material.

HKAS 39.64

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

HKAS 39.65

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

Available-for-sale financial assets

HKAS 39.67, 68

When there is objective evidence that an available-for-sale financial asset is impaired, the cumulative loss that had been recognised in the fair value reserve is reclassified to the income statement. The amount of the cumulative loss that is recognised in the income statement is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in income statement.

For unquoted available-for-sale equity securities that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the equity securities and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Such impairment losses are not reversed.

HKAS 39.69

Impairment losses recognised in the income statement in respect of available-for-sale equity securities are not reversed through the income statement. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

HKAS 39.70

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in the income statement.

(ii) Non-financial assets

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

- fixed assets (other than properties carried at revalued amounts);
- pre-paid interests in leasehold land classified as being held under an operating lease;
- investments in subsidiaries and associates;
- goodwill; and
- intangible assets.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

HKAS 36.104

An impairment loss is recognised in the income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

- Reversals of impairment losses

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

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the year (see notes 1(m)(i) and (ii)).

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

(n) Cash equivalents

HKAS 7.46
HKFRS 7.21

Cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(o) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

R17.08 (ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity[69]. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged / credited to the income statement for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Bank's shares.

The equity amount is recognised in capital reserve until either the option is exercised (when it is transferred to share premium account) or the option expires (when it is released directly to retained profits).

(p) Income tax

HKAS 1.120 Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

[69] All bank's share option schemes are assumed to be equity settled.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

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

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 1(i), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

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

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group or the Bank has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group or the Bank intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

- the same taxable entity; or
- different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(q) Financial guarantees issued, provisions and contingent liabilities

HKFRS 7.21
BDR 34(2)(d)

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the holder) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee to customers, the fair value of the guarantee is initially recognised as deferred income within other liabilities. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where the Bank issues a financial guarantee to its subsidiaries, the fair value of the guarantee is estimated and capitalised as the cost of investment in subsidiaries and deferred income within other liabilities.[70]

The amount of the guarantee initially recognised as deferred income is amortised in the income statement over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 1(q)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in other liabilities in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

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[70] HKAS 39 does not contain any specific guidance as to where the debit entry arising from the initial recognition of the deferred income at fair value should be recorded. In the absence of any cash consideration or promise to pay cash or other financial assets, the debit would generally be recorded as a day-one expense unless recognition as another form of asset can be justified. In the examples illustrated in the Bank's financial statements, two different types of asset have been identified:

(a) In the case of the guarantee issued in respect of a loan to a director, which is conditional on the director remaining with the AI, the asset identified is a prepayment of employee benefits-in-kind. This is amortised over the same period as the deferred income from issuing the guarantee.

(b) In the case of the guarantee issued by the Bank to its subsidiaries, the asset identified is a form of capital contribution i.e. an addition to the cost of the investment in the subsidiaries. This is on the basis that, all other things being equal, the subsidiaries will earn enhanced profits as a result of the financial guarantee from having secured borrowings at a lower rate than it would have done without the guarantee, and these profits will eventually flow to the Bank by way of dividends or enhanced disposal proceeds. The increased aggregate cost of investment would then be subject to the normal rules applied to investments in subsidiaries, in particular concerning the calculation of impairment losses.

Where the effect is material, entities should determine their accounting policy for the recognition of the day-one debit entry and apply that policy consistently from one year to the next to like transactions.

(ii) Other provisions and contingent liabilities[71]

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Bank has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(r) Revenue recognition

HKAS 18.35(a)
10thSch(16(4))
HKAS 1.117(a)

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) Interest income

HKAS 18.30(a)
HKAS 39.55
BDR 34(2)(a)

Interest income for all interest-bearing financial instruments is recognised in the income statement on an accruals basis using the effective interest method.

HKFRS 7.B5(e)

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Cash rebates granted in relation to residential mortgage loans are capitalised and amortised to the income statement over their expected life.

BDR 34(2)(c)

HKAS 39.AG93

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

[71] It is assumed that contingent liabilities are incurred in the ordinary course of business. In case of contingent liabilities acquired as part of a business combination, a separate accounting policy should be disclosed. Please refer to note 1(y)(ii) to KPMG's publication "Illustrative Annual Financial Statements under Hong Kong Financial Reporting Standards December 2013" for example policy.

HKFRS 7.B5(e)

Interest income and expenses on all financial assets and liabilities that are classified as trading or designated at fair value through profit or loss are considered to be incidental and are therefore presented in net income from financial instruments designated at fair value through profit or loss together with all other changes in fair value arising from the portfolio.[72] Net income from financial instruments designated at fair value through profit or loss and net trading income comprise all gains and losses from changes in fair value (net of accrued coupon) of such financial assets and financial liabilities, together with interest income and expense, foreign exchange differences and dividend income attributable to those financial instruments.

(ii) Fee and commission income

HKAS 18
Appendix 14(a)

Fee and commission income arises on financial services provided by the Group including cash management services, brokerage services, investment advice and financial planning, investment banking services, project and structured finance transactions, and asset management services. Fee and commission income is recognised when the corresponding service is provided, except where the fee is charged to cover the costs of a continuing service to, or risk borne for, the customer, or is interest in nature. In these cases, the fee is recognised as income in the accounting period in which the costs or risk is incurred and is accounted for as interest income.

BDR 34(2)(c)

HKAS 18
Appendix 14(b)(ii)

Origination or commitment fees received / paid by the Group which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

HKAS 17.40

(iii) Finance income from finance lease and hire purchase contract

BDR 34(2)(c)

Finance income implicit in finance lease and hire purchase payments is recognised as interest income over the period of the leases so as to produce an approximately constant periodic rate of return on the outstanding net investment in the leases for each accounting period. Contingent rentals receivable are recognised as income in the accounting period in which they are earned. Commission paid to dealers for acquisition of finance lease loans or hire purchase contracts is included in the carrying value of the assets and amortised to the income statement over the expected life of the lease as an adjustment to interest income.

HKAS 17.50

(iv) Rental income from operating lease

Rental income received under operating leases is recognised as other operating income in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised in the income statement as an integral part of the aggregate net lease payments receivable. Contingent rentals receivable are recognised as income in the accounting period in which they are earned.

[72] There are no specific requirements in the accounting standards on the presentation of items of income and expenses relating to financial assets and liabilities held for trading and designated as held at fair value through profit or loss. It is an accounting policy choice of an AI to present these items as either interest or other line items.

(v) Dividend income

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established unconditionally. Dividend income from listed investments is recognised when the share price of the investment is quoted ex-dividend.

(s) Translation of foreign currencies

HKAS 1.120
10th Sch(12(14))

Foreign currency transactions during the year are translated into Hong Kong dollars at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the foreign exchange rates ruling at the end of reporting period. Exchange gains and losses are recognised in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into Hong Kong dollars using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

HKAS 21.52
HKAS 39.55
HKAS 39 AG83

Exchange differences relating to investments at fair value through profit or loss and derivative financial instruments are included in gains less losses from trading securities or financial instruments designated at fair value through profit or loss. All other exchange differences relating to monetary items are presented as gains less losses from dealing in foreign currencies in the income statement. Differences arising on translation of available-for-sale equity instruments are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Items of statement of financial position, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into Hong Kong dollars at the foreign exchange rates ruling at the end of financial position. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to the income statement when the profit or loss on disposal is recognised.

(t) Related parties[73]

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

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

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

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

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

HKAS 24.9

[73] Under HKAS 24 (revised 2009), effective for annual periods beginning on or after 1 January 2011, the principles for identifying related party relationships can be summarised as follows:

- the definitions are symmetrical, i.e. if A is related to B for the purpose of B's financial statements, then B is related to A in A's financial statements;
- in respect of indirect relationships involving at least significant influence, presence of control or joint control in at least one leg of an indirect relationship leads to a related party relationship (for example, a subsidiary is related to a fellow subsidiary as both entities are under common control, but an associate is not related to a fellow associate, as the common linkage is only via significant influence on both legs);
- key management personnel (KMP) relationships are treated as being equivalent in strength to significant influence; and
- there is no distinction between an individual and his/her close family members i.e. if the individual is a related party, then so are his/her close family members.

(u) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

(v) Deposits, debt securities issued and subordinated liabilities

Deposits, debt securities issued and subordinated liabilities are the Group's sources of debt funding.

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. The Group's redeemable preference shares bear non-discretionary coupons and are redeemable by the holder, and are therefore included within subordinated liabilities.

Subsequent to initial recognition deposits, debt securities issued and subordinated liabilities are measured at their amortised cost using the effective interest method, except where the Group designates liabilities at fair value through profit or loss.

2 Changes in accounting policies[74, 75]

HKAS 8.28

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group and the Bank. Of these, the following developments are relevant to the Group's financial statements:

- Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*
- HKFRS 10, *Consolidated financial statements*
- HKFRS 12, *Disclosure of interests in other entities*
- HKFRS 13, *Fair value measurement*
- *Annual Improvements to HKFRSs 2009-2011 Cycle*
- Amendments to HKFRS 7 – *Disclosures – Offsetting financial assets and financial liabilities*

The group has not applied any new standard or interpretation that is not yet effective for the current accounting period with the exception of the amendments to HKAS 36, *Impairment of assets – Recoverable amount disclosures for non-financial assets*, which modify the disclosure requirements for impaired non-financial assets. The amendments are effective for annual periods beginning on or after 1 January 2014, but as permitted by the amendments, the Group has adopted the amendments early[76]. The disclosure

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[74] Paragraph 28 of HKAS 8 requires certain disclosures to be made when the initial application of a Standard or Interpretation has an effect on the current period or any prior period (or would have such an effect except that it is impracticable to determine the amount of the adjustment), or might have an effect on future periods. The disclosures required are both qualitative and quantitative, and include, to the extent practicable, the adjustments for the current period and each prior period presented for each financial statement line item affected, including earnings per share, if disclosed. As with all HKFRSs, these requirements in HKAS 8 apply only to the extent that the effect would be material.

The above wording describes a range of changes relevant to the Group which have varying impacts on the Group's financial statements. It is important that care is taken to tailor the disclosures to suit the entity's circumstances, as there may be other changes in accounting policies which an entity needs to disclose but which have not been illustrated here and/or the impact of the changes highlighted may vary from one entity to another, depending on their facts and circumstances. A full list of the recent HKFRS developments is included in Appendix A to this Guide and care should be taken to check whether any of these could have a material impact on the entity.

[75] HKAS 1 requires an entity to present statement of financial position information as at the beginning of the preceding period (i.e. here: 1 January 2012) whenever an accounting policy has been adopted retrospectively, an error has been corrected retrospectively or comparatives have been restated for any other reason and this retrospective application, restatement or reclassification has a material effect on the information in the opening statement of financial position for the comparative period. Care should be taken to ensure this additional statement is given whenever an accounting policy change has material effect on the opening statement of financial position for the comparative period. In these illustrative financial statements, In ABC Bank's financial statements, there is no restatement of comparatives and thus no opening statement of financial position is illustrated.

[76] HKFRS 13 introduces consequential amendments to HKAS 36's disclosure requirements in respect of each cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated. In June 2013 the HKICPA issued amendments to HKAS 36, *Recoverable amount disclosures for non-financial assets* to modify some of the consequential amendments made by HKFRS 13 (see footnotes 153 on page 108 and 171 on page 119 for details of the amendments). The subsequent additional amendments issued in 2013 need not be applied until annual periods beginning on or after 1 January 2014, i.e. one year later than the effective date of HKFRS 13, but can be early adopted to align with the adoption of HKFRS 13. As a result, with respect to 2013 financial statements, entities can choose to adopt (a) only the consequential amendments to HKAS 36 made by HKFRS 13 (and then in 2014 adopt the additional amendments by way of retrospective adoption), or (b) in a single step, the changes to HKAS 36 made by HKFRS 13 as modified by the additional amendments issued in 2013.
In these illustrative financial statements, ABC Bank has chosen to early adopt the 2013 additional amendments and therefore in a single step applies the changes to HKAS 36 made by HKFRS 13 as modified by the 2013 additional amendments.

about the Group's impaired non-financial assets in notes 30 and 31 have been conformed to the amended disclosure requirements. The impacts of the adoption of other new or amended HKFRSs are as follows:

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

The amendments require entities to present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The presentation of other comprehensive income in the consolidated statement of profit or loss and other comprehensive income in these financial statements has been modified accordingly[32 on page 24].

HKFRS 10, Consolidated financial statements

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

As a result of the adoption of HKFRS 10, the group has changed its accounting policy with respect to determining whether it has control over an investee. [The adoption does not change any of the control conclusions reached by the group in respect of its involvement with other entities as at 1 January 2013[77]]. *[Or describe the effect of the change in accounting policy resulting from the adoption as appropriate[78], e.g. in cases where the group has de facto control over investees and under the requirements of HKFRS 10 those investees have been consolidated for the first time in these financial statements.]*

HKFRS 10.C2B

[77] For the purposes of HKFRS 10, the "date of initial application" is the beginning of the annual reporting period for which the standard is adopted for the first time. At this date, an entity tests whether there is a change in the control conclusion for its investees. The standard is effective for annual periods beginning on or after 1 January 2013. If an entity which year end date is 31 December 2013 has not early adopted HKFRS 10, then the "date of initial application" is 1 January 2013. If the control conclusion does not change, no adjustment to comparatives is necessary. If the control conclusion changes (either the entity consolidates an investee previously not consolidated under HKAS 27 or HK-SIC 12, or it no longer consolidates an investee that was previously consolidated under HKAS 27 or HK-SIC 12), then retrospective adjustments should be made in accordance with HKFRS 10.C4-C6.

HKFRS 10.C2A

[78] On the initial application of an HKFRS, HKAS 8.28(f) requires an entity to disclose, for the current period and for each prior period presented, the amount of any adjustment for each financial statement line item affected and earnings per share. HKFRS 10 provides relief in this regard by limiting this disclosure to only the immediately preceding period. An entity may also present the information for the current period or for earlier comparative periods, but is not required to do so.

HKFRS 12, Disclosure of interests in other entities

HKFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, associates and unconsolidated structured entities. The disclosures required by HKFRS 12 are generally more extensive than those previously required by the respective standards. To the extent that the requirements are applicable to the group, the group has provided those disclosures in notes 28 and 29[79].

HKFRS 13, Fair value measurement

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. To the extent that the requirements are applicable to the group, the group has provided those disclosures in notes 30 and 50. [The adoption of HKFRS 13 does not have any material impact on the fair value measurements of the group's assets and liabilities.] *[Or describe the effect if the adoption of HKFRS 13 has impacted the fair value measurements of the entity's assets and/or liabilities.[80]]*

Amendments to HKFRS 7 – Disclosures – Offsetting financial assets and financial liabilities

The amendments introduce new disclosures in respect of offsetting financial assets and financial liabilities. Those new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32, *Financial instruments: Presentation* and those that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with HKAS 32. To the extent that the requirements are applicable to the group, the group has expanded its disclosures about the offsetting of financial assets and financial liabilities in note 49(a)[81].

HKFRS 12.C1 & C2B

[79] HKFRS 12 is effective for annual periods beginning on or after 1 January 2013 with retrospective application required. As an exception to this, in the first year of adoption, entities need not provide comparative information for the disclosure in respect of interests in unconsolidated structured entities.

HKFRS 13.C1-C3

[80] HKFRS 13's measurement requirements are applied prospectively as of the beginning of the annual period in which it is initially applied. Therefore, the initial application should not have impact on the comparative information in respect of prior periods. However, if the initial application has an effect on the current period, or might have an effect on future periods, the entity should provide the disclosures as required by HKAS 8.28.

HKFRS 7.13A, B40-41, BC24F-24I

[81] The disclosures introduced by the amendments to HKFRS 7 are required for all recognised financial instruments that are set off in accordance with HKAS 32. In addition, financial instruments are within the scope of the disclosure requirements if they are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether they are set off in accordance with HKAS 32. In accordance with paragraph B41 of the Application Guidance attached to HKFRS 7, loans and customer deposits at the same institution and financial instruments that are subject only to a collateral agreement are outside the scope of the disclosures introduced by the amendments. Paragraphs BC24F-24I of the Basis for Conclusions to HKFRS 7 discuss the IASB's rationale for this scope exclusion.

The amendments to HKFRS 7 are effective for annual periods beginning on or after 1 January 2013. Entities are required to provide the disclosures required by the amendments retrospectively.

3 Interest income and interest expense

HKAS 18.35(b)(iii)

(a) Interest income[82]

		2013 $'000	*2012* $'000
10th Sch (13(1)(g))	Listed securities	X	X
	Other	X	X
HKFRS 7.20(b) BDR 35(1)(b)	**Interest income on financial assets that are not at fair value through profit or loss as included in the income statement**[83]	**X**	**X**
	Interest income on trading assets[84] (note 5)	X	X
	Interest income on financial assets designated at fair value through profit or loss[84] (note 6)	X	X
	Total interest income on all financial assets	X	X

HKFRS 7.20(d) BDR 35(1)(d)

Included in the above is interest income accrued on impaired financial assets of $X (2012:$X), which includes interest income on unwinding of discount on loan impairment losses of $X (2012: $X) (note 25(b)) for the year ended 31 December 2013.

HKFRS 8.34 & BC 58

82 HKFRS 8 requires the disclosure of information about revenues from major customers if revenues from transactions with a single external customer amount to 10% or more of an entity's revenues. It is assumed that ABC Bank does not generate revenues from transactions with a single external customer that amount to 10% or more of its revenues. For the purpose of this requirement, a group of entities known to be under common control should be considered as a single customer. HKAS 24 (revised 2009) made a consequential amendment to this requirement: under the amended paragraph 34, entities are required to apply judgement to assess whether a government and entities known to the reporting entity to be under the control of that government are considered a single customer. In assessing this, the reporting entity should consider the extent of economic integration between those entities.

HKFRS 7.20(b),(d)

83 HKFRS 7.20(b) requires disclosure of total interest income calculated using the effective interest method for financial assets that are not carried at fair value through profit or loss. This would include, for example, interest income recognised on loans and advances carried at amortised cost, interest income on held-to-maturity investments and available-for-sale debt securities, as well as interest earned on the AI's placements.

In addition, HKFRS 7.20(d) requires separate disclosure of interest income on impaired financial assets, accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss, and paragraph 13(1)(g) of the 10th Schedule to the HKCO requires separate disclosure of income from listed and unlisted investments.

Therefore, depending on the extent to which interest income of different categories of financial assets is material to an AI, further analysis may be required over and above that illustrated here.

84 It is assumed that the AI chooses the accounting policy of including the interest income and interest expense attributable to trading activities and financial instruments designated at fair value through profit or loss in net trading income and the relevant net income. The AI could voluntarily disclose total interest income on all financial instruments as additional information.

(b) Interest expense

		2013 $'000	2012 $'000
10th Sch (13(1)(b))	Deposits from customers, banks and other financial institutions and certificates of deposit issued	X	X
10th Sch (13(1)(b))	Debt securities issued and subordinated liabilities wholly repayable within 5 years	X	X
	Other borrowings	X	X
HKFRS 7.20(b) BDR 35(1)(b)	**Interest expense on financial liabilities that are not at fair value through profit or loss as included in the income statement[85]**	**X**	**X**
	Interest expense on trading liabilities[84 on page 65] (note 5)	X	X
	Interest expense on financial liabilities designated at fair value through profit or loss[84 on page 65] (note 6)	X	X
	Total interest expense on all financial liabilities	X	X

4 Fee and commission income[86] and expenses

(a) Fee and commission income

HKAS 1.112(c) BDR 46(6)		2013 $'000	2012 $'000
	Brokerage fees	X	X
	Custodian fees	X	X
	Underwriting and corporate finance fees	X	X
	Asset management fees	X	X
	Payment transactions	X	X
	Financial guarantee contracts issued	X	X
	Other	X	X
		X	X

HKFRS 7.20(c)(ii)
BDR 35(1)(c)(ii)

Asset management fees relate to fees earned by the Group on trust and fiduciary activities where the Group holds or invests assets on behalf of its customers.

HKFRS 7.20(b) [85] HKFRS 7.20(b) requires disclosure of total interest expense calculated using the effective interest method for financial liabilities that are not carried at fair value through profit or loss. This would include, for example, interest expense recognised on financial liabilities carried at amortised cost, finance charges on finance leases, as well as interest incurred on AI's takings. However, it would not include the unwinding of discounts on provisions, as provisions are not a type of financial instrument.

In addition, paragraph 13(1)(b) of the 10th Schedule to the HKCO specifies a further sub-analysis of interest on loans made to the entity that is required to be disclosed, for example between bank loans and other loans.

Therefore, depending on the extent to which interest expense of different categories of financial liabilities is material to an AI, further analysis may be required over and above that illustrated here.

BDR 46(6) [86] AIs shall disclose the breakdown of fee and commission income by major product lines (which constitute not less than 10% of the total fee and commission income) such as credit lines, corporate advice, investment management and trustee services, guarantees and indemnities.

(b) Fee and commission expense

HKAS 1.112(c)
BDR 46(6)

	2013	*2012*
	$'000	$'000
Brokerage fee expenses	X	X
Inter bank transaction fees	X	X
Other	X	X
	X	X

HKFRS 7.20(c)(i)
BDR 35(1)(c)(i)

Included in the above are fee and commission income of $X (2012: $X) and fee and commission expense of $X (2012: $X) (other than fees included in determining the effective interest rate) relating to financial assets and liabilities not at fair value through profit or loss for the year ended 31 December 2013.

5 Net trading income

HKFRS 7.20 (a)(i)

	2013	*2012*
	$'000	$'000
Gains less losses from dealing in foreign currencies	X	X
Gains less losses from trading securities	X	(X)
Gains less losses from other dealing activities	X	X
Interest income[84 on page 65] (note 3(a))		
- Listed	X	X
- Unlisted	X	X
Interest expense[84 on page 65] (note 3(b))	(X)	(X)
Dividend income from listed securities	X	X
Dividend income from unlisted securities	X	X
	X	X

A16(4)(1)(l)
10th Sch (13(1)(g))
BDR 35(1)(e)
10th Sch (13(1)(g))

6 Net income from financial instruments designated at fair value through profit or loss

HKFRS 7.20(a)(i)

	2013	*2012*
	$'000	$'000
Net gains/(losses)	X	(X)
Interest income[84 on page 65] (note 3(a))		
- Listed	X	X
- Unlisted	X	X
Interest expense[84 on page 65] (note 3(b))	(X)	(X)
Dividend income from listed securities	X	X
Dividend income from unlisted securities	X	X
	X	X

10th Sch (13(1)(g))
BDR 35(1)(e)
10th Sch (13(1)(g))

7 Net hedging income[87]

HKAS 1.85

		2013 $'000	*2012* $'000
	Fair value hedges		
HKAS 39.89(b) HKFRS 7.24(a)(ii) BDR 40(3)(a)(ii)	- Net gain on hedged items attributable to the hedged risk	X	X
HKAS 39.89(a) HKFRS 7.24(a)(i) BDR 40(3)(a)(i)	- Net loss on hedging instruments	(X)	(X)
	Cash flow hedges		
HKAS 39.97 HKFRS 7.23(d) BDR 40(2)(d)	- Net hedging income	X	X
HKAS 39.95(b) HKFRS 7.24(b) BDR 40(3)(b)	- Ineffectiveness arising from cash flow hedge	(X)	(X)
	Note 16(b)	X	X

8 Other operating income

HKAS 18.35(b), 30(c)

		2013 $'000	*2012* $'000
BDR 35(1)(e)	Dividend income from listed available-for-sale financial assets	X	X
10th Sch (13(1)(g))	Dividend income from unlisted available-for-sale financial assets	X	X
10th Sch (13(1)(g)) HKAS 40.75(f)	Rental income from investment properties less direct outgoings of $X (2012: $X)[88]	X	X
	Other	X	X
		X	X

HKFRS 7.23, 24

[87] For fair value hedge accounting (for example, a hedge of fair value interest rate risk associated with a fixed rate interest-bearing liability using an interest rate swap), separate disclosure of gains or losses recognised in profit or loss arising from re-measuring the hedging instrument and on the hedged item attributable to the hedged risk is required by HKFRS 7.24(a).

For cash flow hedges, HKFRS 7.23(d) and (e) require disclosure of the change in the fair value of the hedging instruments that was reclassified from equity, distinguishing between the amount reclassified to profit or loss for the year (showing the amount included in each line item in the income statement / the statement of comprehensive income) and that transferred to the initial measurement of a non-financial asset or non-financial liability in a hedged highly probable forecast transaction. In addition, HKFRS 7.24 requires separate disclosure of the amount of ineffectiveness recognised in profit or loss on cash flow hedges and hedges of net investments in foreign operations.

As with all HKFRSs, the above requirements apply only if the items are material.

HKAS 40.75(f)

[88] Where the entity has investment properties which were vacant during the period, or otherwise not generating rental income, the entity should analyse direct operating expenses (including repairs and maintenance) between that amount relating to investment properties which generated rental income and that amount relating to investment properties that did not generate rental income.

9 Operating expenses

HKAS 1.104

(a) Staff costs

		2013 $'000	*2012* $'000
BDR 35(1)(f)(i)			
HKAS 19.46	Contributions to defined contribution plan	X	X
HKFRS 2.50, 51(a)	Equity-settled share-based payment expenses[89]	X	X
A16(26)(3)	*Retirement costs*	*X*	*X*
HKAS 19.131	Salaries and other benefits	X	X
		X	X

A16(26)(1)
A16(26)(2)
A16(26)(4)

The Group operates a Mandatory Provident Fund Scheme (the MPF scheme) under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinances which covers X% of the employees of the Group. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of $25,000. Contributions to the plan vest immediately.

HKAS 1.104

(b) Depreciation and amortisation

		2013 $'000	*2012* $'000
BDR 35(1)(f)(iii) 10th Sch 13(1)(a)	Depreciation (note 30(a))[90]		
A16(4)(1)(k)	- assets held for use under operating leases	X	X
	- other assets	X	X
HKAS 1.104 BDR 35(1)(f)(iv) A16(4)(1)(k)	Amortisation		
	- land lease premium (note 30(a))	X	X
HKAS 38.118(d)	- intangible assets (note 31)	X	X
		X	X

[89] HKFRS 2.51(a) requires disclosure on the total expense recognised for the period arising from share-based payment transactions including separate disclosure of that portion of the total expense that arises from transactions accounted for as equity-settled share-based payment transactions. The Group assumes all share-based payment are equity-settled.

[90] Note that rental incurred in respect of staff quarters would be included in staff costs rather than in premises and equipment expenses. If the enterprise instead owned the staff quarters, it would be best practice to disclose the extent of duplication between the disclosure of staff costs and of depreciation.

HKAS 1.104
BDR 35(1)(f)(iv)

(c) Other operating expenses

		2013 $'000	*2012* $'000
BDR 35(1)(f)(ii)	Premises and equipment expense, excluding depreciation[91]		
	- rent and rates	X	X
	- insurance of premises and equipment	X	X
	- utilities	X	X
	- maintenance	X	X
	- electronic data processing	X	X
CP	Auditors' remuneration[92]		
10th Sch (15)	- audit services	X	X
CP	- tax services	X	X
CP	- other services	X	X
	Finance charges on obligations under finance leases	X	X
	Other[93]	X	X
		X	X
		X	X

10th Sch 13(1)(i)
HKAS 17.35(c)

Included in other operating expenses are minimum lease payments[94] under operating leases of $X (2012: $X) for hire of equipment and $X (2012: $X) for hire of other assets (including property rentals for staff housing included in "Salaries and other benefits" in note 9(a)).

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91 Where the figures are not material, no need to analyse this expense item.

A14(M)
A23(2)(h)
A16(34)

92 In accordance with section M of Appendix 14, Corporate governance code and corporate governance report, to the MBLRs, a listed issuer is required to disclose an analysis of auditors' remuneration in respect of both audit and non-audit services in the corporate governance report (CGR), included in its annual report. The analysis must include, in respect of each significant non-audit service assignment, details of the nature of the services and the fees paid. Where a listed entity chooses to present such analysis in its annual financial statements, the issuer must make a clear and unambiguous reference to its annual financial statements from the CGR. The CGR must not only contain a cross-reference without any discussion of the matter.

BDR35(3)

93 If there are any material amounts set aside for provisions, other than those for depreciation, renewals or diminution in value of assets, or withdrawn from such provisions and not applied for the purposes thereof, the amounts should be disclosed.

HKAS 17.35(c)

94 If there were any contingent rents and sublease payments, separate disclosure of these amounts should be made.

10 Directors' remuneration

S161, A16(24)
HKAS 24.16

Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance is as follows[95]:

	Directors' fees	*Salaries, allowances and benefits in kind*	*Discretionary bonuses*	*Retirement scheme contributions*	*Sub-total*	*Share-based payments (note)*	*2013 Total*
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Chairman							
Hon WS Tan	X	-	-	-	X	-	X
Executive directors							
SK Ho	X	X	X	X	X	-	X
YK Ng	X	X	X	X	X	X	X
PK Smith	X	X	X	X	X	X	X
CJ Wang	X	X	X	X	X	-	X
BC Tong (resigned on 31 March	X	X	X	X	X	X	X
Independent non-executive directors							
TY Sham	X	-	-	-	X	-	X
YH Li	X	-	-	-	X	-	X
AC Man	X	-	-	-	X	-	X
	X	X	X	X	X	X	X

	Directors' fees	*Salaries, allowances and benefits in kind*	*Discretionary bonuses*	*Retirement scheme contributions*	*Sub-total*	*Share-based payments (note)*	*2012 Total*
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Chairman							
Hon WS Tan	X	-	-	-	X	-	X
Executive directors							
SK Ho	X	X	X	X	X	-	X
YK Ng	X	X	X	X	X	X	X
PK Smith	X	X	X	X	X	X	X
BC Tong	X	X	X	X	X	X	X
Independent non-executive directors							
TY Sham	X	-	-	-	X	-	X
YH Li	X	-	-	-	X	-	X
AC Man	X	-	-	-	X	-	X
	X	X	X	X	X	X	X

[95] Appendix 16.24 of the MBLR requires listed companies to show details of directors' and past directors' emoluments, on a named basis. In the case of a PRC issuer, directors or past directors include supervisors and past supervisors (as appropriate) (paragraph 24.4 of Appendix 16). This requirement was amended in December 2011 to also require disclosure of the remuneration of a chief executive who is not a director (paragraph 24.5 of Appendix 16). The amendment came into effect on 1 January 2012. The SEHK has also further clarified in one of its supplementary materials on Listing Rules and Rules Changes, *Frequently asked questions on rule amendments relating to corporate governance and listing criteria issues*, dated 31 March 2004, that comparative figures for individual directors' emoluments must also be disclosed. The above analysis illustrates one of the possible formats for such disclosure. Paragraph B.1.7 of Appendix 14 to the MBLRs also recommends that issuers disclose details of any remuneration payable to members of senior management on an individual and named basis to the same extent as is required for directors. Compared to the listing rule requirements and recommendations, Section 161 of the HKCO normally only requires the aggregate amount of directors' remuneration to be analysed on a no-names basis between fees and other emoluments.

S161 Unlisted AIs only need to analyse total directors' remuneration between fees and other emoluments.

Note:

These represent the estimated value of share options granted to the directors under the Bank's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 1(o)(ii) and, in accordance with that policy, includes adjustments to reverse amounts accrued in previous years where grants of equity instruments are forfeited prior to vesting.

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share option scheme" in the directors' report and note 41.

11 Individuals with highest emoluments

A16(25)
HKAS 24.16

Of the five individuals with the highest emoluments, three (2012: three) are directors whose emoluments are disclosed in note 10 above. The aggregate of the emoluments in respect of the other two (2012: two) individuals are as follows:

		2013	*2012*
		$'000	*$'000*
A16(25)(1)	*Salaries and other emoluments*	*X*	*X*
A16(25)(3)	*Discretionary bonuses*	*X*	*X*
	Share-based payments	*X*	*X*
A16(25)(2)	*Retirement scheme contributions*	*X*	*X*
		X	*X*

A16(25)(6)

The emoluments of the two (2012: two) individuals with the highest emoluments are within the following bands:

	2013	*2012*
	Number of individuals	*Number of individuals*
HK$		
Nil - 1,000,000	*1*	*2*
1,000,001 - 1,500,000	*1*	*-*

12 Impairment losses on loans and advances

		2013	2012
		$'000	$'000
BDR 37(1) HKFRS 7.20(e)	Impairment losses charged/(released) on loans and advances[96] (note 25(b)(i))		
	- Addition	X	X
	- Releases	(X)	(X)
	- Recoveries	(X)	(X)
		X	X

BDR 37(1)

[96] The amount of new impairment losses included in the movement of the impairment allowances (see notes 25(b)) should include any amount of loans directly written-off in the period and the amount of any impairment loss released back should include any amount of loans recovered directly through the profit or loss in the period.

13 Net profit on sale of available-for-sale financial assets

		2013 $'000	*2012* $'000
HKFRS 7.20(a)(ii) BDR 35(1)(a)(ii)	Net revaluation gain reclassified from reserves on disposal (note 16(b))	X	X
	Net profit arising in current year	X	X
		X	X

14 Income tax in the consolidated income statement

HKAS 12.79 ***(a) Taxation in the consolidated income statement represents:***

		2013 $'000	*2012* $'000
A16(4)(1)(c) BDR 35(1)(j)(i)	**Current tax - Hong Kong Profits Tax**		
10th Sch 13(1)(c) HKAS 12.80(a)	Provision for the year	X	X
10th Sch 17(4) HKAS 12.80(b)	Under / (over)-provision in respect of prior years	X	(X)
		X	X
A16(4)1)(c) BDR 35(1)(j)(ii)	**Current tax – Overseas**		
10th Sch 13(1)(c) HKAS 12.80(a)	Provision for the year	X	X
10th Sch 17(4) HKAS 12.80(b)	Over-provision in respect of prior years	(X)	-
		X	X
BDR 35(1)(j)(iii)	**Deferred tax**		
HKAS 12.80(c)	Origination and reversal of temporary differences (note 38(b))	X	(X)
	Effect on deferred tax balances at 1 January resulting from a change in tax rate	-	X
		X	(X)
		X	X

BDR 35(2) A16(4)(1)(c) 10th Sch 12(15), 17(3)

The provision for Hong Kong Profits Tax for 2013 is calculated at 16.5% (2012: 16.5%) of the estimated assessable profits for the year, taking into account a one-off reduction of 75% of the tax payable for the year of assessment 2012-13 subject to a ceiling of $10,000 allowed by the Hong Kong SAR Government for each business[97]. Taxation for overseas branches and subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

[97] The disclosure on one-off tax reduction is for illustrative purpose. An AI may determine that the one-off tax reduction is immaterial to the financial statements and opt not to disclose it in the narrative or in the reconciliation between tax expense and accounting profit as a separate line item.

HKAS 12.81(c)

(b) Reconciliation between tax expense and accounting profit at applicable tax rates[98]:

	2013	*2012*
	$'000	$'000
Profit before tax	X	X
Notional tax on profit before tax, calculated at the rates applicable to profits in the countries concerned	X	X
Tax effect of non-deductible expenses	X	X
Tax effect of non-taxable income[99]	(X)	(X)
Tax effect of unused tax losses not recognised	X	X
Effect on deferred tax balances at 1 January resulting from a change in tax rate	-	X
One-off tax reduction[97 on page 73]	(X)	-
Under/(over) - provision in prior years	X	(X)
Others	X	X
Actual tax expense	X	X

HKAS 12.81(c)

[98] HKAS 12 requires disclosure of one or other of the following:
(a) a reconciliation between the actual tax expense (or income) and the notional tax calculated at the applicable tax rate; and/or
(b) a reconciliation between the average effective tax rate and the applicable tax rate.

The AI is free to choose which approach to adopt or to adopt both.

HKAS 12.85

The "applicable tax rate" should be the rate that provides the most meaningful information to the users of the financial statements. This may be the domestic tax rate in the country in which the AI is domiciled or the tax rates of the various tax jurisdictions concerned, where an AI operates in more than one jurisdiction.

[99] Where no further tax will be payable by the Group on the distribution of profits from associates (i.e. dividend income is tax free), the share of profit recognised under the equity method will be a form of non-taxable income, which would be included as a reconciling item in the tax reconciliation, either separately or together with other forms of non-taxable income.

15 Profit attributable to equity shareholders of the Bank

S123(5)(b)(ii) The consolidated profit attributable to equity shareholders of the Bank includes a profit of $X (2012: $X) which has been dealt with in the financial statements of the Bank[100].

CP Reconciliation of the above amount to the Bank's profit for the year:

	2013 $'000	*2012* $'000
Amount of consolidated profit attributable to equity shareholders dealt with in the Bank's financial statements	X	X
Final dividends from subsidiaries and associates attributable to the profits of the previous financial year, approved and paid during the year	X	X
Bank's profit for the year (note 42(a))	X	X

CP Details of dividends paid and payable to equity shareholders of the Bank are set out in note 42(b).[30 on page 23]

[100] The profit "dealt with in the financial statements of the Bank" represents the amount of the consolidated profit attributable to the period that has been included in the parent Bank's profit for the period. This amount will include any dividends from subsidiaries and associates recorded by the parent as income, to the extent that these dividends are paid out of the current financial year's profits i.e. those profits that will be included in the consolidated income statement / consolidated statement of comprehensive income. However, this amount should exclude dividends from subsidiaries and associates attributable to previous financial years' profits, even if they have been recorded as income by the parent in the current period, since these profits will not be included in the current financial year consolidated income statement.

CP When the "profit dealt with in the financial statements of the Bank" is not the same as the Bank's profit for the financial year (as will be disclosed in the movement in reserves note to the Bank's statement of financial positions), a reconciliation of the two amounts is recommended.

16 Other comprehensive income

HKAS 1.90
HKAS 12.81(ab)

(a) Tax effects relating to each component of other comprehensive income

	2013			*2012*		
	Before-tax amount $'000	*Tax (expense)/ benefit* $'000	*Net-of-tax amount* $'000	*Before-tax amount* $'000	*Tax (expense)/ benefit* $'000	*Net-of-tax amount* $'000
Exchange differences on translation of:						
- financial statements of overseas branches, subsidiaries and associates	(X)	-	(X)	X	-	X
- related borrowings	X	-	X	(X)	-	(X)
	(X)	-	(X)	X	-	X
Surplus on revaluation of land and buildings held for own use	X	(X)	X	X	(X)	X
Cash flow hedge: net movement in hedging reserve	(X)	X	(X)	(X)	X	(X)
Available-for-sale financial assets: net movement in available-for-sale fair value reserve	X	(X)	X	X	(X)	X
Other comprehensive income	X	(X)	X	X	(X)	X

HKAS 1.92-94

(b) Reclassification adjustments relating to components of other comprehensive income

		2013 $'000	*2012* $'000
	Cash flow hedges:		
	Effective portion of changes in fair value of hedging instruments recognised during the period	X	X
HKFRS 7.23(e)	Amounts transferred to initial carrying amount of hedged items	(X)	(X)
HKFRS 7.23(d)	Reclassification adjustments for amounts transferred to profit or loss:		
	- net hedging income (note 7)	(X)	(X)
	Net deferred tax credited to other comprehensive income	X	X
	Net movement in the hedging reserve during the period recognised in other comprehensive income	(X)	(X)
	Available-for-sale financial assets:		
	Changes in fair value recognised during the period	X	X
	Reclassification adjustments for amounts transferred to profit or loss		
HKFRS 7.20(a)(ii)	- gains on disposal (note 13)	(X)	(X)
HKFRS 7.20(e)	- impairment losses	X	X
	Net movement in the available-for-sale fair value reserve during the period recognised in other comprehensive income	X	X

17 *Earnings per share*

(a) Basic earnings per share

HKAS 33.70(a)&(b)

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Bank of $X (2012: $ X) and the weighted average of X ordinary shares (2012: X ordinary shares) in issue during the financial year, calculated as follows:

HKAS 33.70(b)

Weighted average number of ordinary shares

	2013 Number of shares '000	2012 Number of shares '000
Issued ordinary shares at 1 January	X	X
Effect of share options exercised (note 42(c))	X	X
Weighted average number of ordinary shares at 31 December	X	X

(b) Diluted earnings per share[101]

HKAS 33.70(a)&(b)

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Bank of $X (2012: $X) and the weighted average number of ordinary shares of X shares (2012: X ordinary shares)[102]*, calculated as follows:*

HKAS 33.70(a)

[101] It is assumed that there are no differences between profit attributable to ordinary equity shareholders and diluted profit attributable to ordinary equity shareholders for ABC Bank. If there are differences, paragraph 70(a) of HKAS 33 requires that a reconciliation of the profit attributable to ordinary equity shareholders and diluted profit attributable to ordinary equity shareholders should be disclosed. The reconciliation shall include the individual effect of each class of instruments that affects earnings per share.

HKAS 33.26-27,64

[102] HKAS 33.26 requires that for the purpose of calculating earnings per share, the weighted average number of ordinary shares outstanding during the period and for all periods presented should be adjusted for events, other than conversion of potential ordinary shares, that have changed the number of ordinary shares outstanding without a corresponding change in resources. HKAS 33.27 lists examples of such events: capitalisation or bonus issue, bonus element in any other issue (e.g. bonus element in a rights issue), share split and reverse share split.

HKAS 33.64 states that the requirement to restate the per share calculations for all periods presented applies even if the change occurs after the end of the reporting period (but before the financial statements are authorised for issue). In that case, the fact that per share calculations reflect the post balance sheet change in the number of shares should be disclosed. In our view, this requirement in paragraph 64 does not apply to a rights issue which occurred after the end of the reporting period. This is because the computation of the bonus element in a rights issue requires information on the market price of the shares immediately before exercise of the rights i.e. relates to circumstances which did not exist at the end of the reporting period. Therefore, the retrospective adjustment for a rights issue would only be made for rights issues that occurred during the reporting period. Any that occurred after the end of the reporting period but before the financial statements are authorised for issue should be disclosed as a non-adjusting event in accordance with HKAS 33.70(d) and HKAS 10.22(f).

HKAS 33.70(b)

Weighted average number of ordinary shares (diluted)

	2013 Number of shares '000	*2012 Number of shares '000*
Weighted average number of ordinary shares at 31 December	*X*	*X*
Effect of deemed issue of shares under the Bank's share option scheme for nil consideration (note 41)	*X*	*X*
Weighted average number of ordinary shares (diluted) at 31 December	*X*	*X*

A16(4)(3), A16(7)(1) HKFRS 8.20 & 22 A15(1)(III) BDR46(1)(a)

18 *Segment reporting*[103]

The Group manages its business by division, which are organised by a mixture of both business lines and geography. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment[104]*, the Group has*

HKFRS 8.3

[103] HKFRS 8 applies primarily to entities whose debt or equity securities are listed or quoted in a public market). Entities that fall outside the scope of HKFRS 8 may provide information about segments on a voluntary basis. However, if this information does not comply fully with HKFRS 8, then, as per HKFRS 8.3, this information should not be described as "segment information".

HKFRS 8.31-34

HKFRS 8 requires disclosure of certain information about an entity's products and services, geographical areas and major customers, even if the entity has only one reportable segment. These minimum disclosures, referred to as "entity-wide disclosures" in HKFRS 8, should be based on the financial information that is used to produce the entity's financial statements (i.e. the disclosure is not based on the management approach, which is otherwise used in disclosing segment information). The disclosures are required only if they are not provided as part of the reportable segment information required by HKFRS 8.

HKFRS 8

Listed AIs are subject to two separate sources of disclosure requirements: HKFRS 8, *Operating Segments*, and BDR. The disclosures given in this note are intended to illustrate the requirements of HKFRS 8, and, to the extent that these requirements to overlap with, or are closely related to, the disclosure requirements of BDR, those additional requirements.

HKFRS 7.34(c) HKFRS 7.B8 BDR 3(7) BDR 46(5)

Unlisted AIs are not required to comply with HKFRS 8. However, they need to comply with HKFRS 7.34(c) and disclose the concentrations of risk arising from financial instruments. At the same time, restricted licence banks and deposit taking companies that have total assets of greater than or equal to HK$1 billion or total customer deposits of greater than or equal to HK$300 million are still required to comply with BDR to disclose segment information and financial information on major business activities. In such cases, for compliance with HKFRS 7.34(c) on the disclosure of concentration of risk from financial instruments that have similar characteristics (for example, counterparty, geographical area, currency or market), the large unlisted AIs may choose to disclose geographical concentrations (required by HKFRS 7) in the audited financial statements and analyse segmental information by class of business (required by BDR) in the unaudited supplementary financial information, or vice versa. BDR disclosures are presented on the basis of consolidated financial statements, and should be consistent with the figures provided in the audited financial statements. Disclosure of segmental information on AIs should aim to provide a breakdown of activities rather than simply putting all activities into one category. A class of business activities is reported if it constitutes 10% or more of the relevant disclosure item.

Ord S97A(1)

Restricted licence banks and deposit-taking companies should not describe their business as "banking business".

HKFRS 8.IN11

[104] HKFRS 8 requires a "management approach" to reporting the financial performance of operating segments, i.e. the financial statements should report segment information which is consistent with the segment information as is reviewed by an AI's "chief operating decision maker" (CODM).

HKFRS 8.7

Identifying an AI's "chief operating decision maker" (CODM) is therefore key to the identification of operating segments under HKFRS 8. HKFRS 8.7 defines the CODM as a function rather than an individual with a specific title. That function is to allocate resources to and assess the performance of operating segments of an AI. The CODM usually is the highest level of management responsible for the AI's overall resource allocation and performance assessment. In this regard, the standard states that often the CODM of an AI is its chief executive officer or the chief operating officer, but it may be a group consisting of, for example, the AI's executive directors or others. In any event, a key point to note is that each reporting AI can only have one "CODM". For example, when the reporting AI is a group (as is almost always the case for entities within the scope of HKFRS 8), the CODM is the highest level of executive management within the Group.

presented the following six reportable segments[105]. No operating segments have been aggregated to form the following reportable segments[106].

- *Corporate banking (Hong Kong/Rest of Asia-Pacific / Rest of the world): given the importance of the corporate banking division to the Group, the Group's corporate banking business is segregated further into three reportable segments on a geographical basis, as the divisional managers for each of these regions report directly to the senior executive team. All three segments primarily derive their revenue from the provision of financial services to corporations and institutions, including lending and deposit taking activities, project and structured finance products, syndicated loans, cash management, investment advice and other investment services. These services are provided to corporations and institutions primarily in Hong Kong and the rest of Asia-Pacific. The "rest of the world" segment covers provision of corporate banking services to customers in Europe and America.*
- *Retail banking: this segment provides financial services to individuals including lending and deposit taking activities, credit card facilities and investment services. Currently, the Group's retail banking segment is located entirely in Hong Kong.*
- *Investment banking: this segment provides a full range of global capital market activities to corporations, including underwriting and distributing fixed income and equity investments, capital raising, advisory, research and other brokerage services. Currently, the Group's investment banking segment is located entirely in Hong Kong.*
- *Treasury: this segment provides interbank and capital market activities and proprietary trading. Currently, the Group's treasury segment is located entirely in Hong Kong.*

HKFRS 8.1

[105] Operating segments are identified on the basis of internal reports that an AI's CODM reviews regularly in allocating resources to segments and in assessing their performance, and may include start-up operations, vertically integrated operations and associates. In ABC Bank's case, the main division of the Group, Corporate Banking Division is split further into 3 geographical segments which is consistent with the way that information is provided internally to the most senior executive management of the Group.

HKFRS 8.12

[106] Material operating segments that are identified in the internal reports that an AI's CODM reviews may only be aggregated for the purposes of reporting segment information in the financial statements if aggregation is consistent with the core principle in HKFRS 8 (as set out in paragraph 1 of HKFRS 8), the segments have similar economic characteristics and those segments are similar in each of the characteristics set out in HKFRS 8.12. If these criteria are met, then aggregation is allowed but not required i.e. management may choose not to aggregate and could therefore instead present information to users as it is presented internally to the CODM. "Whether segments have been aggregated" is identified as one of the items of "general information" about factors used to identify reportable segments that should be disclosed in accordance with HKFRS 8.22.

(a) Segment results, assets and liabilities [107]

HKFRS 8.27(c) & (d)

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

Segment assets[108] *include all tangible, intangible assets and financial assets with the exception of interests in associates, deferred tax assets and other corporate assets. Segment liabilities include deposits, financial liabilities and other liabilities attributable to the banking activities of the individual segments.*

HKFRS 8.27(b) & (f)

Revenue and expenses are allocated to the reportable segments with reference to interest and fee and commission income generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. Segment revenue and expenses do not include the Group's share of revenue and expenses arising from the activities of the Group's associates. Other than reporting inter-segment income, assistance provided by one segment to another, including sharing of assets, is not measured.

HKFRS 8.27(a)

In addition to receiving segment information concerning profit before taxation, management is provided with segment information concerning revenue (including inter-segment lending), interest expense, depreciation, amortisation and impairment losses and additions to non-current segment assets used by the segments in their operations.

HKFRS 8.25 & 26

[107] Consistent with the management approach, HKFRS 8 requires the amounts of each segment item reported to be the measure reported internally to the CODM. This means that segment information disclosed in the financial statements should be prepared using non-HKFRS policies if this is how the information reported to the CODM is prepared. However, where the CODM internally uses more than one segment measure, HKFRS 8 requires the AI's to report those measures determined in accordance with measurement principles which management believes are most consistent with those used in measuring the corresponding amount in the AI's financial statements.

To help users understand the segment information presented and its limitations in the context of an AI's financial statements, HKFRS 8 requires AI to disclose the following:

HKFRS 8.22

- general information about the factors used to identify the AI's reportable segments and the extent to which operating segments have been aggregated for disclosure purposes;

HKFRS 8.27

- information about the measurement basis adopted, such as the nature of any differences between the measurements used in reporting segment information and those used in the AI's financial statements, the nature of any changes from prior periods in the measurement methods used, and the nature and effect of any asymmetrical allocations to reportable segments (for example, an AI might allocate depreciation expense to a segment without allocating the related depreciable assets to that segment); and

HKFRS 8.28

- reconciliations of total reportable segment revenue, total profit or loss, total assets and other material amounts disclosed for reportable segments to corresponding consolidated totals in the AI's financial statements with all material reconciling items separately identified and described.

HKFRS 8.IN14
BDR 46(3)

[108] Unlisted AIs are required to disclose operating assets for each reported business. Operating assets of a segment are those assets that are employed by the segment in its operating activities and that either are directly attributable to that segment or can be allocated to that segment on a reasonable basis. This definition is the same as "segment assets" in HKFRS 8. Operating assets do not include income tax assets/ liabilities.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2013 and 2012 is set out below.[109 on page 84]

BDR 46(2)(b)		**Corporate banking-Hong Kong**		**Corporate banking-Rest of Asia-Pacific**		**Corporate banking-Rest of the world**		**Retail banking**		**Investment banking**		**Treasury**[110 on page 84]		**Total**	
		2013	*2012*	*2013*	*2012*	*2013*	*2012*	*2013*	*2012*	*2013*	*2012*	*2013*	*2012*	*2013*	*2012*
		$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
HKFRS 8.23(a)	*Net interest income*	X	X	X	X	X	X	X	X	X	X	X	X	X	X
HKFRS 8.23(a)	*Fee and commission income*	X	X	X	X	X	X	X	X	X	X	X	X	X	X
HKFRS 8.23(a)	*Other operating income from external customers*	X	X	X	X	X	X	X	X	X	X	X	X	X	X
HKFRS 8.23(b)	*Inter-segment income*[111 on page 84]	X	X	X	X	X	X	X	X	X	X	X	X	-	-
BDR 46(2)(b)(ii)	*Operating income*[112 on page 84]	X	X	X	X	X	X	X	X	X	X	X	X	X	X
	Operating expenses	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
	Inter-segment income/ (expense)	(X)	(X)	(X)	(X)	(X)	(X)	X	X	X	X	X	X	-	-
BDR 46(2)(b)(ii)		X	X	X	X	X	X	X	X	X	X	X	X	X	X
HKFRS 8.23(i)	*Impairment losses*[113 on page 84]	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
BDR 46(2)(b)(iii)		X	X	X	X	X	X	X	X	X	X	X	X	X	X
HKFRS 8.23(f)	*Net profit on sale of held-to-maturity investments*	-	-	-	-	-	-	-	-	-	-	X	X	X	X
HKFRS 8.23(f)	*Net profit on sales of available-for-sale financial assets*	-	-	-	-	-	-	-	-	-	-	X	X	X	X
	Operating profit	X	X	X	X	X	X	X	X	X	X	X	X	X	X
HKFRS 8.23(f)	*Net profit on sale of fixed assets*	X	X	X	X	-	-	-	-	-	-	-	-	X	X
HKFRS 8.23(i)	*Valuation gains on investment property*	X	X	X	X	-	-	-	-	-	-	-	-	X	X
BDR 46(2)(b)(iv)	*Reportable segment profit before taxation*	X	X	X	X	X	X	X	X	X	X	X	X	X	X

		Corporate banking-Hong Kong		***Corporate banking-Rest of Asia-Pacific***		***Corporate banking-Rest of the world***		***Retail banking***		***Investment banking***		***Treasury***		***Total***	
		2013	*2012*	*2013*	*2012*	*2013*	*2012*	*2013*	*2012*	*2013*	*2012*	*2013*	*2012*	*2013*	*2012*
		$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
HKAS 36.129 HKFRS 8.23(i)	*Impairment losses for the year recognised in equity*	-	-	-	-	-	-	-	-	-	-	*X*	*X*	*X*	*X*
HKFRS 8.23(e)	*Depreciation and amortisation for the year*	*X*	*X*	*X*	*X*	*X*	*X*	*X*	*X*	*X*	*X*	*X*	*X*	*X*	*X*
HKFRS 8.23(i)	*Significant non-cash expenses (other than depreciation and amortisation)*	*X*	*X*	*X*	*X*	*X*	*X*	-	-	-	-	-	-	*X*	*X*
HKFRS 8.23 BDR 46(2)(a)	*Reportable segment assets*	*X*	*X*	*X*	*X*	*X*	*X*	*X*	*X*	*X*	*X*	*X*	*X*	*X*	*X*
HKFRS 8.24(a) HKFRS 8.24(b)	*Additions to non-current segment assets during the year*[114 on page 84]	*X*	*X*	*X*	*X*	*X*	*X*	*X*	*X*	*X*	*X*	*X*	*X*	*X*	*X*
HKFRS 8.23	*Reportable segment liabilities*	*X*	*X*	*X*	*X*	*X*	*X*	*X*	*X*	*X*	*X*	*X*	*X*	*X*	*X*

HKFRS 8.23

109 HKFRS 8 requires an AI to report a measure of profit or loss for each reportable segment. It also includes the following disclosure requirements:

- A measure of liabilities for each reportable segment should be disclosed if such an amount is provided regularly to the CODM.
- The following should be disclosed about each reportable segment if the specified amounts are included in the measure of segment profit or loss reviewed by the CODM or are otherwise provided regularly to the CODM even if not included in that measure of segment profit or loss:
  - revenues from external customers;
  - revenues from transactions with other operating segments of the same AI;
  - depreciation and amortisation;
  - material items of income and expense disclosed in accordance with HKAS 1;
  - the AI's interest in the profit or loss of associates accounted for by the equity method;
  - income tax expense or income; and
  - material non-cash items other than depreciation and amortisation.

In the fictitious circumstances of ABC Bank, although depreciation and amortisation expense is not included in the measure of profit or loss that is reviewed by the Group's CODM, such amounts are provided to the CODM who uses this information in evaluating the performance of the AI's segments. Accordingly, disclosure of depreciation and amortisation expense by each reportable segment is included.

HKAS 7.50(d)

In addition to the disclosure of segment results required by HKFRS 8, HKAS 7 encourages the disclosure of additional information about the amount of cash flows arising from the operating, investing and financing activities of each reportable segment. Although not explicitly stated in HKAS 7, we presume that such information should only be disclosed on a segment basis if such information is included in the information reported internally to the CODM.

HKFRS 8.16 & 6

110 In this illustration it is assumed that the treasury activity is separately identified as an operating segment in information provided internally to the CODM and that management has decided that it would be useful information to disclose this segment separately. If instead management had decided that the "treasury" segment was not sufficiently material to be regarded as a reportable segment, it could have labelled the amounts relating to this segment (and any other immaterial operating segments) as relating to "all other segments" in accordance with HKFRS 8.16. However, given that in ABC Bank's assumed circumstances "treasury" is separately identified as an operating segment in information provided to ABC Bank's CODM, it would not have been acceptable to simply include these amounts in the "unallocated amounts" disclosed in the reconciliation under paragraph 28 of HKFRS 8. Where an "all other segments" category is presented, the sources of revenue in this category should be described (HKFRS 8.16).

HKFRS 8.23(b)
CA-D-1 Annex I

111 Segmental analysis for unlisted AIs can be shown inclusive or exclusive of intra-group transactions. Where the segmental analysis is shown inclusive of intra-group transactions, it will be necessary to show separately the aggregate of intra-group items deducted in order to reconcile with the consolidated totals for profit and assets. Where allocation of an item of revenue, expenses, assets or liabilities cannot be made to segments on a reasonable basis, the unallocated amount should be disclosed in the reconciliation. Where allocation of an item involves a material judgement, the basis of allocation should be clearly stated.

BDR 46(1)
BDR 46(2)
BDR 46(5)

112 Unlisted AIs are required to provide segmental information on operating assets and at least one or more of the following: total operating income (net of interest expense), profit/loss before impairment losses, profit/loss after impairment losses, or profit/loss before taxation. The analysis may be based on the internal classification of AIs and expressed in either absolute or percentage terms. If the analysis is expressed in absolute terms, the aggregate of the breakdown should reconcile with the figures provided in the audited income statement. This disclosure may be made in the unaudited supplementary financial information

113 HKAS 36.129 requires disclosure of the amount of impairment losses recognised / reversed in profit or loss and directly in equity during the period for each reportable segment.

HKFRS 8.24

114 An AI should disclose the following about each reportable segment if the specified amounts are included in the measure of segment assets reviewed by the CODM or are otherwise regularly provided to the CODM even if not included in the measure of segment assets:

- the amount of investment in associates accounted for by the equity method; and
- the amounts of additions to non-current assets (other than non-current financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts)(e.g. properties and equipment, capital expenditure, etc.).

(b) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

		2013	2012
HKFRS 8.28(a)	***Revenue***	*$'000*	*$'000*
	Operating income	*X*	*X*
	Elimination of inter-segment income	*(X)*	*(X)*
	Consolidated operating income	*X*	*X*

		2013	2012
HKFRS 8.28(b)	***Profit***	*$'000*	*$'000*
	Reportable segment profit	*X*	*X*
	Elimination of inter-segment profits	*(X)*	*(X)*
	Reportable segment profit derived from Group's external customers	*X*	*X*
	Share of profits less losses of associates	*X*	*X*
	Unallocated head office and corporate expenses	*(X)*	*(X)*
	Consolidated profit before taxation	*X*	*X*

		2013	2012
HKFRS 8.28(c)	***Assets***	*$'000*	*$'000*
	Reportable segment assets	*X*	*X*
	Elimination of inter-segment receivables	*(X)*	*(X)*
		X	*X*
	Interests in associates	*X*	*X*
	Deferred tax assets	*X*	*X*
	Unallocated head office and corporate assets	*X*	*X*
	Consolidated total assets	*X*	*X*

		2013	2012
HKFRS 8.28(d)	***Liabilities***	*$'000*	*$'000*
	Reportable segment liabilities	*X*	*X*
	Elimination of inter-segment payables	*(X)*	*(X)*
		X	*X*
	Current tax liabilities	*X*	*X*
	Deferred tax liabilities	*X*	*X*
	Unallocated head office and corporate liabilities	*X*	*X*
	Consolidated total liabilities	*X*	*X*

HKFRS 8.33

(c) Geographic information[115, 118]

The Group's business is managed on a worldwide basis, but participates in three principal economic environment, namely Hong Kong, Asia-Pacific, and rest of the world. Hong Kong is a major market for all the Group's businesses.

BDR 46(4)

The following table sets out information about the geographical location of the Group's total operating income from external customers, profit before taxation, total assets, total liabilities, specified non-current assets and contingent liabilities and commitments. Specified non-current assets of the Group include fixed assets, goodwill, intangible assets and interests in associates[116]*. The geographical analysis*[117, 118] *is classified by the location of the principal operations of the subsidiaries, or in the case of the Bank itself, by the location of the branches responsible for reporting the results or booking the assets.*[117]

HKFRS 8.31-34

[115] HKFRS 8 requires disclosure of certain information about an entity's products and services, geographical areas and major customers, even if the entity has only one reportable segment. These minimum disclosures, referred to as "entity-wide disclosures" in HKFRS 8, should be based on the financial information that is used to produce the AI's financial statements (i.e. the disclosure is not based on the management approach, which is otherwise used to disclosing segment information). The disclosures are required only if they are not provided as part of the reportable segment information required by HKFRS 8. In ABC Bank's financial statements, we have included the "entity-wide disclosure" in note 18 "Segment reporting". Other approaches to disclosing this information are acceptable provided they meet the basic disclosure requirement of HKAS 1.113, to present notes in a systematic manner.

HKFRS 8.33

[116] As part of the required entity-wide disclosures, HKFRS 8 requires the disclosure of certain geographic information, unless the necessary information is not available and the cost to develop it would be excessive. The information required to be analysed geographically is (a) revenue from external customers and (b) non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts. In respect of (b), in our view, users may find it helpful if the disclosure identified which of the Group's non-current assets <u>are</u> included in this disclosure, rather than simply repeating the words in HKFRS 8.33(b) concerning "non-current assets other than financial instruments, deferred tax ...". This description will therefore vary from one AI to the next, depending on which non-current assets they carry.

HKFRS 8.33

[117] HKFRS 8 requires the revenue and specified non-current assets to be "attributed" to countries. This is intended to allow flexibility to AIs, for example it allows them to decide for themselves how to attribute income to countries in situations where the services are provided to one country but the payments are made in another country (see paragraph 106 of appendix A to the Basis of conclusions to HKFRS 8). Given this flexibility, AIs are required to disclose the attribution basis used.

[118] Unlisted AIs may disclose geographical concentrations of operating income (net of interest expense), profit or loss before taxation, total assets, total liabilities and contingent liabilities and commitments in "Unaudited Supplementary Financial Information".

HKFRS 8.33
BDR 46(4)

	2013					
	Total operating income from external customers $'000	*Profit before taxation $'000*	*Total assets $'000*	*Total liabilities $'000*	*Specified non-current assets $'000*	*Contingent liabilities and commitments $'000*
Hong Kong (place of domicile) [119]	*X*	*X*	*X*	*X*	*X*	*X*
Mainland China	*X*	*X*	*X*	*X*	*X*	*X*
Singapore	*X*	*X*	*X*	*X*	*X*	*X*
Australia	*X*	*X*	*X*	*X*	*X*	*X*
Germany	*X*	*X*	*X*	*X*	*X*	*X*
United Kingdom	*X*	*X*	*X*	*X*	*X*	*X*
United States	*X*	*X*	*X*	*X*	*X*	*X*
Other countries	*X*	*X*	*X*	*X*	*X*	*X*
	X	*X*	*X*	*X*	*X*	*X*
Less: inter-segment elimination[120]	*(X)*	-	*(X)*	*(X)*	-	-
Unallocated assets/costs *121 on page 88*	-	*(X)*	*X*	*X*	-	-
Total	*X*	*X*	*X*	*X*	*X*	*X*

HKFRS 8.33

[119] HKFRS 8.33 states that revenue and non-current asset information is required to be analysed by (a) the AI's country of domicile and (b) all foreign countries in total. To the extent that a foreign operation is material, further disclosure by country is required, and it would not be adequate simply to identify broad geographic areas of contiguous countries (e.g. Europe) (see paragraph 105 of appendix A to the Basis of conclusions to HKFRS 8). An AI is allowed, however, to provide sub-totals of the geographic information by groups of countries, in addition to the required information by country.

There is no further explanation as to the meaning of the AI's "country of domicile" when the disclosures are made on a consolidated basis and the meaning may be particularly unclear when the parent company is an investment holding company incorporated in an off-shore jurisdiction. In our view, in such circumstances, this disclosure may be taken to refer to the country which the Group regards as its "home country", for example, where it has the majority of its operations, workforce and / or management headquarters. Furthermore, in our view, given the differences between the economic and legal systems and environment in Hong Kong and the Mainland China, it would be useful for users to disclose amounts relating to each of these regions separately, even though they are part of the same country. If in any doubt about the users being confused by a country, or part of a country, being identified as where the AI is domiciled, further disclosure should be given about how the AI has identified its "country of domicile".

CA-D-1 Annex I (2)

[120] AIs will need to determine, in the light of their individual circumstances, whether it would be more meaningful to include or exclude intra-group items when preparing segmental information. Were the individual segmental analysis is shown inclusive of intra-group transactions, it will be necessary to show separately the aggregate of intra-group items deducted in order to reconcile with the consolidated totals for profits and assets.

HKFRS 8.33
BDR 46(4)

	2012					
	Total operating income from external customers $'000	*Profit before taxation $'000*	*Total assets $'000*	*Total liabilities $'000*	*Specified non-current assets $'000*	*Contingent liabilities and commitments $'000*
Hong Kong (place of domicile) [119 on page 87]	*X*	*X*	*X*	*X*	*X*	*X*
Mainland China	*X*	*X*	*X*	*X*	*X*	*X*
Singapore	*X*	*X*	*X*	*X*	*X*	*X*
Australia	*X*	*X*	*X*	*X*	*X*	*X*
Germany	*X*	*X*	*X*	*X*	*X*	*X*
United Kingdom	*X*	*X*	*X*	*X*	*X*	*X*
United States	*X*	*X*	*X*	*X*	*X*	*X*
Other countries	*X*	*X*	*X*	*X*	*X*	*X*
	X	*X*	*X*	*X*	*X*	*X*
Less: inter-segment elimination[120 on page 87]	*(X)*	-	*(X)*	*(X)*	-	-
Unallocated assets/ costs[121]	-	*(X)*	*X*	*X*	-	-
Total	*X*	*X*	*X*	*X*	*X*	*X*

CA-D-1 Annex I (4)

[121] Where an item of revenue, expense, or assets cannot reasonably be allocated to a segment, no allocation should be made. Instead the unallocated amount should be adjusted against the revenue, expense or assets of all segments. In addition, the unallocated amount should be disclosed separately. Where allocation of an item involves a material judgement, the basis of allocation should be clearly stated.

CA-D-1 Annex A
BCR 2(1)

[122] Banks refer to AIs except where the authorisation of which is for the time suspended under section 24 or 25 of the HKBO. They also include banks incorporated outside Hong Kong which are not Hong Kong authorised institutions except such a bank which, in the opinion of the HKMA, is not adequately supervised by the relevant banking supervisory authority; or the licence or other authorisation of which to carry on banking business is for the time suspended.

BCR 2(1)

Banks exclude central banks which now fall within the definition of "sovereign".

19 Cash and balances with banks[122] on page 88, central banks and other financial institutions

HKAS 1.77
BDR 36(1)(a)(i)

	Group		Bank	
	2013 $'000	*2012* $'000	*2013* $'000	*2012* $'000
Cash in hand	X	X	X	X
Balances with banks	X	X	X	X
Balances with central banks[123]	X	X	X	X
Balances with other financial institutions	X	X	X	X
	X	X	X	X

20 Placements with banks[122] on page 88, central banks and other financial institutions[124]

		Group		Bank	
		2013 $'000	*2012* $'000	*2013* $'000	*2012* $'000
	Money market placements with:				
BDR 36(1)(a)(ii)	- banks	X	X	X	X
	- central banks	X	X	X	X
	- other financial institutions	X	X	X	X
		X	X	X	X
BDR 36(1)(a)(v)(B)	Loans and advances to banks[125]	X	X	X	X
	Items in the course of collection from other banks	X	X	X	X
		X	X	X	X
	Maturing				
	- within one month	X	X	X	X
BDR 36(1)(a)(ii)	- between one month and one year	X	X	X	X
	- after one year	X	X	X	X
		X	X	X	X

HKAS 7.48

[123] The standard requires disclosure, together with commentary by management, of the amount of significant cash and cash equivalent balances held that are not available for use by the Group. E.g. Statutory deposits placed with People's Bank of China for branches in China.

BDR 36(1)(a)(v)(D)
BDR 37(3)

[124] If it contains impaired amounts, additional analysis similar to note 25(a), (b), (d), and 49(a) in respect of the impaired amounts and the impairment losses made thereon should be disclosed. Impairment losses made for the financial year should be separately disclosed on the face of income statement.

BDR2(1)
CA-D-1
Annex A

[125] Loans and advances to banks represent placements with banks with residual contractual maturity of more than one year.

21 Hong Kong SAR Government certificates of indebtedness[37] on page 27

The Hong Kong Special Administrative Region currency notes in circulation are secured by the deposit of funds in respect of which the Government of the Hong Kong Special Administrative Region certificates of indebtedness are held.

22 Trade bills

		Group		*Bank*	
		2013	*2012*	*2013*	*2012*
		$'000	$'000	$'000	$'000
BDR 36(1)(a)(v)	Gross trade bills[126]	X	X	X	X

[126] If it contains impaired amounts, additional analysis similar to note 25(a), (b), (d), and 49(a) in respect of the impaired amounts and the impairment losses made thereon should be disclosed. Impairment losses made for the financial year should be separately disclosed on the face of income statement.

BDR 36(1)(a)(v)(D)
BDR 36(3),(4)
HKFRS 7.16

23 Trading assets[134 on page 98]

HKFRS 7.8(a)(ii)
BDR 36(1)(a)(iii)(B)

		Group		Bank	
		2013	*2012*	*2013*	*2012*
		$'000	$'000	$'000	$'000
	Treasury bills (including Exchange Fund Bills (note 50(a)))	X	X	X	X
	Certificates of deposit held (note 50(a))	X	X	X	X
BDR 37(4)(a),(b)	Debt securities (note 50(a))	X	X	X	X
BDR 37(4)(a),(b)	Equity securities (note 50(a))	X	X	X	X
	Investment funds (note 50(a))	X	X	X	X
	Trading securities	X	X	X	X
	Positive fair values of derivatives (note 46(b), note 50(a))	X	X	X	X
	Other trading assets (note 50(a))	X	X	X	X
		X	X	X	X
BDR 37(5)	Trading securities issued by:				
HKFRS 7.34(c)	Sovereigns[127]	X	X	X	X
	Public sector entities	X	X	X	X
	Banks	X	X	X	X
	Corporates	X	X	X	X
	Others	X	X	X	X
		X	X	X	X
HKFRS 7.34(c) BDR 37(4)(a)	Trading securities analysed by place of listing:[128]				
10th Sch 9(1)(a)	Listed in Hong Kong	X	X	X	X
10th Sch 9(3) & 31(a)	Listed outside Hong Kong	X	X	X	X
		X	X	X	X
10th Sch 9(3) & 31(a)	Unlisted	X	X	X	X
		X	X	X	X

BCR 2(1)

[127] Sovereign means the government, the central government of a country, the central bank of a country, an authority of a country which performs in the country functions similar to the functions performed by the HKMA or a relevant international organisation.

[128] Alternatively, the analysis by the place of listing can be made against each type of securities, although it is not required. For example,

Treasury Bills (including Exchange Fund Bills), unlisted	X
Certificates of deposit held, unlisted	X
Debt securities	
Listed in Hong Kong	X
Listed outside Hong Kong	X
	X
Unlisted	X
	X
Equity securities	
Listed in Hong Kong	X
Listed outside Hong Kong	X
	X
Unlisted	X
	X
	X

24 Financial assets designated at fair value through profit or loss[134 on page 98]

HKFRS 7.8(a)(i)
BDR 36(1)(a)(iii)(A)

		Group		Bank	
		2013	*2012*	*2013*	*2012*
		$'000	$'000	$'000	$'000
	Treasury bills (including Exchange Fund Bills) (note 50(a))	X	X	X	X
	Certificates of deposit held (note 50(a))	X	X	X	X
BDR 37(4)(a),(b)	Debt securities (note 50(a))	X	X	X	X
BDR 37(4)(a),(b)	Equity securities (note 50(a))	X	X	X	X
		X	X	X	X
BDR 37(5) HKFRS 7.34(c)	Issued by:				
	Sovereigns[127 on page 91]	X	X	X	X
	Public sector entities	X	X	X	X
	Banks	X	X	X	X
	Corporates	X	X	X	X
	Others	X	X	X	X
		X	X	X	X
HKFRS 7.34(c) BDR 37(4)(a)	Analysed by place of listing:[128 on page 91]				
10th Sch 9(1)(a)	Listed in Hong Kong	X	X	X	X
10th Sch 9(3) & 31(a)	Listed outside Hong Kong	X	X	X	X
		X	X	X	X
10th Sch 9(3) & 31(a)	Unlisted	X	X	X	X
		X	X	X	X

25 Loans and advances to customers

(a) Loans and advances to customers less impairment

HKFRS 7.8(c)

		Group		Bank	
		2013	*2012*	*2013*	*2012*
		$'000	$'000	$'000	$'000
BDR 36(1)(a)(v)(A)	Gross loans and advances to customers[129]	X	X	X	X
BDR 36(1)(a)(v)(D)	Less: Impairment allowances				
	- individually assessed (note 25(b))	(X)	(X)	(X)	(X)
	- collectively assessed (note 25(b))	(X)	(X)	(X)	(X)
		X	X	X	X

HKFRS 7.9

[129] If an AI has loans and advances that are designated at fair value through profit or loss, additional analysis in accordance with HKFRS 7.9 shall be made.

HKFRS 7.15

The above loans and advances include receivables from reverse repurchase agreements under which the Group and the Bank obtain securities on terms which permit them to re-pledge or resell securities to others in the absence of default[130]. At 31 December 2013, the fair value of financial assets accepted as collateral that the Group is permitted to sell or re-pledge under such terms is $X (2012: $X).

HKFRS 7.15

The fair value of financial assets accepted as collateral that have been sold or re-pledged or otherwise transferred to satisfy commitments under short sale transactions is $X (2012: $X). The Group is obliged to return equivalent securities[131].

All reverse repurchase agreements mature within three to six months from inception. These transactions are conducted under terms that are usual and customary to securities borrowing and lending activities.

(b) Movement in impairment allowances[132] on loans and advances:

(i) Group

HKFRS 7.16
BDR 36(3),(4)(a)

	2013			*2012*		
	Individually assessed $'000	*Collectively assessed* $'000	*Total* $'000	*Individually assessed* $'000	*Collectively assessed* $'000	*Total* $'000
At 1 January	X	X	X	X	X	X
BDR 36(4)(b)(i) HKFRS 7.20(e) Impairment losses charged to income statement (note 12)	X	X	X	X	X	X
BDR 36(4)(b)(ii) Impairment losses released to income statement (note 12)	(X)	-	(X)	(X)	-	(X)
BDR 36(4)(b)(iii) Amounts written off	(X)	-	(X)	(X)	-	(X)
BDR 36(4)(b)(iv) Recoveries of loans and advances written off in previous years (note 12)	X	-	X	X	-	X
Effect of discounting (note 3(a))	(X)	-	(X)	(X)	-	(X)
BDR 36(4)(b)(v) Exchange adjustments	X	X	X	X	X	X
At 31 December	X	X	X	X	X	X
	Note 25(a)	Note 25(a)		Note 25(a)	Note 25(a)	

[130] It is assumed that, apart from reverse repurchase agreements, the Bank does not accept collateral that is permitted to sell or re-pledged in the absence of default by the owner of the collateral.

HKFRS 7.15

[131] If the AI is permitted to sell or repledge the collateral it has accepted in the absence of default by the owner of the collateral, HKFRS 7.15 requires certain specific disclosures in the financial statements, including the fair value of the collateral accepted and the collateral sold or repledged as well as other material terms and conditions associated with the use of this collateral.

HKFRS 7.16

[132] When an AI records the impairment of financial assets as a result of credit losses in a separate account (for example, an allowance account) rather than directly reducing the carrying amount of the asset (see also footnote 68 on page 50 to these illustrative financial statements), HKFRS 7.16 requires the disclosure of a reconciliation of changes in the allowance account during the accounting period for each class of financial asset. The standard does not specify the components of the reconciliation. For loans and advances, the components of the reconciliation follows the disclosure requirements of s36(4)(b) of the BDR. For other classes of financial assets, the AI should determine the most appropriate format in view of their individual circumstances and apply that format consistently from period to period.

BDR 36(4)(b)

(ii) Bank

		2013			*2012*		
HKFRS 7.16 BDR 36(3),(4)(a)		*Individually assessed* $'000	*Collectively assessed* $'000	*Total* $'000	*Individually assessed* $'000	*Collectively assessed* $'000	*Total* $'000
	At 1 January	X	X	X	X	X	X
BDR 36(4)(b)(i) HKFRS 7.20(e)	Impairment losses charged to income statement	X	X	X	X	X	X
BDR 36(4)(b)(ii)	Impairment losses released to income statement	(X)	-	(X)	(X)	-	(X)
BDR 36(4)(b)(iii)	Amounts written off	(X)	-	(X)	(X)	-	(X)
BDR 36(4)(b)(iv)	Recoveries of loans and advances written off in previous years	X	-	X	X	-	X
	Effect of discounting	(X)	-	(X)	(X)	-	(X)
BDR 36(4)(b)(v)	Exchange adjustments	X	X	X	X	X	X
	At 31 December	X	X	X	X	X	X
		Note 25(a)	Note 25(a)		Note 25(a)	Note 25(a)	

HKFRS 7.34(c)
HKFRS 7.37(b)
BDR 47(1), (3)(a)
HKFRS 7.36(b)

(c) Loans and advances to customers analysed by industry sector[133]

The following economic sector analysis is based on the categories and definitions used by the Hong Kong Monetary Authority (HKMA).

(i) Group

	2013			*2012*		
	Gross loans and advances to customers	*Impaired loans and advances*	*% of gross advances covered by collateral*	*Gross loans and advances to customers*	*Impaired loans and advances*	*% of gross advances covered by collateral*
	$'000	$'000		$'000	$'000	
Industrial, commercial and financial						
- Property development	X	X	X	X	X	X
- Property investment	X	X	X	X	X	X
- Financial concerns	X	X	X	X	X	X
- Stock brokers	X	X	X	X	X	X
- Wholesale and retail trade	X	X	X	X	X	X
- Manufacturing	X	X	X	X	X	X
- Transport and transport equipment	X	X	X	X	X	X
- Recreational activities	X	X	X	X	X	X
- Information technology	X	X	X	X	X	X
- Others	X	X	X	X	X	X
Individuals						
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme or their respective successor schemes	X	X	X	X	X	X
- Loans for the purchase of other residential properties	X	X	X	X	X	X
- Credit card advances	X	X	X	X	X	X
- Others	X	X	X	X	X	X
Gross loans and advances for use in Hong Kong	X	X	X	X	X	X
Trade finance	X	X	X	X	X	X
Gross loans and advances for use outside Hong Kong	X	X	X	X	X	X
Total	X	X	X	X	X	X

HKFRS 7.34 -42

[133] HKFRS 7.34 requires disclosure of summary quantitative data about an AI's exposure to each type of risk arising from financial instruments at the end of the reporting period. This disclosure should be given based on the information provided internally to key management personnel of the entity, for example, the board of directors or chief executive officer, and is therefore expected to vary from one AI to another.

It should, however, be noted that certain minimum disclosures (as set out in HKFRS 7.36-42) are also required to the extent that they are not covered by the disclosures made under the above management approach, and if the risk concerned is material. In addition, concentrations of risk that arise from financial instruments having similar characteristics (for example, counterparty, geographical area, currency or market) are also required to be disclosed if such concentrations are not apparent from the above information. The example above assumes AIs have significant concentration by industry groups as determined by management. AIs choose to analyse by geographical area may consider disclosure similar to note (d)(iv) of the unaudited supplementary information. Further disclosures in respect of liquidity and market risks are illustrated in note 49.

(ii) Bank

	2013			2012		
	Gross loans and advances to customers	*Impaired loans and advances*	*% of gross advances covered by collateral*	*Gross loans and advances to customers*	*Impaired loans and advances*	*% of gross advances covered by collateral*
	$'000	$'000		$'000	$'000	
Industrial, commercial and financial						
- Property development	X	X	X	X	X	X
- Property investment	X	X	X	X	X	X
- Financial concerns	X	X	X	X	X	X
- Stock brokers	X	X	X	X	X	X
- Wholesale and retail trade	X	X	X	X	X	X
- Manufacturing	X	X	X	X	X	X
- Transport and transport equipment	X	X	X	X	X	X
- Recreational activities	X	X	X	X	X	X
- Information technology	X	X	X	X	X	X
- Others	X	X	X	X	X	X
Individuals						
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme or their respective successor schemes	X	X	X	X	X	X
- Loans for the purchase of other residential properties	X	X	X	X	X	X
- Credit card advances	X	X	X	X	X	X
- Others	X	X	X	X	X	X
Gross loans and advances for use in Hong Kong	X	X	X	X	X	X
Trade finance	X	X	X	X	X	X
Gross loans and advances for use outside Hong Kong	X	X	X	X	X	X
Total	X	X	X	X	X	X

HKFRS 7.37(b)

(d) Impaired loans and advances to customers:

		Group		Bank	
		2013	*2012*	*2013*	*2012*
		$'000	$'000	$'000	$'000
BDR 37(2)(a)	Gross impaired loans and advances to customers	X	X	X	X
BDR 37(2)(b)	Impairment allowance – individually assessed	(X)	(X)	(X)	(X)
		X	X	X	X
BDR 37(2)(d)	Gross impaired loans and advances as a % of total loans and advances to customers	X%	X%	X%	X%

Impaired loans and advances are individually assessed loans with objective evidence of impairment on an individual basis.

HKFRS 7.37(b)
BDR 37(2)(c)

Individually assessed impairment allowance were made after taking into account the realisable value of collateral in respect of such loans and advances of $X and $X (2012: $X and $X) for the Group and the Bank respectively. This collateral mainly comprised mortgages over residential properties, debt securities and cash on deposit with the Group.

(e) Net investment in finance leases and hire purchase contracts

HKAS 17.47(f)

Loans and advances to customers include net investment in equipment leased to customers under finance leases and hire purchase contracts having the characteristics of finance leases. The contracts usually run for an initial period of X to X years, with an option for acquiring the leased asset at nominal value. The total minimum lease payments receivable under finance leases and hire purchase contracts and their present values at the year end are as follows:

		Group and Bank			
		2013		*2012*	
		Present value of the minimum lease payments $'000	*Total minimum lease payments* $'000	*Present value of the minimum lease payments* $'000	*Total minimum lease payments* $'000
HKAS 17.47(a)	Within 1 year	X	X	X	X
	After 1 year but within 5 years	X	X	X	X
	After 5 years	X	X	X	X
HKAS 17.47(b)	Unearned future income on finance leases	-	(X)	-	(X)
		X	X	X	X
HKAS 17.47(d)	Impairment allowances:				
	- individually assessed	(X)	-	(X)	-
	- collectively assessed	(X)	-	(X)	-
HKAS 17.47(c)	Unguaranteed residual values	X	-	X	-
	Net investment in finance leases and hire purchase contracts	X	X	X	X

26 Available-for-sale financial assets[134]

		Group		Bank	
BDR 36(1)(a)(vi)		*2013* $'000	*2012* $'000	*2013* $'000	*2012* $'000
	Treasury bills (including Exchange Fund Bills) (note 50(a))	X	X	X	X
	Certificates of deposit held (note 50(a))	X	X	X	X
BDR 37(4)(a), (b)	Debt securities (note 50(a))	X	X	X	X
BDR 37(4)(a), (b)	Equity securities[135] (note 50(a))	X	X	X	X
		X	X	X	X
BDR 37(5) HKFRS 7.34(c)	Issued by:				
	Sovereigns[127 on page 91]	X	X	X	X
	Public sector entities	X	X	X	X
	Banks	X	X	X	X
	Corporates	X	X	X	X
	Others	X	X	X	X
		X	X	X	X
HKFRS 7.34(c) BDR 37(4)(a) 10th Sch 9(1)(a) HKFRS 7.8(d) 10th Sch 9(3) & 31(a) HKFRS 1.77	Analysed by place of listing:[128 on page 91]				
	Listed in Hong Kong	X	X	X	X
	Listed outside Hong Kong	X	X	X	X
		X	X	X	X
10th Sch 9(3) & 31(a)	Unlisted	X	X	X	X
		X	X	X	X
HKFRS 7.37(b)	Fair value of individually impaired equity securities	X	X	X	X

HKFRS 7.37(b) As at 31 December 2013, certain of the Group's and the Bank's available-for-sale equity securities of $X (2012: $X) were individually determined to be impaired on the basis of a prolonged decline in the fair value below cost. Impairment losses on these investments were recognised in the income statement in accordance with the accounting policy set out in note 1(m)[136 on page 99].

HKFRS 13.91, 97 [134] ABC Bank Limited's financial assets disclosed in notes 23, 24, 26, 35 and 36 include trading assets, financial assets designated at fair value through profit or loss, available-for-sale financial assets, financial liabilities and financial liabilities designated at fair value through profit or loss which are measured at fair value in the statement of financial position on a recurring basis after initial recognition. Therefore, HKFRS 13 disclosures are required for these financial assets. For other financial assets and liabilities that are not measured at fair value, under HKFRS 13.97 they will be subject to certain HKFRS 13 disclosure requirements if their fair value is disclosed in the financial statements e.g. when the carrying amounts of the held-to-maturity securities are not a reasonable approximation of their fair value and therefore the fair value is disclosed as required by HKFRS 7.25.

HKFRS 13 does not require all the information provided under the standard to be disclosed in a single note. Therefore, entities may disclose the information in the respective notes of the individual asset or liability subject to HKFRS 13 disclosures or in a single note. In either case, quantitative data should generally be presented in a tabular format (i.e. instead of in a narrative format). In these illustrative financial statements, ABC Bank provides HKFRS 13 disclosures for financial instruments in a single note in note 50, and for properties in note 30(c).

HKFRS 7.29,30 [135] If the value of unquoted equity securities held at cost is material, AI should disclose the amount separately together with a description of the financial instruments, their carrying amount, an explanation of why fair value cannot be measured reliably and, if possible, the range of estimates within which fair value is likely to lie. Same disclosure also applies to derivatives linked to such equity securities. Then other equity securities should be presented as "equity securities with readily determinable fair value".

The movement of the individually assessed impairment allowance account during the year is as follows[132 on page 93]:

		Group		Bank	
HKFRS 7.16		*2013*	*2012*	*2013*	*2012*
		$'000	$'000	$'000	$'000
	At 1 January	X	X	X	X
HKFRS 7.20(e)	Impairment loss charged to income statement	X	X	X	X
	Effect of discounting	(X)	(X)	(X)	(X)
	Exchange adjustment	X	X	X	X
	At 31 December	X	X	X	X

27 Held-to-maturity investments

		Group		Bank	
HKFRS 7.8(b)		*2013*	*2012*	*2013*	*2012*
BDR 36(1)(a)(iv)		$'000	$'000	$'000	$'000
	Treasury bills (including Exchange Fund Bills)	X	X	X	X
	Certificates of deposit held	X	X	X	X
BDR 37(4)(a),(b)	Debt securities	X	X	X	X
		X	X	X	X
	Less: Impairment allowance – individually assessed	(X)	(X)	(X)	(X)
	(note 50(b))	X	X	X	X
BDR 37(5)	Issued by:				
HKFRS 7.34(c)	Sovereigns[127 on page 91]	X	X	X	X
	Public sector entities	X	X	X	X
	Banks	X	X	X	X
	Corporates	X	X	X	X
	Others	X	X	X	X
HKFRS 7.34(c)		X	X	X	X
BDR 37(4)(a)	Analysed by place of listing:[128 on page 91]				
10th Sch 9(1)(a)					
HKFRS 7.8(b), HKAS 1.77	Listed in Hong Kong	X	X	X	X
10th Sch 9(3) & 31(a)	Listed outside Hong Kong	X	X	X	X
		X	X	X	X
10th Sch 9(3) & 31(a)	Unlisted	X	X	X	X
		X	X	X	X
BDR 37(4)(c)					
10th Sch 12(11)	Market value of listed securities	X	X	X	X

HKFRS 7.37(b) [136] HKFRS 7.37(b) requires an AI to disclose by class of financial asset an analysis of financial assets that are individually determined to be impaired as at the reporting date and the factors that the entity considered in determining that they are impaired. In meeting this requirement for any given category of financial asset, there are two issues to consider: firstly the identification of classes within the category (for example here, the available-for-sale category) and secondly the amount of information to be given concerning the factors that management considered before determining that the financial asset was impaired.

So far as disclosure in respect the available-for-sale category is concerned, separate classes of available-for-sale financial assets could be identified based on the type of security (i.e. whether debt or equity) and/or other distinguishing characteristics (such as whether listed or unlisted, or the geographical location of the investees), consistent with the requirements of HKFRS 7.6 and the guidance in HKFRS 7.B1-B2.

Information concerning the factors that management considered should, as a minimum, be clearly consistent with one of more of the factors that are disclosed in the policy description required to be disclosed in accordance with the requirements of HKFRS 7.B5(f), as illustrated in note 1(m) to these illustrative financial statements. Users of the financial statements may also find it helpful if this disclosure is linked to the amount of impairment loss recognised on these impaired financial assets, as illustrated above.

HKFRS 7.12(b)

Debt securities intended to be held to maturity by the Group with an amortised cost of $X (2012: Nil) were disposed of prior to maturity or transferred to the trading securities category. The related profit recognised amounted to $X (2012: Nil). Such disposals and transfers amounted to approximately X% of total held-to-maturity investments (2012: Nil), were approved by the Asset and Liability Committee, and were generally made in response to evidence of a significant deterioration in the issuer's creditworthiness or due to other isolated events which were not anticipated by the Group.

The movement of the individually assessed impairment allowance account during the year is as follows[132 on page 93]:

HKFRS 7.16

	Group		*Bank*	
	2013 $'000	*2012* $'000	*2013* $'000	*2012* $'000
At 1 January	X	X	X	X
HKFRS 7.20(e) Impairment loss charged to income statement	X	X	X	X
Effect of discounting	(X)	(X)	(X)	(X)
Exchange adjustment	X	X	X	X
At 31 December	X	X	X	X

28 Investments in subsidiaries[137, 138]

10th Sch (9(1)(a), 31(a))

	Bank	
	2013 $'000	*2012* $'000
Unlisted shares, at cost	X	X
Less: Impairment loss	(X)	(X)
	X	X

S128, HKFRS12.10
HKAS 24.13
A 16(9)
BDR 33(a)(ii)(A)

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated[140 on page 101].

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137 Note that if an entity has departed from the HKCO's requirements to the extent that is necessary to give a true and fair view, the entity is required to disclose the reason for, particulars and effect of such departure (see footnote 56 on page 37).

HKFRS 12.1&3&C2B

138 HKFRS 12, effective for annual periods beginning on or after 1 January 2013, requires an entity to disclose information that enables users of its financial statements to evaluate:

- the nature of, and risks associated with, its interests in other entities; and
- the effects of those interests on its financial position, financial performance and cash flows.

The standard contains extensive disclosure requirements in respect of an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. HKFRS 12.3 requires that, if the disclosures required by this standard, together with disclosures required by other HKFRSs, do not meet the above disclosure objective, the entity should disclose additional information necessary to meet the objective.

HKFRS 12 applies retrospectively, with the exception of the disclosure requirements regarding interests in unconsolidated structured entities which do not require comparative information in the first year of adoption.

Name of company	*Place of incorporation and business*[139]	*Particulars of issued and paid up capital and debt securities*[140]	*Proportion of ownership interest*			*Principal activity*
			Group's effective interest	*Held by the Bank*	*Held by a subsidiary*[141]	
ABC Finance Limited	Hong Kong	X shares of HK$ 10 each	100%	100%	-	Deposit-taking and general financial services
ABC Credit Limited	Hong Kong	X shares of HK$ 1 each	100%	100%	-	Deposit-taking
* ABC Bank (Bermuda) Limited	Bermuda	X shares of US$ 1 each	100%	100%	-	Banking
* ABC Finance (Bahamas) Limited	Bahamas	X shares of US$ 1 each	75%	-	75%	Finance
ABC Bank (Trustee) Limited	Hong Kong	X shares of HK$ 1 each	100%	100%	-	Trustee services
ABC Credit Card Limited	Hong Kong	X shares of HK$ 1 each	100%	100%	-	Credit card facilities
ABC Investment Management Limited	Hong Kong	X shares of HK$ 1 each	100%	100%	-	Fund management
ABC Property Limited	Hong Kong	X shares of HK$ 1 each	90%	90%	-	Property and investment holding
ABC Securities Limited	Hong Kong	X shares of HK$ 1 each	100%	100%	-	Stock broking

SAS 510 (28)
PN 600.1(17)

* Companies not audited by KPMG. The financial statements of the subsidiaries not audited by KPMG reflect total net assets and total income constituting approximately X% and X% respectively of the related consolidated totals.

S128(1), A16(9)(1)

[139] Section 128 of the Hong Kong Companies Ordinance requires the disclosure of the country of incorporation of the subsidiary, or the address of principal place of business if the subsidiary is not a body corporate (see footnote 56 on page 37). Paragraph 9(1) of Appendix 16 to the Main Board Listing Rules requires the disclosure of the subsidiary's principal country of operation and country of incorporation or other establishment.

A16(9)(1)(2)

[140] Unlisted entities are not required to disclose particulars of the subsidiaries' share capital, debt securities, except the identity of the class of shares held.

Where the subsidiary is established in the PRC, disclosure of the type of legal entity it is registered as under PRC law (such as a contractual or cooperative joint venture) is required under paragraph 9(1) of Appendix 16 to the Main Board Listing Rules.

CP

[141] Although not required, the proportion of voting power held should also be shown if different from the proportion of ownership interest (as best practice).

HKFRS 12.12
HKFRS 12.B10, B11

The following table lists out the information relating to ABC Finance (Bahamas) Limited, the only subsidiary of the group which has material non-controlling interest (NCI). The summarised financial information presented below represents the amounts before any inter-company elimination[142].

	2013 $'000	*2012* $'000
NCI percentage	25%	25%
Assets	X	X
Liabilities	(X)	(X)
Net assets	X	X
Carrying amount of NCI	X	X
Revenue	X	X
Profit for the year	X	X
Total comprehensive income	X	X
Profit allocated to NCI	X	X
Dividend paid to NCI	-	-
Cash flows from operating activities	X	X
Cash flows from investing activities	(X)	(X)
Cash flows from financing activities	(X)	(X)

HKFRS 12.12, B10-B11

[142] In order to help users to understand the interest that non-controlling interests have in the group's activities and cash flows, HKFRS 12 introduces new disclosure requirements in respect of material non-controlling interests. Paragraph 12 of HKFRS 12 requires an entity to disclose the following information for each of its subsidiaries that has non-controlling interests material to the reporting entity:

a. the name of the subsidiary;
b. the principal place of business (and country of incorporation if different from the principal place of business) of the subsidiary;
c. the proportion of ownership interests held by non-controlling interests;
d. the proportion of voting rights held by non-controlling interests, if different from the proportion of ownership interests held;
e. the profit or loss allocated to non-controlling interests of the subsidiary during the reporting period;
f. accumulated non-controlling interests of the subsidiary at the end of the reporting period; and
g. summarised financial information about the subsidiary, including:
   - dividends paid to non-controlling interests;
   - summarised financial information about the assets, liabilities, profit or loss and cash flows of the subsidiary that enables users to understand the interest that non-controlling interests have in the group's activities and cash flows. That information might include but is not limited to:
     - current assets
     - non-current assets
     - current liabilities
     - non-current liabilities
     - revenue
     - profit or loss
     - total comprehensive income

The amounts disclosed should be before inter-company eliminations.

29 Interest in associates

		Group		Bank	
		2013	*2012*	*2013*	*2012*
		$'000	$'000	$'000	$'000
10th Sch (9(1)(a) & 31(a))	Unlisted shares, at cost	-	-	X	X
	Share of net assets	X	X	-	-
10th Sch(9(1)(b))	Goodwill	X	X	-	-
		X	X	X	X
	Less: Impairment loss	-	-	(X)	(X)
		X	X	X	X

HKAS 1.77
HKAS 24.17

Loans to an associate amounted to $X (2012: $X) are included under loans and advances to customers.

S129

The following list contains only the particulars of material associates[143], all of which are unlisted corporate entities, whose quoted market price is not available[144]:

				Proportion of ownership interest			
Name of associate	*Form of business structure*	*Place of incorporation and operation*	*Particulars of issued and paid up capital*	*Group's effective interest*	*Held by the Bank*[145]	*Held by a subsidiary*[145]	*Principal activity*
DEF Finance International Limited	Incorporated	Hong Kong	X ordinary shares of HK$1 each	X%	-	X%	Finance (Note 1)
PQR Finance Limited	Incorporated	Hong Kong	X ordinary shares of US$1 each	X%	X%	-	Finance (Note 2)

HKFRS 12.21(a)(ii)

Note 1: DEF Finance International Limited, a major personal loan lending company in Hong Kong, enables the Group to widen its customer base.

Note 2: PQR Finance Limited is a strategic partner for the Group to increase the customer base in the corporate lending sector.

HKFRS 12.21(b)(i)

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

HKFRS 12.21(a)

[143] HKFRS 12 introduces new disclosure requirements in respect of material associates. Under paragraph 21 of HKFRS 12, an entity needs to disclose the following information for each of its material associate:

- the name of the associate;
- the nature of the entity's relationship with the associate (by, for example, describing the nature of the activities of the associate and whether they are strategic to the entity's activities);
- the principal place of business (and country of incorporation, if applicable and different from the principal place of business) of the associate; and
- the proportion of ownership interest or participating share held by the entity and, if different, the proportion of voting rights held (if applicable).

HKFRS 12.21(b)(iii)

[144] For each material associate accounted for using the equity method, an entity should disclose the fair value of the investment in the associate, if there is a quoted market price for the investment.

CP

[145] Disclosure of the gross holdings is required by S129(1) by virtue of paragraph 21 of Part II of the Tenth Schedule to the HKCO. As the HKCO is unclear as to whether such holdings by the Bank are required to be disclosed separately in consolidated financial statements, it is suggested that the split between held by the Bank and held by subsidiaries is disclosed (as best practice).

HKFRS 12.21(b)(ii)
HKFRS 12.B12, B14

Summarised financial information of the material associates, adjusted for any differences in accounting policies[146], and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below: [147]

	DEF Finance International Limited		*PQR Finance Limited*	
	2013	*2012*	*2013*	*2012*
	$'000	$'000	$'000	$'000
Gross amounts of the associates'				
Assets	X	X	X	X
Liabilities	(X)	(X)	(X)	(X)
Net assets	X	X	X	X
Revenue	X	X	X	X
Profit from continuing operations	X	X	X	X
Post-tax profit or loss from discontinued operations	-	-	-	-
Other comprehensive income	-	-	-	-
Total comprehensive income	X	X	X	X
Dividends received from the associate	-	-	X	X
Reconciled to the group's interests in the associates				
Gross amounts of net assets of the associate	X	X	X	X
Group's effective interest	X%	X%	X%	X%
Group's share of net assets of the associate	X	X	X	X
Goodwill	X	X	X	X
Carrying amount in the consolidated financial statements	X	X	X	X

HKFRS 12.21(b)(ii) & B12 & B14

146 For each material associate, an entity should disclose the following information about the associate:

- dividends received from the associate; and
- summarised financial information of the associate including, but not necessarily limited to:
  - current assets
  - non-current assets
  - current liabilities
  - non-current liabilities
  - revenue
  - profit or loss from continuing operations
  - post-tax profit or loss from discontinued operations
  - other comprehensive income
  - total comprehensive income

The summarised financial information presented should be 100% of the amounts included in the HKFRS (IFRS) financial statements of the associate, and not the entity's share of those amounts.

HKFRS 12.B14(b)

147 For each material associate, a reconciliation of the summarised financial information presented to the carrying amount of the entity's interest in the associate is required.

HKFRS 12.21(c)

Aggregate information of associates that are not individually material:[148]

HKFRS 12.B16

	2013 $'000	*2012* $'000
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	X	X
Aggregate amounts of the group's share of those associates'		
Profit from continuing operations	X	X
Post-tax profit or loss from discontinued operations	-	-
Other comprehensive income	-	-
Total comprehensive income	X	X
Reconciliation of carrying amounts to the group's total interests in the associates		
Carrying amount of material associates		
- DEF Finance International Limited	X	X
- PAR Finance Limited	X	X
Carrying amount of individually immaterial associates	X	X
Interest in associates in the consolidated financial statements	X	X

HKFRS 12.21(c) & B16

[148] An entity should disclose, in aggregate, the carrying amount of its interests in all individually immaterial associates that are accounted for using the equity method. An entity should also disclose separately the aggregate amount of its share of those associates':

- profit or loss from continuing operations;
- post-tax profit or loss from discontinued operations;
- other comprehensive income; and
- total comprehensive income.

30 Fixed Assets[149 on page 107]

(a) Group

		Land and buildings held for own use carried at fair value $'000	*Buildings held for own use carried at cost* $'000	*Equipment* $'000	*Sub-total* $'000	*Investment property*[150 on page 107] $'000	*Interests in leasehold land held for own use under operating leases*[151 on page 107] $'000	*Total fixed assets* $'000
BDR 36(1)(a)(viii)(A)	**Cost or valuation:**							
HKAS 16.73(d)	At 1 January 2012	X	X	X	X	X	X	X
HKAS 16.73(e)(viii))	Exchange adjustments	X	-	X	X	-	-	X
10th Sch(12(8))								
HKAS 16.73(e)(i)								
BDR 36(1)(a)(viii)(B)	Additions	X	-	X	X	-	-	X
10th Sch(12(8))								
HKAS 16.73(e)(ii)								
BDR 36(1)(a)(viii)(B)	Disposals	-	-	(X)	(X)	-	-	(X)
HKAS 16.73(e)(iv)								
BDR 36(1)(a)(viii)(B)	Surplus on revaluation	X	-	-	X	-	-	X
	Less: Elimination of accumulated depreciation	(X)	-	-	(X)	-	-	(X)
HKAS 40.76	Fair value adjustment	-	-	-	-	X	-	X
10th Sch(5(3)(a))								
HKAS 16.73(d)	At 31 December 2012	X	X	X	X	X	X	X
BDR 37(9)(a)	**Representing:**							
	Cost	-	X	X	X	-	X	X
10th Sch(12(7))								
BDR 37(9)(b)	Valuation – 2012	X	-	-	X	X	-	X
		X	X	X	X	X	X	X
HKAS 16.73(d))	At 1 January 2013	X	X	X	X	X	X	X
HKAS 16.73(e)(viii))	Exchange adjustments	(X)	-	(X)	(X)	-	-	(X)
10th Sch(12(8))								
HKAS 16.73(e)(i)								
BDR 36(1)(a)(viii)(B)	Additions	X	-	X	X	-	-	X
10th Sch(12(8))								
HKAS 16.73(e)(ii)								
BDR 36(1)(a)(viii)(B)	Disposals	-	-	(X)	(X)	-	-	(X)
HKAS 16.73(e)(iv)								
BDR 36(1)(a)(viii)(B)	Surplus on revaluation	X	-	-	X	-	-	X
	Less: Elimination of accumulated depreciation	(X)	-	-	(X)	-	-	(X)
HKAS 40.76	Fair value adjustment	-	-	-	-	X	-	X
10th Sch(5(3)(a))								
HKAS 16.73(d)	At 31 December 2013	X	X	X	X	X	X	X
BDR 37(9)(a)	**Representing:**							
	Cost	-	X	X	X	-	X	X
10th Sch(12(7))								
BDR 37(9)(b)	Valuation – 2013	X	-	-	X	X	-	X
		X	X	X	X	X	X	X

		Land and buildings held for own use carried at fair value $'000	*Buildings held for own use carried at cost* $'000	*Equipment* $'000	*Sub-total* $'000	*Investment property*[150] $'000	*Interests in leasehold land held for own use under operating leases* [151] $'000	*Total fixed assets* $'000
BDR 36(1)(a)(viii)(D)	**Accumulated amortisation, depreciation and impairment loss:**							
HKAS 16.73(d)	At 1 January 2012	-	X	X	X	-	X	X
HKAS 16.73(e)(viii)	Exchange adjustments	-	-	X	X	-	-	X
HKAS 16.73(e)(vii) BDR 36(1)(a)(viii)(C)	Charge for the year (note 9(b))	X	X	X	X	-	X	X
HKAS 16.73(e)(ii) BDR 36(1)(a)(viii)(C)	Written back on disposal	-	-	(X)	(X)	-	-	(X)
HKAS 16.73(e)(iv)	Elimination on revaluation	(X)	-	-	(X)	-	-	(X)
HKAS 16.73(d) 10th Sch(5(3)(b))	At 31 December 2012	-	X	X	X	-	X	X
HKAS 16.73(d)	At 1 January 2013	-	X	X	X	-	X	X
HKAS 16.73(e)(viii)	Exchange adjustments	-	-	(X)	(X)	-	-	(X)
HKAS 16.73(e)(vii) BDR 36(1)(a)(viii)(C)	Charge for the year (note 9(b))	X	X	X	X	-	X	X
HKAS 16.73(e)(v)	Impairment loss	-	-	X	X	-	-	X
HKAS 16.73(e)(ii) BDR 36(1)(a)(viii)(C)	Written back on disposal	-	-	(X)	(X)	-	-	(X)
HKAS 16.73(e)(iv)	Elimination on revaluation	(X)	-	-	(X)	-	-	(X)
HKAS 16.73(d) 10th Sch(5(3)(b))	At 31 December 2013	-	X	X	X	-	X	X
HKAS 16.73(e) BDR 36(1)(a)(viii)(E)	**Net book value:**							
	At 31 December 2013	X	X	X	X	X	X	X
	At 31 December 2012	X	X	X	X	X	X	X

HKAS1.38 [149] Comparative information is required for the analysis of the movements in fixed assets, as HKAS1 and HKAS 16 no longer gives a specific exemption in this regard.

A16.23 [150] When the investment property exceeds 5% of the percentage ratios as defined under Rule 14.04(9) of the MBLRS, additional disclosure as set out in A16(23)(2) of the MBLRs should be added as supplementary information to the annual report. Example of the disclosure could be found on p.165 of the "Illustrative Annual Financial Statements under Hong Kong Reporting Standards December 2013". Such information is not required to be audited.

[151] From paragraph 12(9) of the 10th Schedule, it is evident that leasehold land can be regarded as a type of fixed asset. Therefore, even though the accounting policy for leasehold land may result in certain interests in leasehold land being classified as being held under an operating lease, in our view, where that interest relates to land being held for own use it is still appropriate to include the unamortised cost of that interest with fixed assets.

Impairment loss

HKAS 36.126(a), 130

In June 2013, equipment in the credit card division was physically damaged.[152] The Group assessed the recoverable amount of this equipment and, as a result, the carrying amount of the equipment was written down to its recoverable amount of $X[153]. An impairment loss of $x was recognised in "Impairment losses on fixed assets". The estimates of recoverable amount were based on the equipment's fair value less costs of disposal, determined by reference to the recent observable market prices for similar assets within the same industry. The equipment was disposed of before the end of the year at approximately its carrying amount at that time.[154]

HKAS 36.130 (c)(ii) [152] If an entity reports segment information in accordance with HKFRS 8, it should disclose for each material impairment loss recognised or reversed during the period for an individual asset the reportable segment to which the asset belongs.

HKFRS 13.7(c)
HKAS 36.130 (e) & (f)

[153] As stated in HKFRS 13.7(c), an asset whose recoverable amount is fair value less costs of disposal is outside the scope of HKFRS 13's disclosure requirements. Instead, entities need to provide the disclosures required by paragraph 130 of HKAS 36 for an individual asset (including goodwill) or a cash-generating unit for which an impairment loss has been recognised or reversed during the period.

In June 2013, the HKICPA issued amendments to HKAS 36, *Impairment of assets – Recoverable amount disclosures for non-financial assets* to expand the disclosures required for an impaired asset or CGU whose recoverable amount is based on fair value less costs of disposal by amending the disclosure requirements of HKAS 36.130. The amendments are effective retrospectively for annual periods beginning on or after 1 January 2014, with early application permitted. Comparative information is not required for prior period in which HKFRS 13 has not been applied.

Under the currently effective version of HKAS 36.130 (specifically paragraphs 130(e) and 130(f)), entities are required to disclose whether the recoverable amount is based on fair value less costs of disposal or value in use, and if the recoverable amount is fair value less costs of disposal, the basis used to measure the fair value less costs of disposal. Under the amended versions of paragraphs 130(e) and 130(f) effective for annual periods beginning on or after 1 January 2014, entities need to provide the following additional information:

- recoverable amount of the assets or CGU subject to impairment or impairment reversal; and
- if the recoverable amount is based on fair value less costs of disposal:
- the level of the 3-Level fair value hierarchy (as defined in HKFRS 13) within which the fair value measurement is categorised;
- for Level 2 and Level 3 fair value measurements:
  - a description of the valuation technique(s) used to measure fair value less costs of disposal;
  - any change in valuation technique used and the reason(s) for making the change;
  - key assumptions used in determining the fair value less costs of disposal; and
  - discount rate used in the measurement if a present value technique is used for measuring fair value less costs of disposal.

ABC Bank has early adopted the amendments in these financial statements and provided the disclosures in accordance with the amended version of HKAS 36.130. Reccoverable amount of the impaired equipment is disclosed as an additional disclosure for impaired non-financial assets as required by HKAS 36.130(e).

HKAS 34.26

[154] If an estimate of an amount reported in an interim period is changed significantly during the final interim period of the financial year, HKAS 34.26 requires the nature and amount of the change in estimate to be disclosed in a note to the annual financial statements unless a separate interim financial report is published for that final period. In Hong Kong, as typically an interim financial report is only published in respect of the first six months of the period, this disclosure requirement in HKAS 34.26 would apply to the annual financial statements whenever there is a significant change in the second half of the year to an estimate reported in the first half of the year.

(b) Bank

		Land and buildings held for own use carried at fair value $'000	*Equipment* $'000	*Total fixed assets* $'000
BDR 36(1)(a)(viii)(A)	**Cost or valuation:**			
HKAS 16.73(d)	At 1 January 2012	X	X	X
10th Sch(12(8))				
HKAS 16.73(e)(i)				
BDR 36(1)(a)(viii)(B)	Additions	-	X	X
10th Sch(12(8))				
HKAS 16.73(e)(ii)				
BDR 36(1)(a)(viii)(B)	Disposals	-	(X)	(X)
HKAS 16.73(e)(iv)				
BDR 36(1)(a)(viii)(B)	Surplus on revaluation	X	-	X
	Less: Elimination of accumulated depreciation	(X)	-	(X)
10th Sch(5(3)(a))				
HKAS 16.73(d)	At 31 December 2012	X	X	X
BDR 37(9)(a)	**Representing:**			
	Cost	-	X	X
10th Sch(12(7))				
BDR 37(9)(b)	Valuation – 2012	X	-	X
		X	X	X
HKAS 16.73(d)	At 1 January 2013	X	X	X
10th Sch(12(8))				
HKAS 16.73(e)(i)				
BDR 36(1)(a)(viii)(B)	Additions	-	X	X
10th Sch(12(8))				
HKAS 16.73(e)(ii)				
BDR 36(1)(a)(viii)(B)	Disposals	-	(X)	(X)
HKAS 16.73(e)(iv)				
BDR 36(1)(a)(viii)(B)	Surplus on revaluation	X	-	X
	Less: Elimination of accumulated depreciation	(X)	-	(X)
10th Sch(5(3)(a))				
HKAS 16.73(d)	At 31 December 2013	X	X	X
BDR 37(9)(a)	**Representing:**			
	Cost	-	X	X
10th Sch(12(7))				
BDR 37(9)(b)	Valuation – 2013	X	-	X
		X	X	X

		Land and buildings held for own use carried at fair value $'000	*Equipment* $'000	*Total fixed assets* $'000
BDR 36(1)(a)(viii)(D)	**Accumulated depreciation:**			
HKAS 16.73(d)	At 1 January 2012	-	X	X
HKAS 16.73(e)(vii) BDR 36(1)(a)(viii)(C)	Charge for the year	X	X	X
HKAS 16.73(e)(ii) BDR 36(1)(a)(viii)(C)	Written back on disposal	-	(X)	(X)
HKAS 16.73(e)(iv)	Elimination on revaluation	(X)	-	(X)
10th Sch(5(3)(b)) HKAS 16.73(d)	At 31 December 2012	-	X	X
HKAS 16.73(d)	At 1 January 2013	-	X	X
HKAS 16.73(e)(vii) BDR 36(1)(a)(viii)(C)	Charge for the year	X	X	X
HKAS 16.73(e)(ii) BDR 36(1)(a)(viii)(C)	Written back on disposal	-	(X)	(X)
HKAS 16.73(e)(iv)	Elimination on revaluation	(X)	-	(X)
10th Sch(5(3)(b)) HKAS 16.73(d)	At 31 December 2013	-	X	X
HKAS 16.73(e)(iv) BDR 36(1)(a)(viii)(E)	**Net book value:**			
	At 31 December 2013	X	X	X
	At 31 December 2012	X	X	X

HKAS 16.77(e)

Had the revalued properties held for own use been carried at cost less accumulated depreciation, the carrying amounts would have been:

	Group		*Bank*	
	2013 $'000	*2012* $'000	*2013* $'000	*2012* $'000
Freehold land and buildings	X	X	-	-
Leasehold land and buildings	X	X	X	X
	X	X	X	X

HKFRS 13.91-93

(c) Fair value measurement of properties[155 on page 112]

HKFRS 13.93(b)

(i) Fair value hierarchy[157 on page 112]

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

- Level 1 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 measurements as at 31 December 2013 categorised into		
	Fair value at 31 December 2013[158 on page 113]	*Level 1*	*Level 2*	*Level 3*
	$'000	$'000	$'000	$'000
Group				
Recurring fair value measurement[156 on page 112]				
Investment properties:				
- Residential – Mainland China	X	-	-	X
- Commercial – HK	X	-	X	-
Properties held for own use:				
- Freehold land and buildings – South East Asia	X	-	-	X
- Leasehold land and buildings – HK	X	-	X	-
Company				
Recurring fair value measurement[156 on page 112]				
Leasehold land and buildings held or own use – HK:	X	-	X	-

HKFRS 13.93(c), (e)(iv)
HKFRS 13.95

During the year ended 31 December 2013, 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.[159 on page 115]

HKFRS 13.91 92, 99, C1-C3

155 HKFRS 13 contains a comprehensive disclosure framework that combines the fair value measurement disclosures previously required by individual HKFRSs and expands some of those disclosure requirements. The objective of the disclosures for assets and liabilities that are measured at fair value after initial recognition is:

- to provide information that enables users of financial statements to assess the methods and inputs used to develop those measurements; and
- to assess the effect of the measurements on profit or loss or other comprehensive income of recurring fair value measurements that are based on significant unobservable inputs.

HKFRS 13.93-99 lists out the disclosures required by the standard. The disclosure requirements apply only to fair value measurements made after initial recognition and vary depending on whether the fair value measurement is "recurring" or "non-recurring", and depending on which level of the 3-Level fair value hierarchy (as further discussed in footnote below) that the assets or liabilities are categorised within. As explained in footnote below, recurring fair value measurements arise from assets or liabilities measured on a fair value basis at each reporting date. All other measurements using fair value after initial recognition are "non-recurring". The most extensive disclosure requirements are for Level 3 measurements that are recurring.

HKFRS 13.92 explicitly requires that if the disclosures provided in accordance with the standard and other HKFRSs are insufficient to meet the above-mentioned disclosure objectives, entities should disclose additional information necessary to meet those objectives.

Unless another format is more appropriate, the quantitative disclosures required by HKFRS 13 should be presented in a tabular format (i.e. instead of being a narrative note).

HKFRS 13 is effective prospectively for annual periods beginning on or after 1 January 2013; comparative disclosures are not required in the first period of adoption of the standard. However, in our view, this transitional exemption only applies to the new disclosures which arise from the adoption of HKFRS 13. Information which was previously disclosed under other HKFRSs in the 2012 financial statements and relates to items required to be disclosed in 2013 should continue to be disclosed as comparatives in the 2013 financial statements.

In these illustrative financial statements, ABC Bank provides HKFRS 13 disclosures for its investment properties and properties held for own use in note 30(c), and financial instruments in note 50.

HKFRS 13.93(a)

156 Recurring fair value measurements arise from assets or liabilities measured on a fair value basis at each reporting date. Examples of recurring fair value measurements include investment properties accounted for using fair value model under HKAS 40, properties held for own use measured at revaluation model under HKAS 16, financial assets at fair value through profit or loss and available-for-sale financial assets which are required to be measured at fair value under HKAS 39.

Non-recurring fair value measurements made after initial recognition are those that are triggered by particular circumstances. Non-recurring fair value measurements include an asset being classified as held for sale and measured at fair value less costs to sell under HKFRS 5, and an impairment of a financial asset carried at amortised cost being measured on the basis of an instrument's fair value as a practical expedient under HKAS 39.AG84.

HKFRS 13.93(b), 72-90

157 For recurring and non-recurring fair value measurements, entities are required to disclose the level of the fair value hierarchy within which the fair value measurements are categorised in their entirety. 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 for that particular asset or liability as follows:

Level 1 valuations: these are valuations which use only Level 1 inputs i.e. these use unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 valuations: these are valuations that use Level 2 inputs i.e. observable inputs which fail to meet Level 1 (e.g. because the observable inputs are for similar, but not identical assets or liabilities) and do not use significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

Level 3 valuations: these are valuations which cannot be classified as Level 1 or Level 2. This means that the valuation is estimated using significant unobservable inputs.

In some cases, the inputs used to measure the fair value might be categorised within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement (NB Level 1 is considered as the highest, Level 3 is the lowest). This means that if the valuation technique uses significant unobservable inputs, then the fair value of that asset or liability should be classified as a "Level 3: valuation.

10th Sch(12(7))
HKAS 16.77
HKAS 40.75(a), (e)
HKFRS 13.93(g)

All of the group's investment properties and properties held for own use were revalued as at 31 December 2013[160 on page 115]. The valuations were carried out by an independent firm of surveyors, Lang and Associates, who have among their staff Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued[161 on page 115]. The group's property manager and the chief financial officer have discussion with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each interim and annual reporting date[162 on page 115].

HKFRS 13.93(d) (ii) Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of investment properties and properties held for own use located in Hong Kong is determined using market comparison approach by reference to recent sales price of comparable properties on a price per square foot basis using market data which is publicly available.

HKFRS 13.93(d) (iii) Information about Level 3 fair value measurements[163 on page 115]

	Valuation techniques	*Unobservable input*	*Range[164] on page 115*	*Weighted average[164] on page 115*
Investment properties	Discounted cash flow	Risk-adjusted discount rate	[●]% to [●]%	[●]%
Residential – Mainland China		Expected market rental growth	[●]% to [●]%	[●]%
		Expected occupancy rate	[●]% to [●]%	[●]%
Properties held for own use	Market comparison approach	Premium (discount) on quality of the buildings	-[●]% to [●]%	[●]%
Freehold land and buildings – South East Asia				

HKFRS 13.93(h)(i)

The fair value of investment properties located in Mainland China is determined by 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[165 on page 115].

HKFRS 13.94

158 For recurring and non-recurring fair value measurements, entities are required to disclose, for each class of assets and liabilities, the fair value measurement at the end of the reporting period, and for non-recurring fair value measurements, the reasons for the measurement. As stated in paragraph 94 of HKFRS 13, class is determined based on the nature, characteristics and risks of the asset or liability; and the level of the fair value hierarchy within which the fair value measurement is categorised. When another HKFRS specifies the class for an asset or a liability, entities may use that class in providing the disclosures required by HKFRS 13, if that class meets the requirements in HKFRS 13.94. In these illustrative financial statements, so far as the fair value disclosures for properties are concerned. ABC Bank has taken into account the location and the type of property when identifying separate classes for the purpose of HKFRS 13.

As stated in HKFRS 13.94. the number of classes may need to be greater for Level 3 fair value measurements as they have a greater degree of uncertainty and subjectivity.

The fair value of properties held for own use located in South East Asia is determined using market comparison approach by reference to recent sales price of comparable properties on a price per square foot basis, adjusted for a premium or a discount specific to the quality of the Group's buildings compared to the recent sales. Higher premium for higher quality buildings will result in a higher fair value measurement.

HKFRS 13.93(e), (f)

The movements during the period in the balance of these Level 3 fair value measurements are as follows[166 on page 116]:

	$'000
Investment properties – Residential – Mainland China:	
At 1 January 2013	X
Fair value adjustment	X
At 31 December 2013	X
Properties held for own use – Freehold land and buildings – South East Asia	
At 1 January 2013	X
Additions	X
Exchange adjustment	(X)
Depreciation charge for the year	(X)
Surplus on revaluation	X
At 31 December 2013	X

Fair value adjustment of investment properties is recognised in the line item "valuation gains on investment property" on the face of the consolidated income statement.

Surplus on revaluation and exchange adjustment of properties held for own use are recognised in other comprehensive income in "property revaluation reserve" and "exchange reserve", respectively.

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

HKFRS 13.93(c), 93(e)(iv) & 95

159 Entities are required to disclose, for recurring fair value measurements:

- the amounts of any transfers between levels of the fair value hierarchy;
- the reasons for those transfers; and
- the policy for determining when transfers between levels are deemed to have occurred (e.g. occurred at the date of the event or change in circumstances that caused the transfer, deemed to have occurred at the beginning of the reporting period, or at the end of the reporting period).

Transfers into and out of the levels should be separately disclosed and discussed.

HKFRS 13.27-29, 93(i)

160 Under HKFRS 13, fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. An entity's current use of a non-financial asset is presumed to be its highest and best use unless market or other factors suggest that a different use by market participants would maximise the value of the asset. If it is determined that the highest and best use of a non-financial asset differs from its current use, the entity is required to disclose this fact and why the non-financial asset is being used in a manner that differs from its highest and best use. This disclosure requirement applies to both recurring and non-recurring fair value measurements.

HKAS 16.77
HKAS 40.75(e)

161 Entities should disclose the extent to which the fair value of investment property is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued. If there has been no such valuation, entities disclose this fact. Similarly, entities should disclose whether an independent valuer was involved in the revaluation of property, plant and equipment.

HKFRS 13.93(g), IE65

162 For fair value measurements categorised in Level 3 of the fair value hierarchy, entities should provide a description of the valuation processes used. IE65 of HKFRS 13 gives examples of information that the entity might disclose in respect of the valuation processes in order to comply with this requirement.

HKFRS 13.93(d)

163 Entities are required to disclose, for recurring and non-recurring fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation technique(s) and the inputs used in the fair value measurement. For fair value measurements categorised within Level 3, information about the significant unobservable inputs used has to be quantitative.

If there has been a change in valuation technique, entities should disclose this fact and the reason(s) for making the change.

164 HKFRS 13 does not specify how to summarise the quantitative information about the significant unobservable inputs used for each class of assets or liabilities carried at Level 3 valuations (e.g. whether to disclose the range of values or a weighted average for each significant unobservable input used). Entities should consider the level of detail that is necessary to meet the disclosure objectives. For example, if the range of values for a significant unobservable input used is wide, then the entity may need to disclose both the range and the weighted average of the values in order to provide information about how the inputs are dispersed around that average and distributed within that range.

HKFRS 13.93(h)(i)

165 For recurring fair value measurements categorised within Level 3 of the fair value hierarchy, entities should give a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement. This narrative description should include, at a minimum, the unobservable inputs that have been disclosed under HKFRS 13.93(d).

If there are interrelationships between those inputs, a description of those interrelationships and how they might magnify or mitigate the effect of changes should be disclosed.

(d) The analysis of net book value of properties[167] is as follows:

		Group		Bank	
		2013	*2012*	*2013*	*2012*
		$'000	$'000	$'000	$'000
HKAS 17.31(e), 35(d) BDR 37(10)(a), (b) 10th Sch(12(9)(a), 31(c))	In Hong Kong				
	- long-term leases	X	X	-	-
	- medium-term leases	X	X	X	X
	- short-term leases	X	X	X	X
BDR 37(10)(a),(b) 10th Sch(12(9)(b), 31(d))	Outside Hong Kong				
	- freehold	X	X	X	X
	- long-term leases	X	X	X	X
	- medium-term leases	X	X	X	X
	- short-term leases	X	X	X	X
		X	X	X	X
	Representing:				
	Land and buildings carried at fair value [167]	X	X	X	X
	Buildings carried at cost	X	X	-	-
		X	X	-	-
	Interest in leasehold land held for own use under operating leases	X	X	-	-
		X	X	X	X

(e) Fixed assets held under finance leases

HKAS 17.31(c),(e)

In addition to the leasehold land and buildings classified as being held under a finance lease in note (e) above, the Group leases equipment under finance leases expiring from X to X years. At the end of the lease term the Group has the option to purchase the leased equipment at a price deemed to be a bargain purchase option. None of the leases includes contingent rentals.

HKFRS 13.93(e), 93(f)

[166] For recurring fair value measurements categorised within Level 3 of the fair value hierarchy, entities should provide a reconciliation from the opening balances to the closing balances. This reconciliation should separately disclose the changes during the period attributable to:

- total gains or losses (i.e. realised and unrealised) for the period recognised in profit or loss, and the line item(s) in profit or loss in which they are recognised;
- total gains or losses for the period recognised in other comprehensive income, and the line item(s) in other comprehensive income in which they are recognised;
- purchases, sales, issues and settlements (each of these types of changes disclosed separately); and
- the amounts of any transfers into or out of Level 3 of the fair value hierarchy.

Separate disclosure should be made for changes in unrealised gains or losses included in profit or loss relating to assets and liabilities held at the end of the reporting period and the line item(s) in profit or loss in which those unrealised gains or losses are recognised.

[167] It is assumed that the land and buildings are treated as a single unit for the purpose of lease classification.

HKAS 7.43
HKAS 17.31(a),

During the year, additions to equipment of the Group financed by new finance leases were $X (2012: Nil)[168]. At 31 December 2013, the net book value of equipment held under finance leases of the Group and the Bank was $X (2012: $X).

(f) Fixed assets leased out under operating leases

HKAS 17.56(b),(c)

The Group leases out investment property under operating leases. The leases typically run for an initial period of X to X years, with an option to renew the lease after that date at which time all terms are renegotiated. Lease payments are usually increased every X years to reflect market rentals. None of the leases includes contingent rentals.

HKAS 40.75(b)

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

HKAS 17.56(a)

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

	Group	
	2013	*2012*
	$'000	$'000
Within 1 year	X	X
After 1 year but within 5 years	X	X
After 5 years	X	X
	X	X

HKAS 7.43

[168] Where there have been non-cash investing and financing transactions these should be disclosed outside the cash flow statement (i.e. elsewhere in the financial statements) in a way that provides all relevant information about these activities.

31 Goodwill and intangible assets[169]

10th Sch (9(1)(b))
HKAS 38.118(c), (e)
HKFRS 3.B67(d)

		Group	*Group and Bank*	*Group*
		Goodwill	*Intangible assets*	*Total*
		$'000	$'000	$'000
	Cost:			
HKFRS 3.B67(d)(i)	At 1 January 2012 and 31 December 2012	X	X	X
HKFRS 3.B67(d)(i)	At 1 January 2013	X	X	X
HKFRS 3.B67(d)(ii)	Addition	-	X	X
HKFRS 3.B67(d)(viii)	At 31 December 2013	X	X	X
	Accumulated amortisation and impairment losses:			
HKFRS 3.B67(d)(i)	At 1 January 2012	X	X	X
	Amortisation for the year (note 9(b))	-	X	X
HKFRS 3.B67(d)(viii)	At 31 December 2012	X	X	X
HKFRS 3.B67(d)(i)	At 1 January 2013	X	X	X
HKFRS 3.B67(d)(v)	Impairment loss	X	-	X
	Amortisation for the year (note 9(b))	-	X	X
HKFRS 3.B67(d)(viii)	At 31 December 2013	X	X	X
	Carrying amount:			
	At 31 December 2013	X	X	X
	At 31 December 2012	X	X	X

Impairment tests for cash-generating units containing goodwill

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

HKAS 36.134(a)

	2013	*2012*
	$'000	$'000
Retail banking business acquired – Macau	X	X
Multiple units without significant goodwill[170]	X	X
	X	X

HKAS 36.134(c), (d) The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are

HKAS 1.38 [169] Comparative information is required for the analysis of the movements in goodwill and intangible assets, as HKFRS 3 and HKAS 38 do not give a specific exemption in this regard.

HKAS 36.135 [170] If some or all of the carrying amount of goodwill or intangible assets with indefinite useful lives is allocated across multiple CGUs (groups of units), and the amount so allocated to each unit (group of units) is not significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives, that fact shall be disclosed, together with the aggregate carrying amount of goodwill or intangible assets with indefinite useful lives allocated to those units (groups of units).

In addition, if this aggregate amount is itself significant in comparison with the total goodwill or intangible assets with indefinite useful lives then further disclosure may be required, in respect of that aggregate amount. These requirements are set out in HKAS 36.135 and apply where:

- some or all of the individually insignificant amount of goodwill or intangible assets with indefinite useful lives within that aggregate share the same key assumptions; and
- the aggregate of that subset is significant compared to the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives.

extrapolated using an estimated weighted average growth rate of X% (2012: X%) which is consistent with the forecasts included in industry reports. The growth rate used does not exceed the long-term average growth rate for the business in which the CGU operates. The cash flows are discounted using a discount rate of X% (2012: X%). The discount rates used are pre-tax and reflect specific risks relating to the relevant segments[171].

HKAS 36.130(a)
HKAS 36.134(f)

The impairment loss recognised during the year solely relates to the Group's retail banking activities based in Macau. As the carrying value of this cash generating unit has been reduced to its recoverable amount of $X[171], any adverse change in the assumptions used in the calculation of recoverable amount would result in further impairment losses.[172]

HKAS 36.134

[171] HKAS 36.134 sets out disclosure requirements which are applicable to each CGU for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit is significant in comparison with an entity's total carrying amount of goodwill or intangible assets with indefinite useful lives. The specific disclosures depend on whether the recoverable amount of the CGU is based on value in use or fair value less costs of disposal:

- If the recoverable amount is based on value in use (as is the case for ABC Bank), entities need to provide the disclosures regarding cash flow projections used to calculate value in use under HKAS 36.134(d).

- If the recoverable amount is based on fair value less costs of disposal, then entities need to disclose information about the valuation technique used to measure fair value less costs of disposal under HKAS 36.134(e). These disclosure requirements have been expanded by HKFRS 13. Under amended HKAS 36.134(e), effective for annual periods beginning on or after 1 January 2013, if fair value less costs of disposal is not measured using a quoted price for an identical unit, as would generally be the case, entities need to provide the following additional information:
  - the level of the 3-Level fair value hierarchy within which the fair value measurement is categorised; and
  - any change in valuation technique and the reason(s) for making the change.

Also as a result of HKFRS 13's consequential amendments to HKAS 36, HKAS 36.134(c) has been amended to require the disclosure of recoverable amount of CGU. However, subsequent to the issue of IFRS 13 (i.e. the source of HKFRS 13), the IASB learned that the disclosure requirement of IAS 36.134(c) did not accurately reflect its intention. The IASB originally intended to require the disclosure of recoverable amount for an impaired asset only. Therefore, in May 2013 the IASB issued amendments to IAS 36, *Impairment of assets – Recoverable amount disclosures for non-financial assets* to remove the requirement to disclose the recoverable amount of CGU which is not impaired. On the other hand, these amendments expanded the disclosure requirements for impaired assets in IAS 36.130 (see footnote 153 on page 108 for details of the expanded disclosures required by IAS 36.130). In June 2013, the HKICPA issued equivalent amendments to HKAS 36 with the same effective date and transition provisions, i.e. effective for annual periods beginning on or after 1 January 2014 with early application permitted.

As mentioned in footnote 76 on page 62, ABC Bank has early adopted the subsequent amendments issued in 2013 in these financial statements and therefore adlopted in a single step to the changes to HKAS 36 made by HKFRS 13 as modified by the 2013 additional amendments.

As a result, the recoverable amount of CGU "Retail banking business acquired – Macau" for which impairment loss has been recognised during the period is disclosed in accordance with the amended version of HKAS 36.130(e).

HKAS 36.134(f)

[172] For each CGU for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit is significant in comparison with an entity's total carrying amount of goodwill or intangible assets with indefinite useful lives, disclosure of the following information is required if a reasonably possible change in a key assumption on which management has based its determination of the unit's (group of units') recoverable amount would cause the unit's (group of units') carrying amount to exceed its recoverable amount:
- the amount by which the unit's (group of units') recoverable amount exceeds its carrying amount;
- the value assigned to the key assumption; and
- the amount by which the value assigned to the key assumption must change, after incorporating any consequential effects of that change on the other variables used to measure recoverable amount, in order for the unit's (group of units') recoverable amount to be equal to its carrying amount.

32 Other assets[173]

HKAS 1.77
BDR 36(1)(a)(v)(C)

	Group		Bank	
	2013	*2012*	*2013*	*2012*
	$'000	$'000	$'000	$'000
BDR 40(1)(b) HKFRS 7.22(b) Positive fair value of hedging derivatives (note 46(c))	X	X	X	X
BDR 48(7) Repossessed assets	X	X	X	X
Customer liability under acceptances	X	X	X	X
Accrued interest receivable[174]	X	X	X	X
Other[173]	X	X	X	X
	X	X	X	X

HKFRS 7.38(a)

During the year ended 31 December 2013, the Group has taken possession of collateral it holds as security as follows[66 on page 49]:

	Group		Bank	
	2013 Carrying amounts $'000	*2012 Carrying amounts $'000*	*2013 Carrying amounts $'000*	*2012 Carrying amounts $'000*
Nature				
Residential properties	X	X	X	X
Debt securities	X	X	X	X
Other	X	X	X	X
	X	X	X	X

HKFRS 7.38(b)

Repossessed assets obtained are intended to be realised in an orderly fashion to repay the impaired loans and advances and are not held for the own use of the Group[66 on page 49].

BDR 36(1)(a)(v)(D)

The above balances (net of impairment losses for irrecoverable balances of $X (2012: $X)) do not contain amounts overdue for more than 12 months.[175]

HKAS 1.78 b),(d)
BDR 36(1)(a)(v)(c)

[173] Analyse if material, e.g. assets held for sale, liability for long-service leave, cash-settled share-based payment liability etc.

[174] Where impairment allowances against accrued interest are material, the amount should be separately disclosed and analysed.

A16(4)(2)(b)(ii)
A16(4)(2)(c)(ii)

[175] The MBLRs require disclosure of an ageing of accounts receivable and payable. However, no guidance is provided as to the type or level of disclosure required. In particular, it is not clear whether the ageing of accounts receivable should be before or after recognition of impairment losses. Entities are therefore recommended, as a matter of best practice, to clearly state which approach has been adopted in this respect.

BDR 36(1)(b)(i)

33 Deposits and balances of banks and other financial institutions[176]

	Group		Bank	
	2013 $'000	*2012* $'000	*2013* $'000	*2012* $'000
Deposits and balances from banks	X	X	X	X
Deposits and balances from other financial institutions	X	X	X	X
Items in the course of transmission to other banks	X	X	X	X
	X	X	X	X

34 Deposits from customers

		Group		Bank	
		2013 $'000	*2012* $'000	*2013* $'000	*2012* $'000
BDR 36(1)(b)(ii)(A)	Demand deposits and current accounts[177]	X	X	X	X
BDR 36(1)(b)(ii)(B)	Savings deposits	X	X	X	X
BDR 36(1)(b)(ii)(C)	Time, call and notice deposits	X	X	X	X
		X	X	X	X

35 Trading liabilities[134 on page 98]

HKAS 1.77
HKFRS 7.8(e)

	Group		Bank	
	2013 $'000	*2012* $'000	*2013* $'000	*2012* $'000
Short positions in securities (note 50(a))	X	X	X	X
Negative fair value of derivatives (notes 46(b) and 50(a))	X	X	X	X
	X	X	X	X

36 Financial liabilities designated at fair value through profit or loss[134 on page 98]

HKFRS 7.8(e)

		Group		Bank	
		2013 $'000	*2012* $'000	*2013* $'000	*2012* $'000
BDR 36(1)(b)(iii)(A)(I)	Structured certificates of deposit issued (note 50(a))	X	X	X	X
	Structured deposits (note 50(a))	X	X	X	X
BDR 36(1)(b)(iv)(A)(I)	Debt securities issued (note 50(a))	X	X	X	X
		X	X	X	X

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Annex A

176 Deposits and balances from banks and other financial institutions include all amounts (excluding those in the form of debt securities and certificates of deposit) arising out of banking transactions owed to other banks and financial institutions.

177 Include interest bearing current accounts.

HKFRS 7.B5(a)(iii)

Structured certificates of deposit issued, structured deposits and debt securities issued have been designated at fair value through profit or loss when they contain embedded derivatives that significantly modify the cash flows that otherwise would be required to be separated[178].

HKFRS 7.10, 11(a)

The carrying amount of financial liabilities designated at fair value through profit or loss at 31 December 2013 was $X (2012: $X) and $X (2012: $X) higher than the contractual amount at maturity for the Group and the Bank respectively. The difference in the accumulated amount of the changes in fair value attributable to changes in credit risk were $X (2012: $X) and $X (2012: $X) for the Group and the Bank respectively. The change for the year ended 31 December 2013 was $X (2012: $X) and $X (2012: $X) for the Group and the Bank respectively.

The change in fair value attributable to changes in credit risk on financial liabilities is calculated using the credit spread observed for recent issuances of similar structured debt, adjusted for subsequent changes in the credit spread observed on credit default swaps on the issuing Group entity's senior debt.

37 Debt securities issued[179]

HKFRS 7.8(f)
BDR 36(1)(b)(iv)(B)

		Group and Bank	
		2013 $'000	*2012* $'000
US$Xm	Floating rate (LIBOR plus 0.25%) debt securities 2010	X	X
EUR Xm	Medium-term (LIBOR plus 0.5%) notes 2012	X	X
		X	X

HKFRS 7.18, 19

The Group has not had any defaults of principal, interest or other breaches with respect to its debt securities during the years ended 31 December 2013 and 2012.[180]

HKFRS 7.B5(a)

[178] The disclosure note relating to the criteria on the designation, and how these criteria are satisfied, for debt securities is for illustrative purpose only. If the AI has other financial liabilities which are designated at fair value through profit or loss, disclosure in compliance with HKFRS 7.B5(a) should be made.

HKFRS 7.17

[179] If the AI has issued an instrument that contains both a liability and an equity component (see HKAS 32.28) and the instrument has multiple embedded derivatives whose values are interdependent (such as a callable convertible debt instrument), it shall disclose the existence of those features.

HKFRS 7.18,19

[180] For loans payable recognised at the reporting date, an entity discloses information about any defaults that occurred during the period, or any other breach of the terms of a loan.

HKFRS 7.18

For loans recognised at the reporting date, an entity discloses:

- details of any defaults during the period of principal, interest, sinking fund, or redemption terms of those loans;
- the carrying amount of the loans in default at the reporting date; and
- whether the default was remedied, or that the terms of the loans were renegotiated, before the financial statements were authorised for issue.

38 Income tax in the statement of financial position

(a) Current taxation in the statement of financial position represents:

HKAS 1.77

	Group		*Bank*	
	2013 $'000	*2012* $'000	*2013* $'000	*2012* $'000
Provision for Hong Kong Profits Tax for the year	X	X	X	X
Provisional Profits Tax paid	(X)	(X)	(X)	(X)
	X	X	X	X
Balance of Profits Tax provision relating to prior years	-	X	-	X
	X	X	X	X
Provision for overseas taxation	X	X	X	X
	X	X	X	X

BDR 36 (1)(b)(v)

(b) Deferred tax assets and liabilities recognised:

(i) Group

HKAS 12.81(g)(i)

The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Deferred tax arising from:	*Revaluation of investment property*	*Depreciation allowances in excess of the related depreciation*	*Revaluation of land and buildings*	*Amortisation of intangible assets*	*Impairment losses on financial assets*	*Fair value adjustments for available-for-sale financial assets*	*Cash flow hedges*	*Total*
		$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
	At 1 January 2012	X	X	X	X	(X)	X	X	X
HKAS 12.81(g)(ii)	Charged/(credited) to income statement (note 14(a))	X	(X)	(X)	X	(X)	-	-	X
HKAS 12.81(a)	Charged/(credited) to reserves	-	-	X	-	-	(X)	X	X
	At 31 December 2012	X	X	X	X	(X)	X	X	X
	At 1 January 2013	X	X	X	X	(X)	X	X	X
HKAS 12.81(g)(ii)	Charged/(credited) to income statement (note 14(a))	X	X	(X)	X	(X)	-	-	X
HKAS 12.81(a)	Charged/(credited) to reserves	-	-	X	-	-	(X)	X	X
	At 31 December 2013	X	X	X	X	(X)	X	X	X

(ii) Bank

HKAS 12.81(g)(i) The components of deferred tax (assets) / liabilities recognised in the statement of financial position and the movements during the year are as follows:

	Deferred tax arising from:	*Depreciation allowances in excess of the related depreciation*	*Revaluation of land and buildings*	*Impairment losses on financial assets*	*Fair value adjustments for available-for-sale financial assets*	*Cash flow hedges*	*Total*
		$'000	$'000	$'000	$'000	$'000	$'000
	At 1 January 2012	X	X	(X)	X	X	X
HKAS 12.81(g)(ii)	Charged/(credited) to income statement	X	(X)	(X)	-	-	X
HKAS 12.81(a)	Charged/(credited) to reserves	-	X	-	(X)	(X)	X
	At 31 December 2012	X	X	(X)	X	X	X
	At 1 January 2013	X	X	(X)	X	X	X
HKAS 12.81(g)(ii)	Charged/(credited) to income statement	X	(X)	(X)	-	-	X
HKAS 12.81(a)	Charged/(credited) to reserves	-	X	-	(X)	(X)	X
	At 31 December 2013	X	X	(X)	X	X	X

(iii) Reconciliation to the statement of financial position:

HKAS 1.77

	Group		*Bank*	
	2013 $'000	*2012* $'000	*2013* $'000	*2012* $'000
Net deferred tax asset recognised on the statement of financial position	(X)	(X)	-	-
Net deferred tax liability recognised on the statement of financial position	X	X	X	X
	X	X	X	X

(c) Deferred tax assets not recognised

HKAS 12.81(e) In accordance with the accounting policy set out in note 1(p), the Group has not recognised deferred tax assets in respect of cumulative tax losses of $X (2012: $X) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax legislation.

(d) Deferred tax liabilities not recognised

HKAS 12.81(f), 87

At 31 December 2013, temporary differences relating to the undistributed profits of subsidiaries amounted to $X (2012: $X). Deferred tax liabilities of $X (2012: $X) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Bank controls the dividend policy of these subsidiaries and it has been determined that it is probable that profits will not be distributed in the foreseeable future.

39 Other liabilities[173 on page 120]

BDR 36(1)(b)(vi)
HKAS 1.77

	Group		*Bank*	
	2013 $'000	*2012* $'000	*2013* $'000	*2012* $'000
Negative fair value of hedging derivatives (note 46(c))	X	X	X	X
Acceptances outstanding	X	X	X	X
Accrued interest payable	X	X	X	X
Provisions for liabilities and accrued charges[181]	X	X	X	X
Short-term employee benefits	X	X	X	X
Financial guarantees issued	X	X	X	X
Obligations under finance leases	X	X	X	X
Other[173 on page 120]	X	X	X	X
	X	X	X	X

BDR 36(1)(b)(vii)
10th Sch (6)

HKAS 17.31(b)
A16(22)(1)

At 31 December 2013, the Group and the Bank had obligations under finance leases repayable as follows:

HKAS 37.84
HKAS 37.85
BDR 36(1)(b)(vii)
10th Sch (7)

[181] This represents those provisions required by HKAS 37, e.g. provisions for litigation fees, branch closures and relocation costs, onerous contracts and employee entitlements such as service anniversary awards. It does not include impairment allowances which are shown as a deduction from the related assets. If material, the aggregate amount of provisions should be classified under sub-headings appropriate to the business and the movements in each sub-heading should be analysed. Comparative information is not required for the analysis of the movements in provisions, as HKAS 37 gives a specific exemption in this regard. Under HKAS 37.85, it is required to disclose for each class of provision (a) a brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits; (b) an indication of the uncertainties about the amount or timing of those outflows and, where necessary, major assumptions made concerning future events; and (c) the amount of any expected reimbursement and any amount recognised as asset.

HKAS 37.84(e)

Also, it is assumed that the provision has not been discounted on the grounds of materiality. If the provision has been discounted, the increase in the provision arising from the discount unwinding should be separately disclosed.

	Group and Bank			
	2013		*2012*	
	Present value of the minimum lease payments $'000	*Total minimum lease payments* $'000	*Present value of the minimum lease payments* $'000	*Total minimum lease payments* $'000
Within 1 year	X	X	X	X
After 1 year *but within 2 years*	X	X	X	X
After 2 years[182] but within 5 years	X	X	X	X
After 5 years	X	X	X	X
	X	X	X	X
	X	X	X	X
Less: Total future interest expenses		(X)		(X)
Present value of lease obligations		X		X

40 Subordinated liabilities

10th Sch 9(4)
HKFRS 7.8
BDR 36(1)(b)(viii)

Subordinated liabilities consist of undated primary capital notes issued by the Group and the Bank, and other long term notes having an original term to maturity of five years or more. The subordinated liabilities were raised by the Group and the Bank for the development and expansion of their business. They comprise:

		Group and Bank	
		2013 $'000	*2012* $'000
Subordinated capital notes from ultimate holding company			
US$Xm	Subordinated floating rate (LIBOR plus 0.5%) loan 2015	X	X
EUR Xm	Subordinated undated floating rate (LIBOR plus 1%) notes	X	X
		X	X
Other subordinated notes			
US$Xm	Subordinated primary capital floating rate (LIBOR plus 1.5%) notes 2014	X	X
¥Xm	Subordinated fixed rate (5.0% to 5.5%) loans 2015	X	-
HK$Xm	Subordinated collared (7% to 9%) floating rate loans 2014	X	X
¥Xm	Subordinated fixed rate (5.5%) loans 2020	-	X
£Xm	Subordinated floating rate (LIBOR plus 1%) loan 2016	X	X
A$Xm	Subordinated fixed rate (6.5%) until 2013 and floating thereafter 2021	X	-
		X	X
		X	X

HKFRS 7.18, 19

The Group has not had any defaults of principal, interest or other breaches with respect to its debt securities during the years ended 31 December 2013 and 2012.[180 on page 122]

HKAS 17.31(b)
HKFRS 7.39(a)

[182] Under HKAS 17, unlisted entities need only analyse their obligations under finance leases between amounts payable in the next financial year, amounts payable in the second to fifth financial years inclusive and aggregate amounts payable after five years, from the end of the reporting period. However, further detailed analysis of the timing of these cash flows may also need to be given in order to satisfy the requirements under HKFRS 7.39(a) regarding the maturity analysis for financial liabilities (see note 49(c) to these illustrative financial statements) depending on the time bands used in the maturity analysis.

41 Equity settled share-based transactions

HKFRS 2.45

The Bank has a share option scheme which was adopted on 1 March 2005 whereby the directors of the Bank are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options at nil consideration to subscribe for shares of the Bank[183]. The options vest after one year from the date of grant and are then exercisable within a period of two years. Each option gives the holder the right to subscribe for one ordinary share in the Bank and is settled gross in shares.

(a) The terms and conditions of the grants are as follows:

HKFRS 2.45(a)

	Number of instruments	*Vesting conditions*	*Contractual life of options*
Options granted to directors:			
- on 1 November 2010	X	One year from the date of grant	3 years
- on 1 July 2012	X	One year from the date of grant	3 years
Options granted to employees:			
- on 1 July 2012	X	One year from the date of grant	3 years
- on 1 May 2013	X	One year from the date of grant	3 years
Total share options granted	X		

HKFRS 2.45 (b)&(c)
10th Sch(12(2))

(b) The number and weighted average exercise prices of share options are as follows:

		2013		*2012*	
		Weighted average exercise price	*Number of options*	*Weighted average exercise price*	*Number of options*
			'000		'000
HKFRS 2.45 (b)(i)	Outstanding at the beginning of the year	$ X	X	$ X	X
HKFRS 2.45 (b)(iv)	Exercised during the year	$ X	(X)	-	-
HKFRS 2.45 (b)(iii)	Forfeited during the year[184]	$ X	(X)	-	-
HKFRS 2.45 (b)(ii)	Granted during the year	$ X	X	$ X	X
HKFRS 2.45 (b)(vi)	Outstanding at the end of the year	$ X	X	$ X	X
HKFRS 2.45 (b)(vii)	Exercisable at the end of the year	$ X	X	$ X	X

HKFRS 2.45(c)

The weighted average share price at the date of exercise for shares options exercised during the year was $X (2012: not applicable).[185]

HKFRS 2.45(d)

The options outstanding at 31 December 2013 had an exercise price of $X or $X (2012: $X) and a weighted average remaining contractual life of X years (2012: X years).[186]

R17.10 [183] Chapter 17 of the MBLRs requires the disclosure of the basis of determining the exercise price under the terms of the share option scheme. This would include separate disclosure of the bases adopted before and after 1 September 2001 if the bases differed and the scheme was still in existence. This information may be disclosed in the annual financial statements or the directors' report (as has been illustrated in this annual report: see page 15).

HKFRS 2.45(b) [184] Grants expired during the period should also be disclosed separately, if applicable .

HKFRS 2.45(c) [185] If options were exercised on a regular basis throughout the period, the weighted average share price during the period may be disclosed as an alternative.

HKFRS 2.45(d) [186] If the range of exercise prices is wide, the outstanding options could be divided into ranges that are meaningful for assessing the number and timing of additional shares that may be issued and the cash may be received upon the exercise of those options.

(c) Fair value[187] of share options and assumptions

HKFRS 2.47, R17.08

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial lattice model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice model.

HKFRS 2.47(a)(i), R17.08

Fair value of share options and assumptions	*2013*	*2012*
Fair value at measurement date	$ X	$ X
Share price	$ X	$ X
Exercise price	$ X	$ X
Expected volatility (expressed as weighted average volatility used in the modelling under binomial lattice model)	X%	X%
Option life (expressed as weighted average life used in the modelling under binomial lattice model)	X years	X years
Expected dividends	X%	X%
Risk-free interest rate (based on Exchange Fund Notes)	X%	X%

HKFRS 2.47 (a)(ii)

R17.08

The expected volatility is based on the historical volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends[188]. *Changes in the subjective input assumptions could materially affect the fair value estimate.*

HKFRS 2.47(a)(iii)

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

HKFRS 13.6(a)

[187] Share-based payment transactions accounted for under HKFRS 2 are scoped out from both the measurement and disclosure requirements of HKFRS 13. The fair value of share-based payments therefore continues to be measured and disclosed in accordance with HKFRS 2.

R17.08

[188] If expected dividends have been adjusted for any publicly available information indicating that future performance is reasonably expected to differ from past performance, then listed issuers are required to disclose an explanation.

42 Capital, reserves and dividends

(a) Movement in components of equity

10th Sch(2(c), 4(1), 6 & 7)
HKAS 1.79(b)
106(a) &108
HKAS 16.77(f)
BDR 36(1)(b)(xi)
BDR 37(11)
BDR 45(11)

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Bank's individual components of equity between the beginning and the end of the year are set out below:

The Bank

	Note	*Share capital* $'000	*Share premium* $'000	*Capital reserve* $'000	*Land and buildings revaluation reserve* $'000	*Available-for-sale fair value reserve* $'000	*Hedging reserve* $'000	*Regulatory reserve* $'000	*Retained profits* $'000	*Total* $'000
At 1 January 2012[189]		X	X	X	X	X	X	X	X	X
Changes in equity for 2012										
Dividends approved in respect of the previous year	42(b)	-	-	-	-	-	-	-	(X)	(X)
Equity settled share-based transactions		-	-	X	-	-	-	-	-	X
Total comprehensive income for the year		-	-	-	X	X	X	-	X	X
Dividends declared in respect of the current year	42(b)	-	-	-	-	-	-	-	(X)	(X)
Transfer from retained profits		-	-	-	-	-	-	X	(X)	-
At 31 December 2012 and 1 January 2013		X	X	X	X	X	X	X	X	X
Changes in equity for 2013										
Dividends approved in respect of the previous year	42(b)	-	-	-	-	-	-	-	(X)	(X)
Shares issued under share option scheme	42(c)	X	X	(X)	-	-	-	-	-	X
Equity settled share-based transactions		-	-	X	-	-	-	-	(X)	(X)
Total comprehensive income for the year		-	-	-	X	X	X	-	X	X
Dividends declared in respect of the current year	42(b)	-	-	-	-	-	-	-	(X)	(X)
Transfer from retained profits		-	-	-	-	-	-	X	(X)	-
At 31 December 2013		X	X	X	X	X	X	X	X	X

HKAS 1.38

[189] HKAS 1 requires comparative amounts for all numerical information unless an exemption is granted by a HKFRS. This effectively overrides the general exemption in Part I of the 10th Schedule to the HKCO in respect of movements in reserves.

10th Sch(13(1)(j)) **(b) Dividends[190]**

HKAS 1.107 (i) Dividends payable to equity shareholders of the Bank attributable to the financial year

A16(4)(1)(f)

	2013 $'000	*2012* $'000
Interim dividend declared and paid of $X per ordinary share (2012: $X per ordinary share)	X	X
10th Sch(9(1)(e)) HKAS 1.137(a) HKAS 10.13 Final dividend proposed after the reporting period of $X per ordinary share (2012: $X per ordinary share)	X	X
	X	X

The final dividend proposed after the reporting period has not been recognised as a liability at the reporting period.

(ii) Dividends payable to equity shareholders of the Bank attributable to the previous financial year, approved and paid during the year

	2013 $'000	*2012* $'000
Final dividend in respect of the previous financial year, approved and paid during the year, of $X per ordinary share (2012: $X per ordinary share)	X	X

(c) Share capital

(i) Authorised and issued share capital

10th Sch (2)
HKAS 1.79 (a)

	2013 No. of shares '000	$'000	*2012* No. of shares '000	$'000
HKAS 1.79(a)(i),(iii) **Authorised:**				
Ordinary shares of $X each	X	X	X	X
HKAS 1.79 (a)(ii),(iv) **Ordinary shares, issued and fully paid:**				
At 1 January	X	X	X	X
Shares issued under share option scheme	X	X	-	-
At 31 December	X	X	X	X

CP , HKAS1.79(v) The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Bank. All ordinary shares rank equally with regard to the Bank's residual assets.

HKAS 1.107,113 [190] HKAS 1.107 requires entities to disclose either in the statement of changes in equity, or in the notes, the amount of dividends recognised as distributions to owners during the period and the related amount per share.

(ii) Increase in authorised share capital

CP

By an ordinary resolution passed at the annual general meeting held on 8 June 2013, the Bank's authorised ordinary share capital was increased to $X by the creation of an additional X million ordinary shares of $X each, ranking pari passu with the existing ordinary shares of the Bank in all respects.

(iii) Shares issued under share option scheme

S129D(3)(g)
A16(10)(2)

On 1 October 2013, options were exercised to subscribe for X million ordinary shares in the Bank at a consideration of $X of which $X was credited to share capital and the balance of $X was credited to the share premium account. $X has been transferred from the capital reserve to the share premium account in accordance with policy set out in note 1(o)(ii).

10th Sch(12(2))

(iv) Terms of unexpired and unexercised share options at the end of reporting period

Exercise period	*Exercise price*	*2013 Number*	*2012 Number*
1 November 2010 to 31 October 2012		-	X
1 July 2012 to 30 June 2014	$X	X	X
1 May 2013 to 30 April 2015	$X	X	-
		X	X

Each option entitles the holder to subscribe for one ordinary share in the Bank. Further details of these options are set out in note 41 to the financial statements.

HKAS 1.79(b)

(d) Nature and purpose of reserves

(i) Share premium

The application of the share premium account is governed by Section 48B of the Hong Kong Companies Ordinance.

(ii) Capital reserve

The capital reserve comprises the fair value of the actual or estimated number of unexercised share options granted to employees of the Bank recognised in accordance with the accounting policy adopted for share-based payments in note 1(o)(ii).

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in notes 1(s).

(iv) Property revaluation reserves

The property revaluation reserves have been set up and are dealt with in accordance with the accounting policies adopted for land and buildings in notes 1(j).

HKAS 16.77(f)

The revaluation reserve of the Bank in respect of land and buildings is distributable to the extent of $X (2012: $X)[191]

(v) Available-for-sale fair value reserve

The available-for-sale fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the financial assets are derecognised and is dealt with in accordance with the accounting policies in notes 1(f) and (m).

(vi) Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flow in accordance with the accounting policy adopted for cash flow hedges in note 1(h)(ii).

(vii) Regulatory reserves

BDR 36(2)

The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes. Movements in the reserve are made directly through retained earnings and in consultation with the HKMA.[192]

(e) Distributability of reserves

A16(29)

CP

At 31 December 2013, the aggregate amount of reserves available for distribution to equity shareholders of the Bank, as calculated under the provisions of Section 79B of the Hong Kong Companies Ordinance[193] and including the distributable amounts disclosed in note 42(d)(iv), was $X (2012: $X). After the end of reporting period the directors proposed a final dividend of $X per ordinary share (2012: $X per ordinary share), amounting to $X (2012: $X) (note 42(b)). This dividend has not been recognised as a liability at the end of reporting period.

HKAS 16.41

[191] Under section 79K of the HKCO, the revaluation reserve can be treated as realised to the extent that depreciation charged to the income statement / the statement of comprehensive income on revalued assets exceeds the amount that would have been charged based on the historical cost of those assets. Transfers from the revaluation reserve to retained profits may be made in respect of this excess, which would result in the remaining revaluation reserve being entirely non-distributable under the HKCO.

BDR 45(11)

[192] It is assumed that the AI chooses the appropriation approach in setting aside the regulatory reserve. Alternatively, AIs may choose the earmarking approach instead of an appropriation approach. Where an AI has earmarked part of its retained earnings for maintaining its regulatory reserve for maintaining its regulatory reserve, the AI is required under section 45(11) of the BDR to disclose the fact and the amount of retained earnings so earmarked. If the earmarking approach is adopted, the following disclosure can be made:

"A regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordnance for prudential supervision purposes by earmarking amounts in respect of losses which the Bank will or may incur on loans and advances in addition to impairment losses recognised. Movements in the reserve are earmarked directly through retained earnings and in consultation with the Hong Kong Monetary Authority."

Another more quantitative sample wording is "At 31 December 2013, the effect of this regulatory requirement is to restrict the amount of reserves available for distribution to equity shareholders by $X (31 December 2012: $X)."

[193] Paragraph 29 of Appendix 16 to the MBLRs requires a listed issuer to include a statement of the reserves available for distribution to shareholders in its annual report. In the case of a Hong Kong incorporated issuer, the amount should be calculated with reference to the requirements of section 79B of the HKCO. In all other cases, paragraph 29 states that the amount should be calculated in accordance with any statutory provisions applicable in the listed issuer's place of incorporation or, in the absence of such provisions, with generally accepted accounting principles. Further guidance on computing distributable profits in accordance with section 79B of the Hong Kong Companies Ordinance can be found in Accounting Bulletin 4 issued by the HKICPA in May 2010.

BDR36(1)(b)(ix)

43 Non-controlling interests[58 on page 38]

	2013	*2012*
	$'000	$'000
At 1 January	X	X
Profit for the year	X	X
Dividend paid to minority shareholders	(X)	(X)
At 31 December	X	X

44 Cash and cash equivalents

(a) Cash and cash equivalents[194] in the consolidated cash flow statement

HKAS 7.45

	Group	
	2013	*2012*
	$'000	$'000
Cash and balances with banks, central banks and other financial institutions	X	X
Placements with banks, central banks and other financial institutions with original maturity within three months	X	X
Treasury bills with original maturity within three months[195]	X	X
Certificates of deposit held with original maturity within three months[195]	X	X
	X	X

[194] Deposits taken from customers, banks and other financial institutions are not deducted under the heading of "cash and cash equivalents" even if the deposits have a short original maturity, e.g. repayable within 3 months or on demand. The reason is that the deposits are initiated by the counterparty, rather than reporting AI. Instead, changes in such deposits should be classified as part of operating activities.

HKAS 7 App B

The example in appendix B to HKAS 7 included the deposits held for regulatory or monetary control purposes as cash flows arising from operating activities. Accordingly, in our view, restricted balances with a central bank, e.g. statutory deposits placed with People's Bank of China for branches in China, together with deposits with the HKSAR Government for issue of currency notes should not be included as cash and cash equivalents.

HKAS 7.48

Currency notes should not be included as cash and cash equivalents. Any cash and cash equivalent balances held that are not available for use by the Group should also be excluded.

[195] Under HKAS 7, cash equivalents must be readily convertible into a known amount of cash and be subject to insignificant changes in value. Therefore, according to HKAS 7, normally only those investments of a short maturity of, say, 3 months or less from the date of acquisition, qualify. However, as practices may vary in this respect, whatever cut-off date is adopted should be disclosed as part of the policy disclosure.

(b) Reconciliation with the consolidated statement of financial position

	Group	
	2013 $'000	*2012* $'000
Cash and balances of banks, central banks and other financial institutions (note 19)	X	X
Placements with banks, central banks and other financial institutions (note 20)	X	X
Treasury bills and certificates of deposit held		
- for trading (note 23)	X	X
- designated at fair value through profit or loss (note 24)	X	X
- available-for-sale (note 26)	X	X
- held-to-maturity (note 27)	X	X
Amounts shown in the consolidated statement of financial position	X	X
Less: Amounts with an original maturity of beyond three months[195] on page 134	(X)	(X)
Cash and cash equivalents in the consolidated cash flow statement	X	X

45 Assets pledged as security

HKFRS 7.14(a)

The following assets have been pledged as collateral for own liabilities at the end of reporting period:

	Group		*Bank*	
	2013 $ '000	*2012* $ '000	*2013* $ '000	*2012* $ '000
10th Sch (10) BDR 44(a) Secured liabilities	X	X	X	X
BDR 44(b) Assets pledged:				
Available-for-sale financial assets	X	X	X	X
Held-to-maturity financial investments	X	X	X	X
	X	X	X	X

The following balances with banks have been pledged as collateral for securities borrowings and margin deposits of derivatives.

	Group		*Bank*	
	2013 $ '000	*2012* $ '000	*2013* $ '000	*2012* $ '000
Cash collateral for borrowed securities	X	X	X	X
Margin accounts for open futures and forward contracts	X	X	X	X
	X	X	X	X

HKFRS 7.14(b)

These transactions are conducted under terms that are usual and customary to standard lending and securities borrowing and lending activities.

46 Derivatives

BDR 38(1)

The use of derivatives for proprietary trading and their sale to customers as risk management products is an integral part of the Group's business activities. These instruments are also used to manage the Group's own exposures to market risk as part of its asset and liability management process. The principal derivatives instruments used by the Group are interest and foreign exchange rate related contracts, which are primarily over-the-counter derivatives. The Group also participates in exchange traded derivatives. Most of the Group's derivative positions have been entered into to meet customer demand and to hedge these and other trading positions. For accounting purposes, derivatives are classified as either held for trading or held for hedging.

(a) Notional amounts of derivatives

HKFRS 7.31
BDR 38(2), (3), (4)(b)

Derivatives refer to financial contracts whose value depends on the value of one or more underlying assets or indices. The notional amounts[196] of these instruments indicate the volume of outstanding transactions and do not represent amounts at risk.

	Group and Bank 2013			
	Qualifying for hedge accounting $'000	*Managed in conjunction with financial instruments designated at fair value through profit or loss* $'000	*Others, including held for trading* $'000	*Total* $'000
Interest rate derivatives				
Forwards and futures	X	X	X	X
Swaps	X	X	X	X
Options purchased	X	X	X	X
Options written	X	X	X	X
Currency derivatives				
Forwards and futures	X	X	X	X
Swaps	X	X	X	X
Options purchased	X	X	X	X
Options written	X	X	X	X
Other derivatives	X	X	X	X
	X	X	X	X

BCR 2(1)

[196] In relation to an off-balance sheet exposure of an AI, notional amounts refer to the amount used to calculate payment obligation between the parties to the exposure.

	Group and Bank 2012			
	Qualifying for hedge accounting $'000	*Managed in conjunction with financial instruments designated at fair value through profit or loss* $'000	*Others, including held for trading* $'000	*Total* $'000
Interest rate derivatives				
Forwards and futures	X	X	X	X
Swaps	X	X	X	X
Options purchased	X	X	X	X
Options written	X	X	X	X
Currency derivatives				
Forwards and futures	X	X	X	X
Swaps	X	X	X	X
Options purchased	X	X	X	X
Options written	X	X	X	X
Other derivatives	X	X	X	X
	X	X	X	X

(b) Fair values and credit risk weighted amounts of derivatives

Credit risk-weighted amount refers to the amount as computed in accordance with the Third Schedule to the Hong Kong Banking Ordinance on capital adequacy and depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 50% for exchange rate and interest rate contracts and from 0% to 100% for other derivatives contracts.

BDR 38(2),(3),(4)(a)

The Group did not enter into any bilateral netting arrangements during the year and accordingly these amounts are shown on a gross basis.[197]

[197] Where netting arrangement exists, the following disclosure may be substituted: "The amounts take into account the effects of bilateral netting arrangements".

HKFRS 7.25
BDR 38(2), (3), (4)(a)

	Group and Bank					
	2013			*2012*		
	Fair value		*Credit risk weighted amount*	*Fair value*		*Credit risk weighted amount*
	Assets $'000	*Liabilities* $'000	$'000	*Assets* $'000	*Liabilities* $'000	$'000
Interest rate derivatives						
Forwards and futures	X	X	X	X	X	X
Swaps	X	X	X	X	X	X
Options purchased	X	X	X	X	X	X
Options written	X	X	X	X	X	X
	X	X	X	X	X	X
Currency derivatives						
Forwards and futures	X	X	X	X	X	X
Swaps	X	X	X	X	X	X
Options purchased	X	X	X	X	X	X
Options written	X	X	X	X	X	X
	X	X	X	X	X	X
Other derivatives	X	X	X	X	X	X
	X	X	X	X	X	X
	(Notes 23 and 32)	(Notes 35 and 39)		(Notes 23 and 32)	(Notes 35 and 39)	

(c) Fair values of derivatives designated as hedging instruments

HKFRS 7.22(b)
BDR 40(1)(b)

The following is a summary of the fair values of derivatives held for hedging purposes by product type entered into by the Group and the Bank:

	Group and Bank			
	2013		*2012*	
	Assets $'000	*Liabilities* $'000	*Assets* $'000	*Liabilities* $'000
Exchange rate contracts	X	X	X	X
Interest rate contracts	X	X	X	X
	X	X	X	X
	(Note 32)	(Note 39)	(Note 32)	(Note 39)

Fair value hedges

HKFRS 7.22
BDR 40(1)

Fair value hedges principally consist of interest rate swaps that are used to protect against changes in the fair value of certain fixed rate assets and liabilities due to movements in market interest rates. At 31 December 2013, the net fair value of interest rate swaps was $X (2012: $X) comprising assets of $X (2012: $X) and liabilities of $X (2012: $X).

Cash flow hedges[198]

HKFRS 7.22, 23
BDR 40(1), (2)

Cash flow hedges principally consist of currency swaps, interest rate options and cap agreements that are used to hedge against the variability in cash flows of certain floating rate assets and liabilities. At 31 December 2013, the net fair value of derivatives held as cash flow hedges was $X (2012: $X) comprising assets of $X (2012: $X) and liabilities of $X (2012: $X).

HKFRS 7.23(a)

The time periods in which the hedged cash flows are expected to occur and affect the consolidated statement of comprehensive income are as follows:

	1 year or less $'000	*Over 1 year to 5 years* $'000	*Over 5 years* $'000
31 December 2013			
Cash inflows	X	X	X
Cash outflows	X	X	X
31 December 2012			
Cash inflows	X	X	X
Cash outflows	X	X	X

(d) Remaining life of derivatives

HKFRS 7.39(b)
HKFRS 7.B11D

The following table provides an analysis of the contractual amounts of derivatives of the Group by relevant maturity grouping[199] based on the remaining periods to settlement at the end of reporting period. Net amounts are disclosed for derivatives in which net cash flows are exchanged, while contractual amounts are disclosed for derivatives in which gross cash flows are exchanged.

	Group and Bank *Contractual amounts with remaining life of*							
	2013				*2012*			
	Total $'000	*1 year or less* $'000	*Over 1 year to 5 years* $'000	*Over 5 years* $'000	*Total* $'000	*1 year or less* $'000	*Over 1 year to 5 years* $'000	*Over 5 years* $'000
Interest rate derivatives	X	X	X	X	X	X	X	X
Currency derivatives	X	X	X	X	X	X	X	X
Other derivatives	X	X	X	X	X	X	X	X
	X	X	X	X	X	X	X	X

HKFRS 7.23(b)

[198] When applicable, an entity discloses a description of any forecast transaction for which hedge accounting had previously been used, but which is no longer expected to occur.

HKFRS 7.39(b)

[199] The maturity groupings used are a suggestion. Management should decide on appropriate grouping based on the characteristics of outstanding contracts.

47 Contingent assets, liabilities and commitments

(a) Contingent liabilities and commitments to extend credit

		Group		Bank	
		2013	*2012*	*2013*	*2012*
		$'000	$'000	$'000	$'000
BDR 39(1)	Contract amounts				
BDR 39(2)(a)	Direct credit substitutes	X	X	X	X
BDR 39(2)(c)	Trade-related contingencies	X	X	X	X
BDR 39(2)(b)	Transaction-related contingencies	X	X	X	X
BDR 39(2)(d)	Note issuance and revolving underwriting facilities	X	X	X	X
	Forward asset purchases	X	X	X	X
	Amounts owing on partly paid-up shares and securities	X	X	X	X
	Forward deposits placed	X	X	X	X
BDR 39(2)(e)	Asset sales or other transactions with recourse	X	X	X	X
	Other commitments				
BDR 39(2)(f)(i)	- with an original maturity of not more than one year	X	X	X	X
BDR 39(2)(f)(ii)	- with an original maturity of more than one year	X	X	X	X
BDR 39(2)(f)(iii)	- which are unconditionally cancellable	X	X	X	X
	Others	X	X	X	X
		X	X	X	X
BDR 39(4)	Credit risk weighted amounts	X	X	X	X

BDR 39(3) Contingent liabilities and commitments arise from forward asset purchases, amounts owing on partly paid-up shares and securities, forward deposits placed, asset sales or other transactions with recourse, as well as credit-related instruments which include letters of credit, guarantees and commitments to extend credit. The risk involved in these credit-related instruments is essentially the same as the credit risk involved in extending loan facilities to customers. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client default. As the facilities may expire without being drawn upon, the contract amounts do not represent expected future cash flows.

BDR 39(4) The risk weights used in the computation of credit risk weighted amounts range from 0% to 100%.

HKFRS 7.31 Deferred income in respect of guarantees issued is disclosed in note 39.

(b) Lease commitments

HKAS 17.35(a)

At 31 December 2013, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Group		*Bank*	
	2013	*2012*	*2013*	*2012*
	$'000	$'000	$'000	$'000
Properties:				
- Within 1 year	X	X	X	X
- After 1 year but within 5 years	X	X	X	X
- After 5 years	X	X	X	X
	X	X	X	X
Others:				
- Within 1 year	X	X	X	X
- After 1 year but within 5 years	X	X	X	X
	X	X	X	X

HKAS 17.35(d)

The Group and the Bank lease a number of properties and items of equipment under operating leases. The leases typically run for an initial period of X to X years, with an option to renew the lease when all terms are renegotiated. Lease payments are usually increased every X years to reflect market rentals. None of the leases includes contingent rentals. [200]

(c) Capital commitments

10th Sch 12(6), HKAS 16.74(c)

Capital commitments for purchase of equipment outstanding at 31 December 2013 not provided for in the financial statements were as follows:

	Group		*Bank*	
	2013	*2012*	*2013*	*2012*
	$'000	$'000	$'000	$'000
Contracted for	X	X	X	X
Authorised but not contracted for	X	X	X	X
	X	X	X	X

HK(IFRIC) 4.12-15

[200] Under HK(IFRIC) 4, *Determining whether an arrangement contains a lease,* if a purchaser/lessee in an arrangement that contains an operating lease concludes that it is impracticable to separate the payments reliably between the operating lease and other elements of the arrangement, it should treat all payments under the arrangement as lease payments for the purposes of complying with the disclosure requirements of HKAS 17, but it should:

(a) disclose those payments separately from minimum lease payments of other arrangements that do not include payments for non-lease elements, and

(b) state that the disclosed payments also include payments for non-lease elements in the arrangement.

(d) Contingent compensation receivable

HKAS 37.89

In September 2013, the Bank commenced litigation against an equipment supplier for non-performance of a contract. According to legal advice it is probable that the Bank will win the case, in which case, the monetary compensation is expected to amount to $X million. No asset is recognised in respect of this claim.

10th Sch (12(5))

(e) Contingent liability in respect of legal claim

HKAS 37.86, 88

The Bank and its subsidiaries are named in and are defending a number of legal actions in various jurisdictions arising from their banking activities. Many of these proceedings are in relation to steps taken by the Bank to collect delinquent loans and enforce rights in collateral securing such loans. A provision of $X million was booked in 2013 in respect of legal costs (2012: $X million), and is included in other liabilities in the statements of financial position of the Group and the Bank. Based on legal advice, management of the Bank does not expect the outcome of these actions and proceedings to have a material effect on the Group's financial position.

48 Trust activities

The Group commonly acts as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as the Group does not control the assets.

If the Bank is engaged in significant trust activities, an indication of the extent of those activities and the potential liability if it fails its fiduciary duties should be made in the financial statements.

49 Financial risk management

Note: For illustrative purposes only. See footnote 201 on page 144

HKFRS 7.31, 32, 33(a)
BDR 56(1)

This section presents information about the Group's exposure to and its management and control of risks, in particular, the primary risks[202 on page 145] associated with its use of financial instruments:

- credit risk: loss resulting from customer or counterparty default and arises on credit exposure in all forms, including settlement risk.
- market risk: risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices and market risk comprises currency risk, interest rate risk and other price risk.
- liquidity and funding risk: risk that the Group is unable to meet its payment obligations when due, or that it is unable, on an ongoing basis, to borrow funds in the market on an unsecured, or even secured basis at an acceptable price to fund actual or proposed commitments.
- operational risk: risk arising from matters such as non-adherence to systems and procedures or from frauds resulting in financial or reputation loss.

The Group has established policies and procedures to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and limits continually by means of reliable and up-to-date management and information systems. The Group continually modifies and enhances its risk management policies and systems to reflect changes in markets, products and best practice risk management processes. The internal auditors also perform regular audits to ensure compliance with the policies and procedures.

HKFRS 7.1 [201] HKFRS 7, *Financial instruments: Disclosures* sets out disclosure requirements relating to an entity's exposure to risks arising from financial instruments and is applicable to all entities that hold financial instruments.

The objective of HKFRS 7 is to require entities to provide information that enables users to evaluate:

- the significance of financial instruments for an entity's financial position and performance; and
- the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks.

FRS 7.5 HKFRS 7 applies to contracts to buy or sell a non-financial item that are within the scope of HKAS 39 (see paragraphs 5-7 of HKAS 39).

HKFRS 7.7, 31, 44 & B3 In order to meet this objective HKFRS 7 sets out both qualitative and quantitative minimum disclosure requirements. However, HKFRS 7 does not prescribe either the format of the information required to be disclosed or its location within the financial statements and/or other reports. Instead, the standard states that it is necessary to strike a balance between overburdening financial statements with excessive detail that may not assist users of financial statements and obscuring important information as a result of too much aggregation (see HKFRS 7.B3).

An entity should therefore decide, in light of its circumstances, how much detail it needs to provide to satisfy the requirements of the standard, including how much emphasis it places on different aspects of the requirements and how it aggregates information to display the overall picture without combining information with different characteristics. It should also be noted that HKFRS 7 introduces the concept of looking first to information provided internally to key management personnel (as defined in HKAS 24, *Related party disclosures*), for example the entity's board of directors or chief executive officer, as a source of quantitative data on the entity's exposure to financial risks. Basing disclosures on information used by key management personnel provides information about how management views and manages its risk, as well as about the risks themselves, which the IASB considers is useful information for users of financial statements (as discussed in HKFRS 7.BC47). The IASB also considered this approach has practical advantages for preparers because it allows them to use the data they use in managing risk. The requirements of HKFRS 7 in this regard are discussed further in footnote 133 on page 95.

In practice, the requirements of HKFRS 7 will be met by a combination of narrative descriptions and quantitative data, as appropriate to the nature of the instruments and their relative significance to the entity. This information may be either included in the various notes that refer to the specific financial instruments and/or included in a separate note. A mixed approach is illustrated here, as can be seen from the cross references to HKFRS 7 throughout the notes to the illustrative financial statements and the specific notes 49 and 50 which provide the additional risk and fair value disclosures required by the standard.

HKFRS 7.32A Paragraph 32A of HKFRS 7 emphasises the interaction between qualitative and quantitative disclosures by stating that providing qualitative disclosures in the context of quantitative disclosures enables users to link related disclosures and hence form an overall picture of the nature and extent of risks arising from financial instruments.

HKFRS 7.B6 It should also be noted that HKFRS 7.B6 explicitly provides for the financial risk disclosures, as set out in HKFRS 7.31-42, to be given either in the financial statements or incorporated by cross-reference from the financial statements to some other statements that are not part of the financial statements, such as a management commentary, provided it is available to users of the financial statements on the same terms as the financial statements and at the same time. Including all disclosures required by HKFRS within the financial statements themselves helps users in differentiating between disclosures that are required by HKFRS and other information. However, if such information is presented outside the financial statements, then in our view it should be marked clearly as being part of the disclosures required by HKFRS and cross-referenced to the financial statements. An entity could identify such information as, for example, "information that is an integral part of the audited financial statements" or "disclosures that are required by HKFRS".

An AI should disclose qualitative information on the main types of risks arising out of its business including, where appropriate, credit, liquidity, interest rate, foreign exchange and market risks arising out of its trading book. The disclosure should include a description of the policies, procedures and controls used for measuring, monitoring and controlling those risks and for managing the capital to support them, in particular on board control of the risk management and internal control systems of an AI. The example of the minimum disclosure provided here is for illustrative purposes only. Disclosures will differ depending on the circumstances of each institution.

HKFRS 7.33
HKAS 1.134

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risks, and the Group's management of capital[203].

(a) Credit risk management [133 on page 95, 203]

HKFRS 7.31, 33
A16(4)(2)(b)(ii)

This category includes credit and counterparty risks from loans and advances, issuer risks from the securities business, counterparty risks from trading activities and country risks. The Group identifies and manages this risk through its (a) target market definitions, (b) credit approval process, (c) post-disbursement monitoring and (d) remedial management procedures.

Corporate credit risk

Corporate lending is generally concentrated among highly rated customers. In addition to underwriting standards, the principal means of managing credit risk is the credit approval process. The Group has policies and procedures to evaluate the potential credit risk of a particular counterparty or transaction and to approve the transaction. For corporate customers, the Group has a detailed risk grading system that is applied to each counterparty on a regular basis. The Group also has limits for exposures to individual industries and for borrowers and groups of borrowers, regardless of whether the exposure is in the form of loans or non-funded exposures. The Group also has a review process that ensures the proper level of review and approval depending on the size of the facility and risk grading of the credit.

The Group undertakes ongoing credit analysis and monitoring at several levels. The policies are designed to promote early detection of counterparty, industry or product exposures that require special monitoring. The Risk Management Committee monitors overall portfolio risk as well as individual problem loans and potential problem loans on a regular basis.

BDR 56

[202] Section 56 of the BDR requires AIs to disclose a description of the main types of risk which arise from its business, which include credit, market, operational, liquidity, interest rate and foreign exchange risks. The disclosures should also cover the policies, procedures and controls the AIs use for identifying, measuring, monitoring and controlling the principal risks and for managing the capital required to support its exposures to the principal risks. Management should ensure adequate qualitative disclosures have been made in accordance with section 56 of the BDR. These disclosures can be made as supplementary information to the financial statements.

HKFRS 7.32-33, 35

[203] HKFRS 7 requires disclosure of qualitative information concerning risks arising from financial instruments and how the entity manages the risks. In particular, HKFRS 7 requires the following to be disclosed for each type of risk arising from financial instruments:

- the exposures to risk and how they arise;
- the entity's objectives, policies and processes for managing the risk and the methods used to manage the risk; and
- any changes in either of the above from the previous period.

Risks that typically arise from financial instruments are identified in HKFRS 7.32 as including, but not being limited to, credit risk, liquidity risk and market risk (which in turn comprises currency risk, interest rate risk and other price risk). HKFRS 7.IG15-IG16 list examples of information that an entity might consider disclosing in this regard.

If the above quantitative disclosures of exposures at the end of the reporting period are unrepresentative of an entity's exposure to risk during the period, the entity should provide additional information that is representative. For example, HKFRS 7.IG20 indicates that if the entity typically has a large exposure to a particular currency, but at year-end unwinds the position, the entity might disclose the highest, lowest and average amount of risk to which it was exposed during the financial year.

Retail credit risk

The Group's retail credit policy and approval process are designed for the fact that there are high volumes of relatively homogeneous, small value transactions in each retail loan category. Because of the nature of retail banking, the credit policies are based primarily on statistical analyses of risks with respect to different products and types of customers. The Group monitors its own and industry experience to determine and periodically revise product terms and desired customer profiles.

Credit risk for treasury transactions

The credit risk of the Group's treasury transactions is managed in the same way as the Group manages its corporate lending risk. The Group applies a risk grading to its counterparties and sets individual counterparty limits.

Credit-related commitments

HKFRS 7.36(a), (b)

The risks involved in credit-related commitments and contingencies are essentially the same as the credit risk involved in extending loan facilities to customers. These transactions are, therefore, subject to the same credit application, portfolio maintenance and collateral requirements as for customers applying for loans. Except for the financial guarantees given by the Group and the Bank as set out in notes 39, 47(a) and 49(a), the Group does not provide any other guarantees which would expose the Group or the Bank to credit risk.

HKFRS 7.13B, 13E, B50

Master netting arrangements

To mitigate credit risks, the Group enters into master netting arrangements with counterparties whenever possible. Netting agreements provide that, if an event of default occurs, all outstanding transactions with the counterparty will be terminated and all amounts outstanding will be settled on a net basis. Except for the event of default, all outstanding transactions with the counterparty are settled on a gross basis and generally do not result in offsetting the assets and liabilities in the statement of financial position.

The following table sets out the carrying amounts of recognised financial instruments that are subject to the above agreements.

HKFRS 7.13C

	Note	*Gross and net amounts of financial instruments in the statement of financial position*	*Related financial instruments that are not offset*	*Net amount*
2013				
Financial assets				
- Interest rate derivatives	46	X	(X)	X
- Currency derivatives	46	X	(X)	X
- Other derivatives	46	X	(X)	X
		X	**(X)**	**X**
Financial liabilities				
- Interest rate derivatives	46	(X)	X	-
- Currency derivatives	46	(X)	X	-
- Other derivatives	46	(X)	X	-
		(X)	**X**	**-**
2012				
Financial assets				
- Interest rate derivatives	46	X	(X)	X
- Currency derivatives	46	X	(X)	X
- Other derivatives	46	X	(X)	X
		X	**(X)**	**X**
Financial liabilities				
- Interest rate derivatives	46	(X)	X	-
- Currency derivatives	46	(X)	X	-
- Other derivatives	46	(X)	X	-
		(X)	**X**	**-**

HKFRS 7.34(c), B8, IG18

Concentration of credit risk

Concentration of credit risk exists when changes in geographic, economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is material in relation to the Group's total exposures. The Group's portfolio of financial instruments is diversified along geographic, industry and product sectors.

Analysis of geographical concentration of the Group's asset is disclosed in note 18 and credit risk concentration of respective financial assets is disclosed in notes 22 to 27.

(i) Maximum exposure

HKFRS 7.34(a)
HKFRS 7.36(a)
HKFRS 7.B9, B10
IG 21

The maximum exposure to credit risk at the end of financial year without taking into consideration of any collateral held or other credit enhancements is represented by the carrying amount of each financial assets in the statement of financial position after deducting any impairment allowance. A summary of the maximum exposure is as follows:

	Group		*Bank*	
	2013	*2012*	*2013*	*2012*
	$'000	$'000	$'000	$'000
Cash and balances with banks, central banks and other financial institutions	X	X	X	X
Placements with banks, central banks and other financial institutions	X	X	X	X
Hong Kong SAR Government certificates of indebtedness	X	X	X	X
Trade bills	X	X	X	X
Trading assets	X	X	X	X
Financial assets designated at fair value through profit or loss	X	X	X	X
Loans and advances to customers	X	X	X	X
Available-for-sale financial assets	X	X	X	X
Held-to-maturity investments	X	X	X	X
Other assets	X	X	X	X
Financial guarantees and other credit related contingent liabilities	X	X	X	X
Loan commitments and other credit related commitments	X	X	X	X
	X	X	X	X

(ii) Credit quality of loans and advances[204]

Loans and advances to banks are only made to banks with good credit standing. At 31 December 2013 and 2012, no loans and advances to banks are impaired. The credit quality of loans and advances to customers can be analysed as follows:

HKFRS 7.36(c)

[204] Paragraph 36(c) of HKFRS 7 requires an entity to disclose, by class of financial asset, information about the credit quality of financial assets that are neither past due nor impaired. There are no further specifics given as to the information required to be disclosed in this regard and in any event it is important that the disclosures should be tailored to suit the entity's own circumstances, reflecting the information concerning exposure to credit risk that is provided to key management personnel of the entity, if any, and the extent to which the financial assets in question are material. Further guidance on the information that an entity might disclose to satisfy paragraph 36(c) of HKFRS 7 is set out in paragraphs IG23-IG25 of HKFRS 7.

HKFRS 7.34(a)

	Group		Bank	
	2013	*2012*	*2013*	*2012*
	$'000	$'000	$'000	$'000
Gross loans and advances to customers				
- neither past due nor impaired	X	X	X	X
- past due but not impaired	X	X	X	X
- impaired	X	X	X	X
	X	X	X	X

Of which:

HKFRS 7.36(c)

	Group		Bank	
	2013	*2012*	*2013*	*2012*
	$'000	$'000	$'000	$'000
Gross loans and advances to customers that are neither past due nor impaired				
- Grade 1: Pass	X	X	X	X
- Grade 2: Special mention	X	X	X	X
	X	X	X	X

HKFRS 7 IG 23(a)

The Group classifies the loans and advances in accordance with the loan classification system required to be adopted for reporting to the HKMA[205].

HKFRS 7.37(a)

The ageing analysis[206] of loans and advances to customers that are past due but not impaired is as follows:

	Group		Bank	
	2013	*2012*	*2013*	*2012*
	$'000	$'000	$'000	$'000
Gross loans and advances to customers that are past due but not impaired				
- Overdue 3 months or less	X	X	X	X
- 6 months or less but over 3 months	X	X	X	X
- 1 year or less but over 6 months	X	X	X	X
- Over 1 year	X	X	X	X
	X	X	X	X

Loans and advances that would be past due or impaired had the terms not been renegotiated amounted to $X as at 31 December 2013 (2012: $X) for the Group and $X (2012: $X) for the Bank.

HKFRS 7.31,IG 23(a)[205] If an AI adopts an internal grading system, it is suggested to provide further explanation on the grading system with definition of each grade to enable users of the financial statements to evaluate the nature and extent of risks.

[206] The time band for the ageing analysis is for illustrative purpose only. AI shall disclose the ageing analysis that shall disclose information that enables users of the financial statements to evaluate the nature and extent of risks which the AI is exposed to.

(iii) Credit quality of financial assets other than loans and advances [204 on page 148]

HKFRS 7.36(c)

Credit risk of treasury transactions is managed in the same way as the Group manages its corporate lending risk and risk gradings are applied to the counterparties with individual counterparty limits set. It is the Group's credit policy not to invest in debt securities that are below the grading of [X].

At the end of reporting period, the credit quality of investment in debt securities analysed by designation of external credit assessment institution, XYZ Corporate, is as follow:

	Group		*Bank*	
	2013	*2012*	*2013*	*2012*
	$'000	$'000	$'000	$'000
[AAA]	X	X	X	X
[AA-] to [AA+]	X	X	X	X
[A-] to [A+]	X	X	X	X
Lower than [A-]	X	X	X	X
	X	X	X	X
Unrated	X	X	X	X
Total	X	X	X	X

The cash and balances with banks, central banks and other financial institutions are held with counterparties which are rated [AA-] to [AA+], based on rating agency [x] ratings.

(iv) Collateral and other credit enhancements[207]

HKFRS 7.36(b)

The Group has established guidelines on the acceptability of various classes of collateral and determined the corresponding valuation parameters. The guidelines and collateral valuation parameters are subject to regular reviews to ensure their effectiveness over credit risk management.

The extent of collateral coverage over the Group's loans and advances to customer depends on the type of customers and the product offered. Types of collateral include residential properties (in the form of mortgages over property), other properties, other registered securities over assets, cash deposits, standby letters of credit and guarantees. Collateral generally is not held over balances and placements with banks and other financial institutions, and loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. The Group takes possession of collateral through court proceedings or voluntary delivery of possession by the borrowers during the course of the recovery of impaired loans and advances. These repossessed assets are reported in the statement of financial position within "other assets" (see notes 1(l) and 32). If the recovery from the repossessed assets exceeds the corresponding exposure, the surplus fund is made available either to repay the borrower's other secured loans with lower priority or is returned to the borrower.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible

HKFRS 7.36(b)

[207] The presentation above is a qualitative approach to describe the financial effect of the collateral held as security and other credit enhancements in respect of the amount that best represents the maximum exposure to credit risk. If an AI decides to take a quantitative approach, e.g. a quantification of the extent to which collateral and other credit enhancements mitigate credit risk, please refer to KPMG's publication "IFRS Illustrative Financial Statements: Banks December 2012" page 93 for example disclosure.

bills are generally unsecured with the exception of asset-based securities and similar instruments, which are secured by pools of financial assets. However the credit risk may be implicit in the terms or reflected in the fair value of the corresponding instruments.

The Group's preferred agreement for documenting derivatives activity is the ISDA Master Agreement which covers the contractual framework within which dealing activity across a full range of over-the-counter products is conducted and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement, if either party defaults or following other pre-agreed termination events. It is also common for the Group to execute a Credit Support Annex in conjunction with the ISDA Master Agreement with the counterparty under which collateral is passed between the parties to mitigate the market contingent counterparty risk inherent in the outstanding position.

For contingent liabilities and commitments that are unconditionally cancellable (see note 47), the Group will assess the necessity to withdraw the credit line when there is a concern over the credit quality of the customers. Accordingly, the exposure to significant credit risk is considered as minimal. For commitments that are not unconditionally cancellable, the Group assesses the necessity of collateral depending on the type of customer and the product offered.

An estimate of the fair value of collateral and other credit enhancements held against financial assets is as follows:

		Group		*Bank*	
		2013	*2012*	*2013*	*2012*
		$'000	$'000	$'000	$'000
	Fair value of collateral and other credit enhancements held against financial assets that are:				
HKFRS 7.36(c)	- neither past due nor impaired	X	X	X	X
	- past due but not impaired	X	X	X	X
		X	X	X	X

(v) Settlement risk

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of treasury transactions the Group mitigates this risk by conducting settlements through a settlement/clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval, exposure limit and credit monitoring processes described earlier. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from the Risk Management Committee.

(b) Market risk management [133 on page 95 and 203 on page 145]

Market risk arises on all market risk sensitive financial instruments, including securities, foreign exchange contracts, equity and derivative instruments, as well as from statement of financial position or structural positions. The objective of market risk management is to avoid excessive exposure of earnings and equity to loss and to reduce the Group's exposure to the volatility inherent in financial instruments.

HKFRS 7.31,33
BDR 56(2)

The board reviews and approves the policies for the management of market risks and dealing authorities and limits. The Risk Management Committee of the board monitors market risk policies and procedures and reviews market risk limits. The board has delegated the responsibility for ongoing general market risk management to the Asset and Liability Committee. This committee articulates the interest rate review of the Bank and decides on future business strategy with respect to interest rates. It also reviews and sets funding policy and ensures adherence to risk management objectives.

BDR 38(1)

The use of derivatives for proprietary trading and their sale to customers as risk management products is an integral part of the Group's business activities. These instruments are also used to manage the Group's own exposures to market risk as part of its asset and liability management process. The principal derivative instruments used by the Group are interest and foreign exchange rate related contracts, which are primarily over-the-counter derivatives. The Group also participates in exchange traded derivatives. Most of the Group's derivative positions have been entered into to meet customer demand and to hedge these and other trading positions.

HKFRS 7.41

One of the principal tools used by the Group to monitor and limit market risk exposure is Value-at-risk (VAR). VAR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence.

The Group calculates VAR with a confidence level of 97.5% and a holding period of 1 trading day. The VAR model adopted by the Group also assigns greater weight to the most recent market fluctuations, and is predominantly based on historical simulation. The historical simulation model derives plausible future scenarios from historical market rates time series, taking into account the interrelationships between different markets and rates.

Although VaR is an important tool for measuring market risk, the use of assumptions in the model gives rise to certain limitations, including the following:

- A holding period of 1 trading day implies that all positions can be hedged or disposed of within that period. This may not be the case for illiquid assets or at times of severe market illiquidity.
- A 97.5% confidence level means that the model does not reflect losses that may occur beyond this confidence level. There is a 2.5% probability that losses could exceed the VaR.
- VaR is calculated based on the end-of-day positions and thus does not take into account the intra-day exposures and any realised losses that might have occurred.
- Historical data used to derive plausible future scenarios may not reflect all possible future events, in particular those that are extreme in nature.

The Group augments its VAR limits with other positions and sensitivity limit structures. Additionally, the Group applies a wide range of sensitivity analysis[208, 209], both on individual portfolios and on the Group's consolidated positions to assess the potential impact on the Group's earnings as a result of extreme movements in market prices.

HKFRS 7.40(b) [208] If an AI decides to provide interest rate sensitivity information, it should also indicate the basis on which it has prepared the information, including any significant assumptions.

HKFRS 7.40-42 & B17-28 [209] HKFRS 7.40 introduces the requirement to disclose a forward-looking sensitivity analysis for each type of market risk (which includes interest rate risk, currency risk and other price risk) to which an entity is exposed at the end of the reporting period, showing how profit or loss and equity would have been affected by changes in the relevant risk variable (for example, prevailing market interest rates, currency rates, equity prices or commodity prices) that were "reasonably possible" at that date. In addition, the entity is required to disclose the methods and assumptions used in preparing the sensitivity analysis and any changes from the previous period in these methods and assumptions used, and the reasons for such changes.

HKFRS 7.41 This requirement applies unless an entity prepares a sensitivity analysis, such as value-at-risk, that reflects interdependencies between risk variables and uses it to manage financial risk. If this is the case then the entity may choose to disclose that analysis instead of the sensitivity analysis described in HKFRS 7.40.

HKFRS 7 does not prescribe a format in which a sensitivity analysis should be presented, although HKFRS 7.B17 notes that exposures to risks from significantly different economic environments should not be combined. Further guidance in this respect can be found in HKFRS 7.B17 and HKFRS 7.IG36 contains an illustrative example of a narrative approach to the requirement. Entities should consider their individual circumstances in determining how they should prepare and present the information and care should be taken to ensure that clear descriptions of the methodologies and assumptions used to arrive at the amounts disclosed are provided.

In addition, the following points should be noted when preparing the sensitivity analysis:

- HKFRS 7.B19(b) limits the assessment of what a future "reasonably possible change" in the relevant risk variable might be, to be an assessment of what changes are thought to be reasonably possible in the period until the entity next presents these disclosures. HKFRS 7.B19(b) notes that this is usually the next annual reporting period.
- According to HKFRS 7.B19(a), a "reasonably possible change" should not include "worst case" scenarios or "stress tests". Instead, the economic environments in which the entity operates should be considered to identify an appropriate measure. In this respect it should be noted that HKFRS 7.B18 indicates that the disclosure would consider changes at the limits of a reasonably possible range (i.e. rather than an arbitrary amount, for example, "1 percentage point change" in all variables). This particularly needs to be remembered where the impact of a greater or smaller change than the change used in the sensitivity analysis would not be directly proportional, for example where an entity has entered into interest rate caps or collars.
- When computing how profit or loss and equity would have been affected by changes in the relevant risk variable, it should be assumed that the "reasonably possible change" in the risk variable had occurred at the end of the reporting period and had been applied to the risk exposures in existence at that date. Further guidance on this is given in HKFRS 7.B18 and HKFRS 7.IG34 to IG36. In particular, entities are not required to determine what profit or loss for the past period would have been if relevant risk variables had been different. Instead, sensitivity analyses should be prepared based on financial instruments that are recognised at the end of the reporting period even where those exposures did not exist for the entire period, or where the exposures are expected to change significantly during the next period.
- Some financial instruments, although subject to market risk, are not re-measured in the financial statements in response to changes in market risk variables and therefore these changes in market risk variables would not affect profit or loss or equity in such cases. An example is a fixed rate debt instrument denominated in an entity's functional currency and measured at amortised cost. Such instruments would therefore be excluded from the sensitivity analysis calculation.

HKFRS 7.42 If an entity considers that the sensitivity analyses required to be disclosed by HKFRS 7 are unrepresentative of a risk inherent in a financial instrument (for example because the year-end exposure does not reflect the exposure during the financial year), the entity should disclose that fact and the reason it believes the analyses are unrepresentative. Further guidance in this respect can be found in HKFRS 7.IG37-IG40.

[At 31 December 2013, it is estimated that a general increase/decrease of X percentage point (2012: X percentage point) in interest rates would decrease/increase the group's profit before tax by approximately $X (2012:$X) so far as the effect on interest-bearing financial instruments is concerned. Interest rate swaps have been included in this calculation.[208 on page 153]]

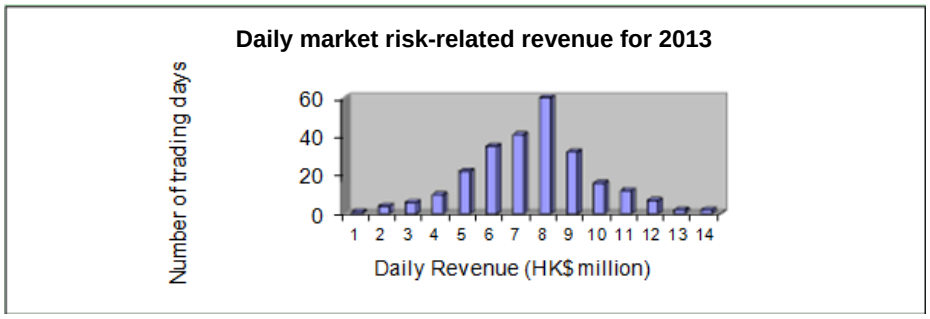
Value-at-risk statistics

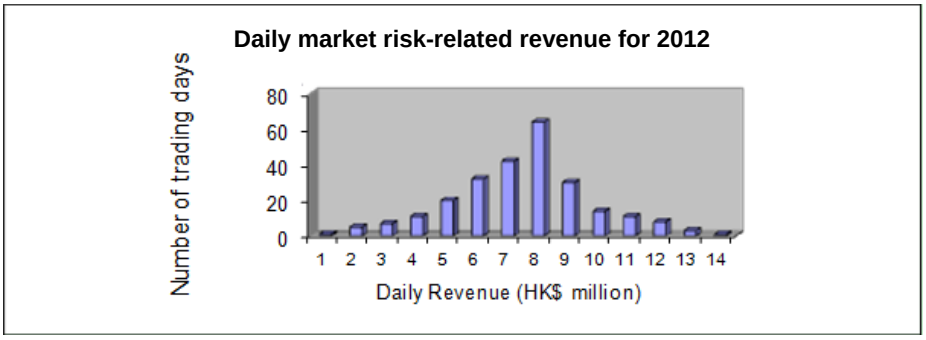
The Group has measured VAR for all material trading portfolios throughout the year. The Bank has also obtained approval from the HKMA for the use of its VAR model to calculated market risk for capital adequacy reporting.

	2013			*2012*		
	Maximum	*Minimum*	*Mean*	*Maximum*	*Minimum*	*Mean*
Foreign exchange risk	X	X	X	X	X	X
Interest rate risk	X	X	X	X	X	X
Equities risk	X	X	X	X	X	X
Total VAR	X	X	X	X	X	X

Market risk-related revenue statistics

The average daily revenue earned from market risk related treasury activities in 2013 was $X (2012: $X). The standard derivation of the daily revenue was $X (2012: $ X). Market risk related revenue is defined as the daily change in the marked to market value of trading portfolios plus any trading related net interest income or other trading revenue. An analysis of the frequency distribution of daily revenue is shown below.





(i) Currency risk[133 on page 95, 203 on page 145]

HKFRS 7.31-35

The Group's foreign currency positions arise from foreign exchange dealing, commercial banking operations and structural foreign currency exposures. All foreign currency positions are managed by the treasury department within limits as approved by the board.

Structural foreign currency positions, which arise mainly from foreign currency investments in the Group's branches, subsidiaries and associated companies, are excluded from VAR measurements as related gains or losses are taken to reserves. Such foreign currency positions are managed with the principal objective of ensuring that the Group's capital ratio is protected from exchange rate fluctuations. The Group seeks to match closely its foreign currency denominated assets with corresponding liabilities in the same currencies.

(i) Currency risk (continued)

HKFRS 7.34(c)

The following table indicates the concentration of currency risk at the end of financial year[210 on page 157].

HKFRS 7.34(c)
BDR 50(1)

Group	*2013*				*2012*			
In thousands of HKD equivalent	*Total*	*US Dollars*	*Euro Dollars*	*Other foreign currencies* [211 on page 157]	*Total*	*US Dollars*	*Euro Dollars*	*Other foreign currencies* [211 on page 157]
Assets[212 on page 157]								
Cash and balances with banks, central banks and other financial institutions	X	X	X	X	X	X	X	X
Placements with banks, central banks and other financial institutions	X	X	X	X	X	X	X	X
Hong Kong SAR Government certificates of indebtedness	X	X	-	-	X	X	-	-
Trade bills	X	X	X	X	X	X	X	X
Trading assets	X	X	X	X	X	X	X	X
Financial assets designated at fair value through profit or loss	X	X	X	X	X	X	X	X
Loans and advances to customers	X	X	X	X	X	X	X	X
Available-for-sale financial assets	X	X	X	X	X	X	X	X
Held-to-maturity financial assets	X	X	X	X	X	X	X	X
Interest in associates	X	X	X	-	X	X	X	-
Fixed assets	X	X	X	-	X	X	X	-
Goodwill and intangible assets	X	X	-	-	X	X	-	-
Deferred tax assets	X	X	-	-	X	X	-	-
Other assets	X	X	X	X	X	X	X	X
Spot assets	X	X	X	X	X	X	X	X

BDR 50(2)(a)

HKFRS 7.34 & 35

[210] Other than the requirements for sensitivity analyses for market risk (see footnote 209 on page 153), HKFRS 7 does not specify the minimum information required to be disclosed in respect of an entity's exposure to currency risk. The currency risk table illustrated above provides an example of summary quantitative data about the exposure to that risk at the end of the reporting period that an entity may provide internally to key management personnel.

HKFRS 7.B23

In this connection, it should be noted that for the purposes of HKFRS 7 currency risk arises from financial instruments that are denominated in a foreign currency (i.e. are denominated in a currency other than the functional currency in which they are measured). However, currency risk does not arise from non-monetary items or from financial instruments denominated in the functional currency of the entity to which they relate.

For example, for the purposes of disclosure under HKFRS 7, currency risk for the group arises if a subsidiary with a functional currency of Thai baht borrows in US dollars, even if the group presentation currency is also US dollars. Currency risk does not arise if that same subsidiary borrows instead in Thai baht. This applies whether or not the counter-party to the borrowing is a third party or another entity within the group.

It follows that the information concerning exposure to currency risk needs to be collated at the operating level when different entities within the group have different functional currencies. That is, each group entity would need to assess its own exposure to currencies other than its own functional currency, with the group's exposure to currency risk disclosed under HKFRS 7 being an aggregation of this information.

BDR 50(2), (5),(6)

[211] Where an AI's net position, or net structural position in a particular currency is not less than 10% of the AI's total net position, or net structural position in all foreign currencies, the institution shall disclose in respect of the particular currency its spot assets, spot liabilities, forward purchases, forward sales, net open position, net long (or net short) position, and net structural position. All foreign currency amounts should be converted into their equivalents in Hong Kong dollars as at the reporting date in determining the positions.

[212] If the currency risk of certain statement of financial position captions is immaterial, they may be combined and shown as "others".

(i) Currency risk (continued)

	Group	*2013*				*2012*			
		Total	*US Dollars*	*Euro Dollars*	*Other foreign currencies* *211 on page 157*	*Total*	*US Dollars*	*Euro Dollars*	*Other foreign currencies* *211 on page 157*
	In thousands of HKD equivalent								
	Liabilities[212 on page 157]								
	Hong Kong SAR currency notes in circulation	(X)	(X)	-	-	(X)	(X)	-	-
	Deposits and balances of banks and other financial institutions	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
	Deposits from customers	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
	Trading liabilities	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
	Financial liabilities designated at fair value through profit or loss	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
	Certificates of deposit issued	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
	Debt securities issued	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
	Current taxation	(X)	(X)	-	-	(X)	(X)	-	-
	Deferred tax liabilities	(X)	(X)	-	-	(X)	(X)	-	-
	Other liabilities	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
	Subordinated liabilities	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
BDR 50(2)(b)	**Spot liabilities**	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
BDR 50(2)(c)	Forward purchases	X	X	X	X	X	X	X	X
BDR 50(2)(d)	Forward sales	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
BDR 50(2)(e)	Net option position	(X)	(X)	X	-	(X)	(X)	X	-
BDR 50(2)(f)	**Net long/(short) non-structural position**	X	X	X	(X)	X	X	X	(X)
BDR 50(5)	**Net structural position**	X	X	(X)	(X)	X	X	(X)	(X)

(i) Currency risk (continued)

HKFRS 7.34(c)
BDR 50(1)

Bank	*2013*				*2012*			
	Total	*US Dollars*	*Euro Dollars*	*Other foreign currencies* *211 on page 157*	*Total*	*US Dollars*	*Euro Dollars*	*Other foreign currencies* *211 on page 157*
In thousands of HKD equivalent								
Assets[212 on page157]								
Cash and balances with banks, central banks and other financial institutions	X	X	X	X	X	X	X	X
Placements with banks, central banks and other financial institutions	X	X	X	X	X	X	X	X
Hong Kong SAR Government certificates of indebtedness	X	X	-	-	X	X	-	-
Trade bills	X	X	X	X	X	X	X	X
Trading assets	X	X	X	X	X	X	X	X
Financial assets designated at fair value through profit or loss	X	X	X	X	X	X	X	X
Loans and advances to customers	X	X	X	X	X	X	X	X
Available-for-sale financial assets	X	X	X	X	X	X	X	X
Held-to-maturity financial assets	X	X	X	X	X	X	X	X
Interest in associates	X	X	X	-	X	X	X	-
Fixed assets	X	X	X	-	X	X	X	-
Goodwill and intangible assets	X	X	-	-	X	X	-	-
Deferred tax assets	X	X	-	-	X	X	-	-
Other assets	X	X	X	X	X	X	X	X
Spot assets	X	X	X	X	X	X	X	X

BDR 50(2)(a)

(i) Currency risk (continued)

	Bank	*2013*				*2012*			
		Total	*US Dollars*	*Euro Dollars*	*Other foreign currencies* *211 on page 157*	*Total*	*US Dollars*	*Euro Dollars*	*Other foreign currencies* *211 on page 157*
	In thousands of HKD equivalent								
	Liabilities[212 on page 157]								
	Hong Kong SAR currency notes in circulation	X	X	-	-	X	X	-	-
	Deposits and balances of banks and other financial institutions	X	X	X	X	X	X	X	X
	Deposits from customers	X	X	X	X	X	X	X	X
	Trading liabilities	X	X	X	X	X	X	X	X
	Financial liabilities designated at fair value through profit or loss	X	X	X	X	X	X	X	X
	Certificates of deposit issued	X	X	X	X	X	X	X	X
	Debt securities issued	X	X	X	X	X	X	X	X
BDR 50(2)(b)	**Spot liabilities**	X	X	X	X	X	X	X	X
BDR 50(2)(c)	Forward purchases	X	X	X	X	X	X	X	X
BDR 50(2)(d)	Forward sales	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
BDR 50(2)(e)	Net option position	(X)	(X)	X	-	(X)	(X)	X	-
BDR 50(2)(f)	**Net long/(short) non-structural position**	X	X	X	(X)	X	X	X	(X)
BDR 50(5)	**Net structural position**	X	X	(X)	(X)	X	X	(X)	(X)

BDR 50(3),(4) The net option position is calculated on the basis of the delta-weighted position of options contracts.[213] The net structural position includes the Bank's overseas branches, banking subsidiaries and other subsidiaries substantially involved in foreign exchange trading and includes structural assets or liabilities as follow:

- investments in property and equipment, net of depreciation charges;
- capital and statutory reserves of overseas branches;
- investments in overseas subsidiaries and related companies; and
- loan capital.

BDR 50(3) [213] The net option position reported should be calculated using either the delta-weighted position of option contracts or using an AI's internal reporting method, which has been approved by the HKMA.

(ii) Interest rate risk[214]

HKFRS 7.31-35

The Group's interest rate positions arise from treasury and commercial banking activities. Interest rate risk arises in both trading portfolios and non-trading portfolios. Interest rate risk primarily results from the timing differences in the repricing of interest-bearing assets, liabilities and commitments. It also related to positions from non-interest bearing liabilities including shareholders' funds and current accounts, as well as from certain fixed rate loans and liabilities. Interest rate risk is managed by the treasury department within limits as approved by the board, including interest rate gap limits and VAR limits. The Group also uses interest rate swaps and other derivatives to manage interest rate risk.

Structural interest rate risk arises primarily from the deployment of non-interest bearing liabilities, including shareholders' funds and current accounts, as well as from certain fixed rate loans and liabilities. Structural interest rate risk is monitored by the Asset and Liability Committee.

HKFRS 7.34 & 35

[214] As explained in footnote 133 on page 95, HKFRS 7 takes primarily a management approach to the disclosure of quantitative risk information. Therefore, the extent and format of disclosure may vary from one entity to the next, depending on what information is used internally by key management personnel to monitor interest rate risk.

(ii) Interest rate risk[215] (continued)

HKFRS 7.34

The following table indicates the effective interest rate for the relevant periods and the mismatches of the expected interest repricing dates[216], for interest bearing assets and liabilities at the end of reporting period. Actual repricing dates may differ from the contractual dates owing to prepayments and the exercise of options.

Group				***2013***			
	Effective interest rate[217]	*Total* $'000	*3 months or less (include overdue)*[218] $'000	*Over 3 months to 1 year*[218] $'000	*Over 1 year to 5 years*[218] $'000	*Over 5 years*[218] $'000	*Non-interest bearing* $'000
Assets							
Cash and balances with banks, central banks and other financial institutions		X	-	-	-	-	X
Placements with banks, central banks and other financial institutions	X%	X	X	X	X	X	-
Trade bills	X%	X	X	X	X	X	-
Trading assets	X%	X	X	X	X	X	-
Financial assets designated at fair value through profit or loss	X%	X	X	X	X	X	-
Loans and advances to customers	X%	X	X	X	X	X	-
Available-for-sale financial assets	X%	X	X	X	X	X	X
Held-to-maturity investments	X%	X	X	X	X	X	-
Non-interest bearing assets		X	-	-	-	-	X
Total assets		**X**	**X**	**X**	**X**	**X**	**X**
Liabilities							
Deposits and balances of banks and other financial institutions	X%	X	X	X	X	X	X
Deposits from customers	X%	X	X	X	X	X	-
Trading liabilities	X%	X	X	X	X	X	-
Financial liabilities designated at fair value through profit or loss	X%	X	X	X	X	X	-
Certificates of deposit issued	X%	X	X	X	X	X	-
Debt securities issued	X%	X	X	X	X	X	-
Subordinated liabilities	X%	X	-	X	X	X	-
Non-interest bearing liabilities		X	-	-	-	-	X
Total liabilities		**X**	**X**	**X**	**X**	**X**	**X**
Derivatives [in the banking book] net long/ (short) position (notional amount)[219]			**X**	**X**	**X**	**X**	**X**
Interest rate sensitivity gap			**X**	**X**	**X**	**X**	

215 For better presentation of the entity's interest rate, the entity could disclose the effect of interest rate derivatives held for hedging purposes, which meet the criteria for hedge accounting in accounting policy 1(h), on an AI's interest rate risk exposure.

216 The expected interest repricing date means the maturity dates of fixed rate items, the next repricing date of variable rate items and the earliest interest adjustment date, for managed rate items.

217 A range of interest rates could be disclosed to reflect the effective interest rates of particular assets and liabilities.

218 When the performance of an AI is significantly affected by the level of its exposure to interest rate price risk or changes in that exposure, more detailed information, such as within one month or less after the reporting period, in more than one year but not more than two years, and so on, is desirable.

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219 AIs subject to the market risk capital adequacy regime report positions of the banking book only, while other AIs exempted from the market risk capital adequacy regime report aggregate positions of the banking book and trading book.

(ii) Interest rate risk (continued)

Group

				2012			
	Effective interest rate[217] *on page 162*	*Total* $'000	*3 months or less (include overdue)* *218 on page 162* $'000	*Over 3 months to 1 year*[218] *on page 162* $'000	*Over 1 year to 5 years*[218] *on page 162* $'000	*Over 5 years*[218] *on page 162* $'000	*Non-interest bearing* $'000
Assets							
Cash and balances with banks, central banks and other financial institutions		X	-	-	-	-	X
Placements with banks, central banks and other financial institutions	X%	X	X	X	X	X	-
Trade bills	X%	X	X	X	X	X	-
Trading assets	X%	X	X	X	X	X	X
Financial assets designated at fair value through profit or loss	X%	X	X	X	X	X	X
Loans and advances to customers	X%	X	X	X	X	X	X
Available-for-sale financial assets	X%	X	X	X	X	X	X
Held-to-maturity investments	X%	X	X	X	X	X	-
Non-interest bearing assets		X	-	-	-	-	X
Total assets		**X**	**X**	**X**	**X**	**X**	**X**
Liabilities							
Deposits and balances of banks and other financial institutions	X%	X	X	X	X	X	X
Deposits from customers	X%	X	X	X	X	X	-
Trading liabilities	X%	X	X	X	X	X	X
Financial liabilities designated at fair value through profit or loss	X%	X	X	X	X	X	X
Certificates of deposit issued	X%	X	X	X	X	X	-
Debt securities issued	X%	X	X	X	X	X	-
Subordinated liabilities	X%	X	-	X	X	X	-
Non-interest bearing liabilities		X	-	-	-	-	X
Total liabilities		**X**	**X**	**X**	**X**	**X**	**X**
Derivatives [in the banking book] net long/ (short) position (notional amount)[219] **on page 162**			**X**	**X**	**X**	**X**	**X**
Interest rate sensitivity gap			**X**	**X**	**X**	**X**	

(ii) Interest rate risk (continued)

Bank

		2013					
	Effective interest rate[217] on page 162	*Total* $'000	*3 months or less (include overdue) 218 on page 162* $'000	*Over 3 months to 1 year[218] on page 162* $'000	*Over 1 year to 5 years[218] on page 162* $'000	*Over 5 years[218] on page 162* $'000	*Non-interest bearing* $'000
Assets							
Cash and balances with banks, central banks and other financial institutions		X	-	-	-	-	X
Placements with banks, central banks and other financial institutions	X%	X	X	X	X	X	-
Trade bills	X%	X	X	X	X	X	-
Trading assets	X%	X	X	X	X	X	-
Financial assets designated at fair value through profit or loss	X%	X	X	X	X	X	-
Loans and advances to customers	X%	X	X	X	X	X	-
Available-for-sale financial assets	X%	X	X	X	X	X	X
Held-to-maturity investments	X%	X	X	X	X	X	-
Non-interest bearing assets		X	-	-	-	-	X
Total assets		**X**	**X**	**X**	**X**	**X**	**X**
Liabilities							
Deposits and balances of banks and other financial institutions	X%	X	X	X	X	X	X
Deposits from customers	X%	X	X	X	X	X	-
Trading liabilities	X%	X	X	X	X	X	-
Financial liabilities designated at fair value through profit or loss	X%	X	X	X	X	X	-
Certificates of deposit issued	X%	X	X	X	X	X	-
Debt securities issued	X%	X	X	X	X	X	-
Subordinated liabilities	X%	X	-	X	X	X	-
Non-interest bearing liabilities		X	-	-	-	-	X
Total liabilities		**X**	**X**	**X**	**X**	**X**	**X**
Derivatives [in the banking book] net long/ (short) position (notional amount) [219 on page 162]			**X**	**X**	**X**	**X**	**X**
Interest rate sensitivity gap			**X**	**X**	**X**	**X**	

(ii) Interest rate risk (continued)

Bank

			2012				
	Effective interest rate[217] *on page 162*	*Total* $'000	*3 months or less (include overdue)* [218] *on page 162* $'000	*Over 3 months to 1 year*[218] *on page 162* $'000	*Over 1 year to 5 years*[218] *on page 162* $'000	*Over 5 years*[218] *on page 162* $'000	*Non-interest bearing* $'000
Assets							
Cash and balances with banks, central banks and other financial institutions		X	-	-	-	-	X
Placements with banks, central banks and other financial institutions	X%	X	X	X	X	X	-
Trade bills	X%	X	X	X	X	X	-
Trading assets	X%	X	X	X	X	X	-
Financial assets designated at fair value through profit or loss	X%	X	X	X	X	X	-
Loans and advances to customers	X%	X	X	X	X	X	X
Available-for-sale financial assets	X%	X	X	X	X	X	X
Held-to-maturity investments	X%	X	X	X	X	X	-
Non-interest bearing assets		X	-	-	-	-	X
Total assets		**X**	**X**	**X**	**X**	**X**	**X**
Liabilities							
Deposits and balances of banks and other financial institutions	X%	X	X	X	X	X	X
Deposits from customers	X%	X	X	X	X	X	-
Trading liabilities	X%	X	X	X	X	X	-
Financial liabilities designated at fair value through profit or loss	X%	X	X	X	X	X	-
Certificates of deposit issued	X%	X	X	X	X	X	-
Debt securities issued	X%	X	X	X	X	X	-
Subordinated liabilities	X%	X	-	X	X	X	-
Non-interest bearing liabilities		X	-	-	-	-	X
Total liabilities		**X**	**X**	**X**	**X**	**X**	**X**
Derivatives [in the banking book] net long/ (short) position (notional amount) [219] **on page 162**			**X**	**X**	**X**	**X**	**X**
Interest rate sensitivity gap			**X**	**X**	**X**	**X**	

(c) Liquidity risk management[133 on page 95, 203 on page 145, 220]

HKFRS 7.39 & B10A-11F

220 In respect of minimum quantitative disclosures concerning liquidity risk, HKFRS 7.39 requires disclosures of a maturity analysis for financial liabilities and a description of how an entity manages the liquidity risk inherent in the analysis. This maturity analysis should show the remaining contractual maturities for non-derivative liabilities and for those derivative liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows. For other derivatives, it appears that in accordance with paragraph 34(a), the maturity analysis should be based on the information provided internally to key management personnel, even if this is based on expected cash flows and their expected timing.

Similar to other disclosure requirements under HKFRS 7, the standard does not specify the format of the information required, for example, the number of time bands to be used in the maturity analysis (although suggested timebands are set out in HKFRS 7.B11). Entities should use their judgement to determine what is appropriate in view of their circumstances and with due regard to the information provided internally to key management personnel. In the above example, the timebands as required in the BDR have been used.

BDR 37(6)

HKFRS 7.B11A to B11F contain further specific requirements concerning how the maturity analysis of contractual cash flows should be presented. In particular:

- It is clear from HKFRS 7.B11D that any contractual cash flows to be disclosed in the analysis should be the gross (i.e. undiscounted) cash flows. These contractual amounts will be different from the amounts recognised in the statement of financial position if the amounts are not due within the short term or payable on demand, as the contractual cash flows will include interest charges, if any, which are payable over the period until the principal is contractually repayable as well as the gross amounts of any principal repayments. HKFRS 7.B11C(a) further states that when a counterparty can ask for payment at different dates, the liability should be included on the basis of the earliest date on which the entity can contractually be required to pay. This means that the disclosure shows a "worst case scenario" for the possible timing of these gross outflows.
- It is clear from HKFRS 7.B11A that embedded derivatives (such as conversion options) should not be separated from hybrid financial instruments when disclosing contractual maturities. Instead the contractual cash flows for the instrument as a whole should be disclosed.
- Where a variable amount is contractually payable, HKFRS 7.B11D requires that the amount disclosed in the maturity analysis should be determined by reference to the conditions existing at the end of the reporting period. For example, when interest charges are contractually determined by reference to a floating rate of interest, the amount disclosed in the maturity analysis would be based on the level of the index at the end of the reporting period.
- Where the entity has issued a financial guarantee, HKFRS 7.B11C(c) states that the maximum amount that could be payable under the guarantee should be allocated to the earliest period in which the guarantee could be called. This disclosure is not dependent on whether it is probable that the entity will be required to make payments under the contract.
- HKFRS 7.39(c) requires an entity to describe how it manages the liquidity risk inherent in the items disclosed in the quantitative liquidity risk disclosures. In this regard, paragraph B11E, introduced in the 2009 amendments, now requires an entity to disclose a maturity analysis of the financial assets it holds for managing the liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk.
- Paragraph B11F, also introduced in the 2009 amendments, brings forward and expands the implementation guidance that previously accompanied, but was not part of, HKFRS 7 to list out other factors that entity might consider including in this disclosure.

However, HKFRS 7 does not include any specific guidance which deals with the question of how to analyse gross cash flows arising under perpetual debt. In this regard, whilst the principal amount of the debt does not give rise to liquidity risk for the entity (as the timing of repayment is neither contractually fixed nor under the control of the holder), any contractual periodic payments of interest would generally give rise to liquidity risk and should be included in the maturity analysis in the discrete time bands of, for example, "within one year" and "more than one year but less than two years" and so on. However, as there is, by definition, no fixed end date to the stream of periodic interest payments on perpetual debt, the gross cash flows to be included in the final non-discrete time band (being here defined as "more than five years") generally cannot be properly determined. To deal with this issue where the effect is material, in our view, the entity should include a footnote disclosure which highlights the existence of these gross payments to perpetuity and explains the extent to which they have been dealt with in the analysis.

HKFRS 7.33
HKFRS 7.39(c)

The purpose of liquidity management is to ensure sufficient cash flows to meet all financial commitments and to capitalise on opportunities for business expansion. This includes the Group's ability to meet deposit withdrawals either on demand or at contractual maturity, to repay borrowings as they mature, to comply with the statutory liquidity ratio, and to make new loans and investments as opportunities arise.

Liquidity is managed on a daily basis by the treasury department under the direction of the Asset and Liability Committee. The treasury department is responsible for ensuring that the Group has adequate liquidity for all operations, ensuring that the funding mix is appropriate so as to avoid maturity mismatches and to prevent price and reinvestment rate risk in case of a maturity gap, and monitoring local and international markets for the adequacy of funding and liquidity.

The Group manages liquidity risk by holding sufficient liquid assets (eg cash and short term funds and securities) of appropriate quality to ensure that short term funding requirements are covered within prudent limits. Adequate standby facilities are maintained to provide strategic liquidity to meet unexpected and material cash outflows in the ordinary course of business. The Group regularly stress tests its liquidity position.

Analysis of non-derivative assets and liabilities by remaining maturity

BDR 37(8)
HKFRS 7.39(a)

The following maturity profile[221] is based on the remaining period at the end of reporting period to the contractual maturity date.

HKFRS 7.B11D

As the trading portfolios may be sold before maturity or deposits from customers may mature without being withdrawn, the contractual maturity dates do not represent expected dates of future cash flows. The gross nominal inflows / (outflows) are the contractual, undiscounted cash flows on the financial assets, liabilities or unrecognised loan commitments.

[221] The illustrative example below shows the remaining maturity of non-derivative assets and liabilities and is over and above the minimum required disclosure requirements in BDR 37(7), Appendix 16 of the MBLRs and HKFRS 7. The required disclosures have been listed in the disclosure table for reference. Reference should also be made to HKFRS 7.B11 for the example of the time bands and 7.B11D for the example of the financial liabilities for disclosure in the contractual maturity analysis.

Analysis of non-derivative assets and liabilities by remaining maturity (continued)

	Group	*2013*						
		Gross nominal inflow/ (outflow)	*Repayable on demand*	*Within 1 month*	*Over 1 month but within 3 months*	*Over 3 months but within 1 year*	*Over 1 year but within 5 years*	*Over 5 years*
BDR 37(6), 37(7)		$'000	$'000	$'000	$'000	$'000	$'000	$'000
	Assets							
BDR 37(7)(a)(ii)	Cash and balances with banks, central banks and other financial institutions	X	X	-	-	-	-	-
BDR 37(7)(a)(ii) A16(35)(2)(g)	Placements with banks, central banks and other financial institutions	X	X	X	X	X	-	-
	Trade bills	X	-	X	X	X	-	-
A16(35)(2)(g)	Trading assets	X	-	X	X	X	X	-
A16(35)(2)(g)	Financial assets designated at fair value through profit or loss	X	-	X	X	X	X	-
BDR 37(7)(a)(i) A16(35)(2)(g)	Loans and advances to customers	X	-	X	X	X	X	X
A16(35)(2)(g)	Available-for-sale financial assets	X	-	X	X	X	X	X
A16(35)(2)(g)	Held-to-maturity investments	X	-	X	X	X	X	-
	Other assets	X	-	X	X	X	-	-
	Total assets	**X**	**X**	**X**	**X**	**X**	**X**	**X**
HKFRS 7.39(a)	**Liabilities**							
BDR 37(7)(b)(i) A16(35)(2)(g)	Deposits and balances of banks and other financial institutions	X	X	X	X	X	-	-
BDR 37(7)(b)(ii) A16(35)(2)(g)	Deposits from customers	X	X	X	X	X	X	-
	Trading liabilities	X	-	X	X	X	-	-
	Financial liabilities designated at fair value through profit or loss	X	-	X	X	X	-	-
A16(35)(2)(g)	Certificates of deposit issued	X	-	X	X	X	X	-
BDR 37(7)(b)(iv) A16(35)(2)(g)	Debt securities issued	X	-	X	X	X	X	X
	Current taxation	X	-	X	X	X	-	-
	Subordinated liabilities	X	-	-	-	-	X	X
	Other liabilities	X	-	X	X	X	-	-
	Total liabilities	**X**	**X**	**X**	**X**	**X**	**X**	**X**
HKFRS 7.B11D	**Unrecognised loan commitments**	**X**	**X**	**X**	**X**	**X**	**X**	**X**
	Net cash inflow/(outflow)		**X**	**X**	**X**	**X**	**X**	**X**

Analysis of non-derivative assets and liabilities by remaining maturity (continued)

	Group	*2013*						
		Gross nominal inflow/ (outflow) $'000	*Repayable on demand* $'000	*Within 1 month* $'000	*Over 1 month but within 3 months* $'000	*Over 3 months but within 1 year* $'000	*Over 1 year but within 5 years* $'000	*Over 5 years* $'000
	Of which:							
BDR 37(7)(a)(iii) A16(35)(2)(g)	**Certificates of deposit held**							
	- included in trading assets	X	X	X	X	X	X	X
	- included in financial assets designated at fair value through profit or loss	X	X	X	X	X	X	X
	- included in available-for-sale financial assets	X	X	X	X	X	X	X
	- included in held-to-maturity investments	X	X	X	X	X	X	X
		X	X	X	X	X	X	X
BDR 37(7)(a)(iv), (v), (vi) A16(35)(2)(g)	**Debt securities**							
	- included in trading assets	X	X	X	X	X	X	X
	- included in financial assets designated at fair value through profit or loss	X	X	X	X	X	X	X
	- included in available-for-sale financial assets	X	X	X	X	X	X	X
	- included in held-to-maturity investments	X	X	X	X	X	X	X
		X	X	X	X	X	X	X
BDR 37(7)(b)(iii) A16(35)(2)(g)	**Certificates of deposit issued**							
	- included in financial liabilities designated at fair value through profit or loss	X	X	X	X	X	X	X
	- included in issued at amortised cost	X	X	X	X	X	X	X
		X	X	X	X	X	X	X

Analysis of non-derivative assets and liabilities by remaining maturity (continued)

	Group	*2012*						
		Gross nominal inflow/ (outflow)	*Repayable on demand*	*Within 1 month*	*Over 1 month but within 3 months*	*Over 3 months but within 1 year*	*Over 1 year but within 5 years*	*Over 5 years*
BDR 37(6), 37(7)		$'000	$'000	$'000	$'000	$'000	$'000	$'000
	Assets							
BDR 37(7)(a)(ii)	Cash and balances with banks, central banks and other financial institutions	X	X	-	-	-	-	-
BDR 37(7)(a)(ii) A16(35)(2)(g)	Placements with banks, central banks and other financial institutions	X	X	X	X	X	-	-
	Trade bills	X	-	X	X	X	-	-
A16(35)(2)(g)	Trading assets	X	-	X	X	X	X	-
A16(35)(2)(g)	Financial assets designated at fair value through profit or loss	X	-	X	X	X	X	-
BDR 37(7)(a)(i) A16(35)(2)(g)	Loans and advances to customers	X	-	X	X	X	X	X
A16(35)(2)(g)	Available-for-sale financial assets	X	-	X	X	X	X	X
A16(35)(2)(g)	Held-to-maturity investments	X	-	X	X	X	X	-
	Other assets	X	-	X	X	X	-	-
	Total assets	**X**	**X**	**X**	**X**	**X**	**X**	**X**
HKFRS 7.39(a)	**Liabilities**							
BDR 37(7)(b)(i) A16(35)(2)(g)	Deposits and balances of banks and other financial institutions	X	X	X	X	X	-	-
BDR 37(7)(b)(ii) A16(35)(2)(g)	Deposits from customers	X	X	X	X	X	X	-
	Trading liabilities	X	-	X	X	X	-	-
	Financial liabilities designated at fair value through profit or loss	X	-	X	X	X	-	-
A16(35)(2)(g)	Certificates of deposit issued	X	-	X	X	X	X	-
BDR 37(7)(b)(iv) A16(35)(2)(g)	Debt securities issued	X	-	X	X	X	X	X
	Current taxation	X	-	X	X	X	-	-
	Subordinated liabilities	X	-	-	-	-	X	X
	Other liabilities	X	-	X	X	X	-	-
		X	**X**	**X**	**X**	**X**	**X**	**X**
HKFRS 7. B11D	**Unrecognised loan commitments**	**X**	**X**	**X**	**X**	**X**	**X**	**X**
	Net cash inflow/(outflow)		**X**	**X**	**X**	**X**	**X**	**X**

Analysis of non-derivative assets and liabilities by remaining maturity (continued)

	Group	*2012*						
		Gross nominal inflow/ (outflow) $'000	*Repayable on demand* $'000	*Within 1 month* $'000	*Over 1 month but within 3 months* $'000	*Over 3 months but within 1 year* $'000	*Over 1 year but within 5 years* $'000	*Over 5 years* $'000
	Of which:							
BDR 37(7)(a)(iii) A16(35)(2)(g)	**Certificates of deposit held**							
	- included in trading assets	X	X	X	X	X	X	X
	- included in financial assets designated at fair value through profit or loss	X	X	X	X	X	X	X
	- included in available-for-sale financial assets	X	X	X	X	X	X	X
	- included in held-to-maturity investments	X	X	X	X	X	X	X
		X	X	X	X	X	X	X
BDR 37(7)(a)(iv), (v), (vi) A16(35)(2)(g)	**Debt securities**							
	- included in trading assets	X	X	X	X	X	X	X
	- included in financial assets designated at fair value through profit or loss	X	X	X	X	X	X	X
	- included in available-for-sale financial assets	X	X	X	X	X	X	X
	- included in held-to-maturity investments	X	X	X	X	X	X	X
		X	X	X	X	X	X	X
BDR 37(7)(b)(iii) A16(35)(2)(g)	**Certificates of deposit issued**							
	- included in financial liabilities designated at fair value through profit or loss	X	X	X	X	X	X	X
	- included in issued at amortised cost	X	X	X	X	X	X	X
		X	X	X	X	X	X	X

Analysis of non-derivative assets and liabilities by remaining maturity (continued)

	Bank	*2013*						
		Gross nominal inflow/ (outflow)	*Repayable on demand*	*Within 1 month*	*Over 1 month but within 3 months*	*Over 3 months but within 1 year*	*Over 1 year but within 5 years*	*Over 5 years*
BDR 37(6), 37(7)		$'000	$'000	$'000	$'000	$'000	$'000	$'000
	Assets							
BDR 37(7)(a)(ii)	Cash and balances with banks, central banks and other financial institutions	X	X	-	-	-	-	-
BDR 37(7)(a)(ii) A16(35)(2)(g)	Placements with banks, central banks and other financial institutions	X	X	X	X	X	-	-
	Trade bills	X	-	X	X	X	-	-
A16(35)(2)(g)	Trading assets	X	-	X	X	X	X	-
A16(35)(2)(g)	Financial assets designated at fair value through profit or loss	X	-	X	X	X	X	-
BDR 37(7)(a)(i) A16(35)(2)(g)	Loans and advances to customers	X	-	X	X	X	X	X
A16(35)(2)(g)	Available-for-sale financial assets	X	-	X	X	X	X	X
A16(35)(2)(g)	Held-to-maturity investments	X	-	X	X	X	X	-
	Other assets	X	-	X	X	X	-	-
	Total assets	**X**	**X**	**X**	**X**	**X**	**X**	**X**
HKFRS 7.39(a)	**Liabilities**							
BDR 37(7)(b)(i) A16(35)(2)(g)	Deposits and balances of banks and other financial institutions	X	X	X	X	X	-	-
BDR 37(7)(b)(ii) A16(35)(2)(g)	Deposits from customers	X	X	X	X	X	X	-
	Trading liabilities	X	-	X	X	X	-	-
	Financial liabilities designated at fair value through profit or loss	X	-	X	X	X	-	-
	Certificates of deposit issued	X	-	X	X	X	X	-
BDR 37(7)(b)(iv) A16(35)(2)(g)	Debt securities issued	X	-	X	X	X	X	X
	Current taxation	X	-	X	X	X	-	-
	Subordinated liabilities	X	-	-	-	-	X	X
	Other liabilities	X	-	X	X	X	-	-
	Total liabilities	**X**	**X**	**X**	**X**	**X**	**X**	**X**
HKFRS 7. B11D	**Unrecognised loan commitments**	**X**	**X**	**X**	**X**	**X**	**X**	**X**
	Net cash inflow/(outflow)		**X**	**X**	**X**	**X**	**X**	**X**

Analysis of non-derivative assets and liabilities by remaining maturity (continued)

	Bank	*2013*						
		Gross nominal inflow/ (outflow) $'000	*Repayable on demand* $'000	*Within 1 month* $'000	*Over 1 month but within 3 months* $'000	*Over 3 months but within 1 year* $'000	*Over 1 year but within 5 years* $'000	*Over 5 years* $'000
	Of which:							
BDR 37(7)(a)(iii) A16(35)(2)(g)	**Certificates of deposit held**							
	- included in trading assets	X	X	X	X	X	X	X
	- included in financial assets designated at fair value through profit or loss	X	X	X	X	X	X	X
	- included in available-for-sale financial assets	X	X	X	X	X	X	X
	- included in held-to-maturity investments	X	X	X	X	X	X	X
		X	X	X	X	X	X	X
BDR 37(7)(a)(iv), (v), (vi) A16(35)(2)(g)	**Debt securities**							
	- included in trading assets	X	X	X	X	X	X	X
	- included in financial assets designated at fair value through profit or loss	X	X	X	X	X	X	X
	- included in available-for-sale financial assets	X	X	X	X	X	X	X
	- included in held-to-maturity investments	X	X	X	X	X	X	X
		X	X	X	X	X	X	X
BDR 37(7)(b)(iii) A16(35)(2)(g)	**Certificates of deposit issued**							
	- included in financial liabilities designated at fair value through profit or loss	X	X	X	X	X	X	X
	- included in issued at amortised cost	X	X	X	X	X	X	X
		X	X	X	X	X	X	X

Analysis of non-derivative assets and liabilities by remaining maturity (continued)

	Bank	*2012*						
		Gross nominal inflow/ (outflow)	*Repayable on demand*	*Within 1 month*	*Over 1 month but within 3 months*	*Over 3 months but within 1 year*	*Over 1 year but within 5 years*	*Over 5 years*
BDR 37(6), 37(7)		$'000	$'000	$'000	$'000	$'000	$'000	$'000
	Assets							
BDR 37(7)(a)(ii)	Cash and balances with banks, central banks and other financial institutions	X	X	-	-	-	-	-
BDR 37(7)(a)(ii) A16(35)(2)(g)	Placements with banks, central banks and other financial institutions	X	X	X	X	X	-	-
	Trade bills	X	-	X	X	X	-	-
A16(35)(2)(g)	Trading assets	X	-	X	X	X	X	-
A16(35)(2)(g)	Financial assets designated at fair value through profit or loss	X	-	X	X	X	X	-
BDR 37(7)(a)(i) A16(35)(2)(g)	Loans and advances to customers	X	-	X	X	X	X	X
A16(35)(2)(g)	Available-for-sale financial assets	X	-	X	X	X	X	X
A16(35)(2)(g)	Held-to-maturity investments	X	-	X	X	X	X	-
	Other assets	X	-	X	X	X	-	-
	Total assets	**X**	**X**	**X**	**X**	**X**	**X**	**X**
HKFRS 7.39(a)	**Liabilities**							
BDR 37(7)(b)(i) A16(35)(2)(g)	Deposits and balances of banks and other financial institutions	X	X	X	X	X	-	-
BDR 37(7)(b)(ii) A16(35)(2)(g)	Deposits from customers	X	X	X	X	X	X	-
	Trading liabilities	X	-	X	X	X	-	-
	Financial liabilities designated at fair value through profit or loss	X	-	X	X	X	-	-
A16(35)(2)(g)	Certificates of deposit issued	X	-	X	X	X	X	-
BDR 37(7)(b)(iv) A16(35)(2)(g)	Debt securities issued	X	-	X	X	X	X	X
	Current taxation	X	-	X	X	X	-	-
	Subordinated liabilities	X	-	-	-	-	X	X
	Other liabilities	X	-	X	X	X	-	-
	Total liabilities	**X**	**X**	**X**	**X**	**X**	**X**	**X**
HKFRS 7. B11D	**Unrecognised loan commitments**		**X**	**X**	**X**	**X**	**X**	**X**
	Net cash inflow/(outflow)		**X**	**X**	**X**	**X**	**X**	**X**

Analysis of non-derivative assets and liabilities by remaining maturity (continued)

	Bank	*2012*						
		Gross nominal inflow/ (outflow) $'000	*Repayable on demand* $'000	*Within 1 month* $'000	*Over 1 month but within 3 months* $'000	*Over 3 months but within 1 year* $'000	*Over 1 year but within 5 years* $'000	*Over 5 years* $'000
	Of which:							
BDR 37(7)(a)(iii) A16(35)(2)(g)	**Certificates of deposit held**							
	- included in trading assets	X	X	X	X	X	X	X
	- included in financial assets designated at fair value through profit or loss	X	X	X	X	X	X	X
	- included in available-for-sale financial assets	X	X	X	X	X	X	X
	- included in held-to-maturity investments	X	X	X	X	X	X	X
		X	X	X	X	X	X	X
BDR 37(7)(a)(iv), (v), (vi) A16(35)(2)(g)	**Debt securities**							
	- included in trading assets	X	X	X	X	X	X	X
	- included in financial assets designated at fair value through profit or loss	X	X	X	X	X	X	X
	- included in available-for-sale financial assets	X	X	X	X	X	X	X
	- included in held-to-maturity investments	X	X	X	X	X	X	X
		X	X	X	X	X	X	X
BDR 37(7)(b)(iii) A16(35)(2)(g)	**Certificates of deposit issued**							
	- included in financial liabilities designated at fair value through profit or loss	X	X	X	X	X	X	X
	- included in issued at amortised cost	X	X	X	X	X	X	X
		X	X	X	X	X	X	X

HKFRS 7.39(b)
HKFRS 7.B11D

See note 46(d) for the analysis of the contractual amounts of derivatives of the Group by maturity.

(d) Operational risk management[222]

Operational risks arise from the Group's daily operation and fiduciary activities. The Bank's internal audit and compliance departments play an essential role in monitoring and limiting the Group's operational risk. The primary focus of internal audit and compliance departments is:

- to independently evaluate the adequacy of all internal controls,
- to ensure adherence to the operating guidelines, including regulatory and legal requirements, and
- to pro-actively recommend improvements.

In order to ensure total independence, the internal audit and compliance departments report directly to the chairman of the board of directors and the Audit Committee of the board as well as indirectly to the chief executive.

HKAS 1.134, HKAS 1.135

(e) Capital management[223, 224]

HKAS 1.135(a)(ii)

The Group's policy is to maintain a strong capital base to support the development of the Group's business and to meet the statutory capital adequacy ratio. The HKMA sets and monitors capital requirements for the Group as a whole. In implementing current capital requirements the HKMA requires the Group to comply with the provisions of the Basel II framework in respect of regulatory capital and maintain a prescribed ratio of regulatory capital to total risk-weighted assets. The Group calculates requirements for market risk in its trading portfolios based upon the Group's VAR models and uses its internal gradings as the basis for risk weightings for credit risk. Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

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[222] These are extra disclosures above the minimum information recommended by the guideline on BDR and defined by HKFRS 7.

HKAS 1.134, 135

[223] HKAS 1.134-135 require an entity to disclose information that enables users of its financial statements to evaluate an entity's objectives, policies and processes for managing "capital", based on the information provided internally to the entity's key management personnel. Because of this "management focus", the extent and level of disclosures will vary from one entity to another. As acknowledged in HKAS 1.135(b), the "capital" that an entity manages may not necessarily be equal to equity as defined in HKFRSs and might also include or exclude some other components. For example, it might include some financial instruments, such as preference shares, which are presented as liabilities in the financial statements, and exclude some items, such as components of equity arising from cash flow hedges. To facilitate comparison across different entities, HKAS 1.135(a)(i) requires an entity to provide a description of what it manages as "capital".

In addition, HKAS 1.134-135 do not prescribe the format of the information required to be disclosed and entities should exercise judgement in deciding the appropriate way to satisfy these requirements. In this regard, HKAS 1.IG10-IG11 provide two examples, one for an entity that is not a regulated financial institution and the other for an entity that is subject to externally imposed capital requirements (see footnote 225 on page 177). These examples serve as a starting point for entities to consider what information to disclose to reflect their individual circumstances.

BDR 33(b)

[224] If there are any restrictions, or other major impediments, on the transfer of funds or regulatory capital between the AI's consolidation group, including any relevant regulatory, legal or taxation constraints on the transfer of capital, such disclosure should be made.

HKAS 1.135(a)(iii) In addition to meeting the regulatory requirements, the Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

HKAS 1.135(a)(i) Capital managed by the Group to achieve these objectives includes ordinary share capital, share premium, retained profits, other reserves, and non-controlling interests after deductions for goodwill and intangible assets. It also includes subordinated liabilities and collectively assessed impairment allowances.

HKAS 1.135(a)(iii) The Hong Kong Monetary Authority supervises the Group on a consolidated basis, which sets capital requirements and receives information of capital adequacy on a regular basis for the Group as a whole. Individual banking subsidiaries and branches are directly regulated by respective domestic banking supervisors, who set and monitor their capital adequacy requirements. In certain jurisdictions, non-banking financial subsidiaries are also subject to the supervision and capital requirements of domestic regulatory authorities.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might otherwise be possible with greater gearing and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The process of allocating capital to specific operations and activities is undertaken by Asset and Liability Committee and is reviewed regularly by the Board of Directors.

HKAS 1.135(c) Consistent with industry practice, the Group monitors its capital structure on the basis of the capital adequacy ratio and there have been no material changes in the Group's policy on the management of capital during the year.

BDR 13(3)
BDR 45(1)
HKAS 1.135(c), (d) The capital adequacy ratios as at 31 December 2013 are computed on the consolidated basis of the Bank and certain of its subsidiaries as specified by the HKMA for its regulatory purposes, and are in accordance with the Banking (Capital) Rules of the Hong Kong Banking Ordinance.

HKAS 1. 135(d) The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the years ended 31 December 2013 and 2012[225] and is well above the minimum required ratio set by the HKMA.

HKAS 1.135,136 [225] When an entity is subject to externally imposed capital requirements (for example, a bank that is subject to the maintenance of a specified capital adequacy ratio imposed by the relevant banking regulator), HKAS 1.135 requires disclosure of the nature of those requirements and how those requirements are incorporated into the management of capital. If the entity has not complied with these requirements, the consequences of such non-compliance should also be disclosed.

An entity may be subject to a number of different externally imposed capital requirements (for example, a conglomerate may include entities that undertake insurance activities and banking activities) and may manage capital in a number of ways. Where an aggregate disclosure of these capital requirements and how capital is managed would not provide useful information or would distort a financial statement user's understanding of the entity's capital resources, the entity should disclose separate information for each capital requirement to which the entity is subject.

HKFRS 7.42D

(f) Transfers of financial assets[226]

As of 31 December 2013, the Group entered into repurchase agreements with certain banks to sell available-for-sale securities of carrying amount of HK$XXX which subject to the simultaneous agreements ("repurchase agreements") to repurchase these securities at the agreed dates and prices. The consideration received under these repurchase agreement totalling HK$XXX was reported as "Deposits and balances of banks and financial institutions" at 31 December 2013. The Group did not have any transfer of financial assets at 31 December 2012.

As stipulated in the repurchase agreements, there was no transfer of the legal ownership of these securities to the counterparty banks during the covered period. However, the Group was not allowed to sell or pledge these securities during the covered period unless both parties mutually agree with such arrangement. Accordingly, these securities were not derecognised from the financial statements but regarded as "collateral" for the secured lending from these counterparty banks. Normally, the counterparty banks could only claim from the collateral when there exists an event of default on the secured lending.

As at 31 December 2013 and 2012, there were no outstanding transferred financial assets in which the Group has a continuing involvement, that were derecognised in their entirety.[227]

HKFRS 7.42B, D

[226] For transferred financial assets that are not derecognised in their entirety, the bank shall disclose at each reporting date for each class of transferred assets:

- Nature of the transferred assets;
- Nature of the risks and rewards of ownership to which the bank is exposed;
- Nature of the relationship between the transferred assets and the associated liabilities, including restrictions arising from the transfer on the bank's use of the transferred assets;
- A schedule that sets out the fair value of the transferred assets, the fair value of the associated liabilities and the net position when the counterparty to the associated liabilities has recourse only to the transferred assets;
- Carrying amounts of transferred assets and associated liabilities when the bank continues to recognise all of the transferred assets; and
- When the bank continues to recognise the assets to the extent of its continuing involvement, the bank should disclose total carrying amount of the (i) original assets before the transfer; (ii) assets that the bank continues to recognise; and (iii) associated liabilities.

HKFRS 7.42B, E

[227] For banks with transferred financial assets that were derecognised in their entirety at the reporting date, the bank should disclose, as a minimum:

- Carrying amount and line items of the assets and liabilities that are recognised in the statement of financial position and represent the bank's continuing involvement in the derecognised financial assets;
- Fair value of the assets and liabilities that represent the bank's continuing involvement in the derecognised financial assets;
- Maximum exposure to loss from the bank's continuing involvement in the derecognised financial assets and how is the amount being measured;
- Undiscounted cash outflows that would or may be required to repurchase derecognised financial assets or other amounts payable to the transferee in respect of the transferred assets;
- Maturity analysis of the above-mentioned undiscounted cash outflows, showing the remaining contractual maturities of the bank's continuing involvement; and
- Qualitative information explaining and supporting the quantitative disclosures required above.

HKFRS 13.91-21

50 Fair values of financial instruments[228]

(a) Financial instruments carried at fair value[229]

HKFRS 13.93
HKFRS 13.93(b)

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1 – Quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

HKFRS 13.91

228 HKFRS 13, *Fair value measurement*, effective for annual periods beginning on or after 1 January 2013, contains a comprehensive disclosure framework that combines the fair value measurement disclosures previously required by individual HKFRSs and expands some of those disclosure requirements. The requirements to disclose information about valuation techniques and assumptions applied in determining the fair values of financial instruments and the three-level fair value hierarchy have been relocated from HKFRS 7 to HKFRS 13.

The disclosure objectives of HKFRS 13 are:

- to provide information that enables users of financial statements to assess the methods and inputs used to develop those measurements, and
- to assess the effect on profit or loss or other comprehensive income of recurring fair value measurements that are based on significant unobservable inputs.

As indicated in the above disclosure objectives, HKFRS 13 disclosures aim at helping users understand how the entity determines the fair values of assets and liabilities (both financial and non-financial) recognised in the statement of financial position; and how its financial performance is impacted by the measurement uncertainty and subjectivity involved in determining the fair values as a result of using significant unobservable inputs in the valuations. On the other hand, HKFRS 7's disclosures objectives, as introduced in footnote 201 on page 144, focus on helping users understand the entity's risk exposure associated with financial instruments and how the entity manages the risk.

HKFRS 13.93-99 lists out the disclosures required by the standard. ABC Bank provides those disclosures for its financial instruments in note 50 and for properties in note 30(c).

HKFRS 13.94

229 As mentioned in footnote 158 on page 113, for recurring and non-recurring fair value measurements, entities are required to disclose, for each class of assets and liabilities, the fair value measurement at the end of the reporting period, and for non-recurring fair value measurements, the reasons for the measurement. Class is determined based on the nature, characteristics and risks of the asset or liability; and the level of the fair value hierarchy within which the fair value measurement is categorised. So far as financial instruments are concerned, "classes" would be determined at a lower level than the "categories" as defined in HKAS 39.9 when the financial instruments within the same category have significantly different nature, characteristics or risks. For example, in these illustrative financial statements, the category "available-for-sale financial assets" is sub-divided into listed and unlisted classes.

HKFRS 13.93(d)

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using valuation techniques[163 on page 115]. Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, Black-Scholes and polynomial option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value measurement that reflects the price of the financial instrument that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the reporting date.

The Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over-the-counter (OTC) derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Group uses proprietary valuation models, which usually are developed from recognised valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Examples of instruments involving significant unobservable inputs include certain OTC structured derivatives and certain securities for which there is no active market. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in determination of fair value. Management judgement and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

HKFRS 13.93(g)

The Group has an established control framework with respect to the measurement of fair values. This framework includes a Product Control function, which is independent of front office management and reports to the Chief Financial Officer, and which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements. Specific controls include: verification of observable pricing inputs and reperformance of model valuations; a review and approval process for new models and changes to models involving both Product Control and Risk Management Committee; calibration and back testing of models against observed market transactions; analysis and investigation of significant daily valuation movements; review of significant unobservable inputs and valuation adjustments by a committee of senior Product Control and Risk Management Committee personnel; and reporting of significant valuation issues to the Audit Committee. [230]

[230] The disclosure is for illustrative purpose only. An AI may further analyse the valuation method for each type of financial instruments given its circumstances.

If an AI has loan and advances that are designated at fair value through profit or loss, analysis by valuation method has to be made.

The table below analyses financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value treatment is categorised: 230 on page 181

HKFRS 13.93(b)

	2013							
	The Group				*The Bank*			
	Level 1 $'000	*Level 2* $'000	*Level 3* $'000	*Total* $'000	*Level 1* $'000	*Level 2* $'000	*Level 3* $'000	*Total* $'000
Recurring fair value measurements[156 on page 112]								
Assets								
Trading assets								
- Treasury bills (including Exchange Fund Bills)	X	-	-	X	X	-	-	X
- Certificates of deposit held	X	-	-	X	X	-	-	X
- Debt securities	X	X	-	X	-	X	-	X
- Equity securities	X	-	-	X	X	-	-	X
- Investment funds	X	-	-	X	X	-	-	X
- Positive fair values of derivatives	X	X	X	X	X	X	X	X
- Other trading assets	X	-	-	X	X	-	-	X
	X	X	X	X	X	X	X	X
Financial assets designated at fair value through profit or loss								
- Treasury bills (including Exchange Fund Bills)	X	-	-	X	X	-	-	X
- Certificates of deposit held	X	-	-	X	X	-	-	X
- Debt securities	X	X	X	X	X	X	X	X
- Equity securities	X	-	-	X	X	-	-	X
	X	X	X	X	X	X	X	X
Available-for-sale financial assets								
- Treasury bills (including Exchange Fund Bills)	X	-	-	X	X	-	-	X
- Certificates of deposit held	X	-	-	X	X	-	-	X
- Debt securities	X	X	X	X	X	X	X	X
- Equity securities	X	-	-	X	X	-	-	X
	X	X	X	X	X	X	X	X
	X	X	X	X	X	X	X	X
Liabilities								
Trading liabilities								
- Short positions in securities	X	-	-	X	X	-	-	X
- Negative fair value of derivatives	X	X	X	X	X	X	X	X
	X	X	X	X	X	X	X	X
Financial liabilities designated at fair value through profit or loss								
- Structured certificates of deposit issued	-	X	-	X	-	X	-	X
- Structured deposits	-	X	-	X	-	X	-	X
- Debt securities issued	-	X	-	X	-	X	-	X
	-	X	-	X	-	X	-	X
	X	X	X	X	X	X	X	X

HKFRS 13.93(b)

	2012[231]							
	The Group				*The Bank*			
	Level 1 $'000	*Level 2* $'000	*Level 3* $'000	*Total* $'000	*Level 1* $'000	*Level 2* $'000	*Level 3* $'000	*Total* $'000
Recurring fair value measurements[156 on page 112]								
Assets								
Trading assets								
- Treasury bills (including Exchange Fund Bills)	X	-	-	X	X	-	-	X
- Certificates of deposit held	X	-	-	X	X	-	-	X
- Debt securities	X	X	-	X	-	X	-	X
- Equity securities	X	-	-	X	X	-	-	X
- Investment funds	X	-	-	X	X	-	-	X
- Positive fair values of derivatives	X	X	X	X	X	X	X	X
- Other trading assets	X	-	-	X	X	-	-	X
	X	X	X	X	X	X	X	X
Financial assets designated at fair value through profit or loss								
- Treasury bills (including Exchange Fund Bills)	X	-	-	X	X	-	-	X
- Certificates of deposit held	X	-	-	X	X	-	-	X
- Debt securities	X	X	X	X	X	X	X	X
- Equity securities	X	-	-	X	X	-	-	X
	X	X	X	X	X	X	X	X
Available-for-sale financial assets								
- Treasury bills (including Exchange Fund Bills)	X	-	-	X	X	-	-	X
- Certificates of deposit held	X	-	-	X	X	-	-	X
- Debt securities	X	X	X	X	X	X	X	X
- Equity securities	X	-	-	X	X	-	-	X
	X	X	X	X	X	X	X	X
	X	X	X	X	X	X	X	X
Liabilities								
Trading liabilities								
- Short positions in securities	X	-	-	X	X	-	-	X
- Negative fair value of derivatives	X	X	X	X	X	X	X	X
	X	X	X	X	X	X	X	X
Financial liabilities designated at fair value through profit or loss								
- Structured certificates of deposit issued	-	X	-	X	-	X	-	X
- Structured deposits	-	X	-	X	-	X	-	X
- Debt securities issued	-	X	-	X	-	X	-	X
	-	X	-	X	-	X	-	X
	X	X	X	X	X	X	X	X

[231] As discussed in footnote 155 on page 112, in our view, HKFRS 13's transitional provisions of exempting entities from providing comparative disclosures in the first period of adoption HKFRS 13 only apply to the new disclosures which arise from the adoption of HKFRS 13 and that information which was previously disclosed under other HKFRSs in the 2012 financial statements should continue to be disclosed as comparatives in the 2013 financial statements if still relevant to 2013 disclosures.

HKFRS 13.93(c), (e)(iv) During the years ended 31 December 2012 and 2013, there were no transfers of financial instruments between Level 1 and Level 2. 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.[232]

HKFRS 7.27B(b) [232] For fair value measurements recognised in the financial statements, the 2009 amendments to HKFRS 7 require the disclosure for each class of financial instruments of any significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for those transfers. In addition, transfers into each level should be disclosed and discussed separately from transfers out of each level.

(i) Valuation of financial instruments with significant unobservable inputs

HKFRS 13.93(e), (f)

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:[166 on page 116]

The Group and the Bank								
Assets	*2013*				*2012*			
	Trading assets – Positive fair value of derivatives	*Financial assets designated at fair value through profit or loss – Debt securities*	*Available-for-sale financial assets – Debt securities*	*Total*	*Trading assets – Positive fair value of derivatives*	*Financial assets designated at fair value through profit or loss – Debt securities*	*Available-for-sale financial assets – Debt securities*	*Total*
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At 1 January	X	X	X	X	X	X	X	X
Purchases	X	-	X	X	X	-	X	X
Sales	(X)	(X)	-	(X)	(X)	(X)	-	(X)
Settlements	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
Transfers out of Level 3	-	(X)	-	(X)	-	(X)	-	(X)
Changes in fair value recognised in the income statement:								
- Net trading income	X	-	-	X	X	-	-	X
- Net income from financial instruments designated at fair value through profit or loss	-	X	-	X	-	X	-	X
Changes in fair value recognised in the other comprehensive income	-	-	X	X	-	-	X	X
At 31 December	X	X	X	X	X	X	X	X
Total gains or losses for the year included in available-for-sale fair value reserve of the other comprehensive income for assets held at the end of reporting period	-	-	X	X	-	-	X	X
Total gains or losses for the year included in the income statement for assets held at the end of reporting period recorded in:								
- Net trading income	X	-	-	X	X	-	-	X
- Net income from financial instruments designated at fair value through profit or loss	-	X	-	X	-	X	-	X

Liabilities	***2013***	***2012***
	Trading liabilities – Negative fair value of derivatives	*Trading liabilities – Negative fair value of derivatives*
	$'000	$'000
At 1 January 2013	X	X
Purchases	X	X
Issues	(X)	(X)
Settlements	(X)	(X)
Changes in fair value recognised in the income statement:		
- Net trading income	X	X
At 31 December 2013	X	X
Total gains or losses for the year included in the income statement for liabilities held at the end of reporting period recorded in:		
- Net trading income	X	X

HKFRS 13.93(e)(iv) During the year, certain financial assets designated at fair value through profit or loss were transferred out of Level 3 of the fair value hierarchy when significant inputs used in their fair value measurements such as certain credit spreads, which were previously unobservable became observable.

HKFRS 13.93(h)(i) The table below sets out information about significant unobservable inputs used at year end in measuring financial instruments categorised as level 3 in the fair value hierarchy.

	Valuation techniques	***Significant unobservable inputs***	***Range*** *164 on page 115*	***Weighted average*** *164 on page 115*	***Fair value measurement sensitivity to unobservable inputs***
Unlisted available-for-sale debt instruments	Discounted cash flow	Credit spread	[●]% to [●]%	[●]%	Significant increase in the spread above risk free rate would result in a lower fair value.
		Risk-adjusted discount rates	[●]% to [●]%	[●]%	
OTC structured derivatives	Option model	Correlations of changes in prices between different equity indices	[●]% to [●]%	[●]%	Significant increase in volatilities would result in a higher fair value.
		Volatilities of equity indices	[●]% to [●]%	[●]%	

HKFRS 13.93(d)

(ii) Effects of changes in significant unobservable assumptions to reasonably possible alternative assumptions

HKFRS 13.93(h)(ii)

Although the Group believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3 of the fair value hierarchy, changing one or more of the unobservable inputs used to reasonably possible alternative assumptions would have the following effects [233, 238 on page 190]:

	2013			
	Effect on profit or loss		*Effect on other comprehensive income*	
	Favourable	*(Unfavourable)*	*Favourable*	*(Unfavourable)*
	$'000	$'000	$'000	$'000
Trading assets				
- Treasury bills (including Exchange Fund Bills)	X	(X)	X	(X)
- Certificates of deposit held	X	(X)	X	(X)
- Debt securities	X	(X)	X	(X)
- Equity securities	X	(X)	X	(X)
- Investment funds	X	(X)	X	(X)
- Positive fair value of derivatives	X	(X)	X	(X)
- Other trading assets	X	(X)	X	(X)
Financial assets designated at fair value through profit or loss				
- Treasury bills (including Exchange Fund Bills)	X	(X)	X	(X)
- Certificates of deposit held	X	(X)	X	(X)
- Debt securities	X	(X)	X	(X)
- Equity securities	X	(X)	X	(X)
Available-for-sale financial assets				
- Treasury bills (including Exchange Fund Bills)	X	(X)	X	(X)
- Certificates of deposit held	X	(X)	X	(X)
- Debt securities	X	(X)	X	(X)
- Equity securities	X	(X)	X	(X)
	X	(X)	X	(X)
Trading liabilities				
- Short positions in securities	X	(X)	X	(X)
- Negative fair value of derivatives	X	(X)	X	(X)
Financial liabilities designated at fair value through profit or loss				
- Structured certificates of deposit issued	X	(X)	X	(X)
- Structured deposits	X	(X)	X	(X)
- Debt securities issued	X	(X)	X	(X)
	X	(X)	X	(X)

HKFRS 13.93(h)

[233] As mentioned in footnote 165 on page 115, for recurring fair value measurements categorised within Level 3 of the fair value hierarchy, entities should give a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement. For financial instruments measured at fair value on a recurring basis and categorised within Level 3, a quantitative sensitivity analysis is required in addition to the narrative description.

HKFRS 13.93(h)(ii)

The favourable and unfavourable effects of using reasonably possible alternative assumptions for debt securities have been calculated by recalibrating the model values using appropriate credit spread of the debt issuers and risk-adjusted discount rates based on averages of the upper and lower quartiles respectively of the Group's ranges of possible estimates. Key inputs and assumptions used in the models at 31 December 2013 include increasing and decreasing the credit spreads of the debt issuers by X basis points and an average discount rate of X% above LIBOR (with reasonably possible alternative assumptions of X% and X%).

The favourable and unfavourable effects of using reasonably possible alternative assumptions for OTC structured derivatives have been calculated by adjusting unobservable model inputs to the averages of the upper and lower quartile of consensus pricing data or by two standard deviations in the level of such parameter (based on the last X years' historical daily data). The most significant unobservable inputs relate to correlations of changes in prices between different equity indices and the volatilities of the underlyings. The weighted average of the correlations used in the models at 31 December 2013 is X (with reasonably possible alternative assumptions of X and X) and that of equity indices volatilities is X (with reasonably possible alternative assumptions of X and X) respectively.

(b) Fair values of financial instruments carried at other than fair value

HKFRS 7.27
HKFRS 13.97

The following methods and significant assumptions have been applied in determining the fair values of financial instruments presented below[234]:

(i) The fair value of demand deposits and savings accounts with no specific maturity is assumed to be the amount payable on demand at the end of reporting period.

(ii) The fair value of variable rate financial instruments is assumed to be approximated their carrying amounts and, in the case of loans and unquoted debt securities, does not, therefore, reflect changes in their credit quality, as the impact of credit risk is recognised separately by deducting the amount of the impairment allowances from both the carrying amount and fair value.

[234] Methods and assumptions under this section are only illustrative in nature. AIs can choose other methods and assumptions for fair valuation purpose depending upon the facts and circumstances.

(iii) The fair value of fixed rate loans and mortgages carried at amortised cost is estimated by comparing market interest rates when the loans were granted with current market rates offered on similar loans. Changes in the credit quality of loans within the portfolio are not taken into account in determining gross fair values, as the impact of credit risk is recognised separately by deducting the amount of the impairment loss and allowances from both the carrying amount and fair value.

(iv) The fair value of unquoted equity investments[235] is estimated, if possible, using applicable price/earnings ratios[236] for similar listed companies adjusted to reflect the specific circumstances of the issuers.

(v) The fair value of unlisted open-ended investment funds is estimated using the net asset value per share as reported by the managers of such funds.

(vi) The fair value of financial guarantees issued is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made.

HKFRS 7.29(b), 30

[235] If investments in equity instruments that do not have a quoted market price in an active market, or derivatives linked to such equity instruments are measured at cost in accordance with HKAS 39 because their fair value cannot measured reliably, the information about fair value is not required to be disclosed. Instead, the entity shall disclose information to help users of the financial statements make their own judgements about the extent of possible differences between the carrying amount of those financial assets or financial liabilities and their fair value, including:

- The fact that fair value information has not been disclosed for these instruments because their fair value cannot be measured reliably;
- A description of the financial instruments, their carrying amount and an explanation of why fair value cannot be measured reliably;
- Information about the market for the instruments;
- Information about whether and how the entity intends to dispose of the financial instruments; and
- If financial instruments whose fair value previously could not be reliably measured are derecognised, that fact, their carrying amount at the time of derecognition and the amount of gain or loss recognised.

HKAS 39
AG74-82

[236] Price/earning ratios are only one type of calculation that can be used. Other methods include, for instance, price/cash flow ratios.

The carrying amounts of the Group's and the Bank's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2013 and 2012 except for the following financial instruments, for which their carrying amounts and fair value and the level of fair value hierarchy[237] are disclosed below:

HKFRS 7.25,26
BDR 41(2)
HKFRS 13.97

Group	*2013*					*2012*	
	Carrying amount $'000	*Fair value*[239] *on page 191* $'000	*Level 1* $'000	*Level 2* $'000	*Level 3* $'000	*Carrying amount* $'000	*Fair value*[239] *on page 191* $'000
Financial assets							
Held-to-maturity investments	X	X	X	-	-	X	X
Financial liabilities							
Debt securities issued	X	X	X	-	-	X	X
Subordinated liabilities	X	X	X	-	-	X	X

Bank	*2013*					*2012*	
	Carrying amount $'000	*Fair value*[239] *on page 191* $'000	*Level 1* $'000	*Level 2* $'000	*Level 3* $'000	*Carrying amount* $'000	*Fair value*[239] *on page 191* $'000
Financial assets							
Held-to-maturity investments	X	X				X	X
Financial liabilities							
Debt securities issued	X	X				X	X
Subordinated liabilities	X	X				X	X

HKFRS 13.97

[237] HKFRS 13.97 requires entities to disclose the following information for each class of assets and liabilities not measured at fair value in the statement of financial position but for which the fair value is disclosed:

- level of the fair value hierarchy within which the fair value measurements are categorised in their entirety;
- for fair value measurements categorised within Level 2 and Level 3:
  - a description of the valuation technique(s);
  - a description of the inputs used in the fair value measurement;
  - any change in valuation technique and the reason(s) for making the change; and
- for any non-financial asset whose highest and best use differs from its current use, this fact and the reason why it is being used in a manner that differs from its highest and best use.

For such assets and liabilities, entities need not provide the other disclosures required by HKFRS 13.

HKFRS 7.27B (e)

[238] For the purpose to disclose the effect of fair value measurement of Level 3 financial instruments due to different methodologies or assumptions, significance shall be judged with respect to profit or loss, and total assets or total liabilities, or, when changes in fair values are recognised in other comprehensive income, total equity.

51 Material related party transactions[240]

HKAS 24.17

(a) Transactions with group companies

BDR 43(a),(b)

During the year, the Group entered into transactions with related parties in the normal course of its banking business including lending, acceptance and placement of inter-bank deposits, correspondent banking transactions and guarantees issued. The transactions were priced at the relevant market rates at the time of each transaction. The Group used the IT services of its immediate holding company on a cost recovery basis.

HKFRS 7.29(a),(b)
BDR41(2)

[239] When an AI does not measure a financial asset or financial liability in its statement of financial position at fair value, it provides fair value information supplementary disclosure. Also, no disclosure of fair value is required for the following:

(a) financial instruments such as short-term trade receivables and payables which the carrying amount is a reasonable approximation of fair value;

(b) investment in equity instruments that do not have a quoted market price in an active market, or derivatives linked to such equity instruments, which are measured at cost in accordance with HKAS 39 because their fair value cannot be measured reliably; or

(c) for a contract containing a discretionary participation feature (as described in HKFRS 4) if the fair value of that feature cannot be measured reliably.

HKAS 24.18-24

[240] Paragraph 18 of HKAS 24 states that if there have been transactions between related parties, an entity shall disclose the nature of the related party relationships as well as information about the transactions and outstanding balances, including commitments, necessary for an understanding of the potential effect of the relationship on the financial statements. Paragraph 18 of HKAS 24 specifies certain information that the disclosures should include as a minimum. This list includes the amount of the transactions, the outstanding balances and commitments and their terms and conditions, and provisions for doubtful debts. Pricing policies are not required to be disclosed and paragraph 23 of HKAS 24 warns that disclosures that related party transactions were made on terms equivalent to those that prevail in arm's length transactions are only made if such terms can be substantiated.

The disclosures are generally made in amongst other notes (for example, loans to related parties are often disclosed in the notes relating to non-current financial assets) or in a separate note on related party transactions. As with all HKFRSs, HKAS 24's requirements apply where the effect would be material. Judgement is therefore required in deciding the extent to which transactions are disclosed and, if the transactions are disclosed, whether those disclosures are made individually or on an aggregated basis. Paragraph 19 of HKAS 24 specifies that the disclosures should be at least disaggregated by type of related party i.e. transactions with parents should be shown separately from transactions with associates or key management personnel, for example. Where applicable, listed issuers should also take care to follow the requirements of Chapter 14A of the MBLRs concerning approval and disclosure of connected transactions.

The amount of related-party transactions during the year and outstanding balances at the end of the year are set out below:

HKAS 24.18,19
BDR 43(a)

		Group and Bank								*Bank*	
		Ultimate controlling party		*Immediate parent*		*Fellow subsidiaries*		*Associates*		*Subsidiaries*	
		2013	*2012*	*2013*	*2012*	*2013*	*2012*	*2013*	*2012*	*2013*	*2012*
		$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
	Interest income	X	X	X	X	X	X	X	X	X	X
	Interest expense	-	-	-	-	(X)	(X)	-	-	-	-
	Other operating income	X	X	X	X	X	X	X	X	X	X
	Operating expenses	-	-	(X)	(X)	-	-	-	-	-	-
HKAS 24.17	Guarantees issued	-	-	-	-	-	-	-	-	X	X

		Group and Bank								*Bank*	
		Ultimate controlling party		*Immediate parent*		*Fellow subsidiaries*		*Associates*		*Subsidiaries*	
		2013	*2012*	*2013*	*2012*	*2013*	*2012*	*2013*	*2012*	*2013*	*2012*
		$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
HKAS 24.18,19 BDR 43(a)	**Amounts due from:**										
	Cash and balances with banks, central banks and other financial institutions	X	X	X	X	X	X	X	X	-	-
	Placements with banks, central banks and other financial institutions	X	X	X	X	X	X	X	X	-	-
	Trading assets	X	X	X	X	X	X	X	X	-	-
	Financial assets designated at fair value through profit or loss	X	X	X	X	X	X	X	X	-	-
	Other assets	X	X	X	X	X	X	X	X	X	X
		X	X	X	X	X	X	X	X	X	X
HKAS 24.18,19 BDR 43(a)	**Amounts due to:**										
	Deposits and balances of banks and other financial institutions	X	X	X	X	X	X	X	X	-	-
	Trading liabilities	X	X	X	X	X	X	X	X	-	-
	Financial liabilities designated at fair value through profit or loss	X	X	X	X	X	X	X	X	-	-
	Other liabilities	X	X	X	X	X	X	X	X	-	-
		X	X	X	X	X	X	X	X	-	-

	Group and Bank								*Bank*	
	Ultimate controlling party		*Immediate parent*		*Fellow subsidiaries*		*Associates*		*Subsidiaries*	
	2013	*2012*	*2013*	*2012*	*2013*	*2012*	*2013*	*2012*	*2013*	*2012*
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Lending activities:										
At 1 January	X	X	X	X	X	X	X	X	X	X
Additional loans made during the year	X	X	X	X	X	X	X	X	X	X
Repayment during the year	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)	(X)
At 31 December	X	X	X	X	X	X	X	X	X	X

HKAS 24.18
HKAS 24.21

	Group and Bank			
	Fellow subsidiaries		*Associates*	
	2013 $'000	*2012* $'000	*2013* $'000	*2012* $'000
Placement of deposits:				
At 1 January	X	X	X	X
Placements during the year	X	X	X	X
Repayments during the year	(X)	(X)	(X)	(X)
At 31 December	X	X	X	X
Acceptance of deposits:				
At 1 January	X	X	X	X
Acceptances during the year	X	X	X	X
Repayments during the year	(X)	(X)	(X)	(X)
At 31 December	X	X	X	X
Direct credit substitutes (contract amounts) at 31 December	X	X	X	X
Exchange rate contracts (notional principal) at 31 December	X	X	X	X

No impairment allowance was made in respect of the above loans to and placements with related parties.

(b) Transactions with key management personnel

HKAS 24.17

Remuneration for key management personnel of the Group, including amounts paid to the Bank's directors as disclosed in note 10 and certain of the highest paid employees as disclosed in note 11, is as follows:[241]

	Group and Bank	
	2013 $'000	*2012* $'000
Short-term employee benefits	X	X
Post-employment benefits	X	X
Equity compensation benefits	X	X
	X	X

Total remuneration is included in "staff costs" (see note 9(a)).

HKAS 24.17

[241] HKAS 24 requires disclosure of key management personnel compensation in total and for each of (i) short-term employee benefits; (ii) post-employment benefits; (iii) other long-term benefits; (iv) termination benefits; and (v) share-based payments. HKAS 24 defines key management personnel as being those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

For some entities all members of key management personnel will also be directors of that entity and therefore these requirements of HKAS 24 will usually be met by giving more details in respect of the amounts to be disclosed under Section 161 of the HKCO (see note 10 to these illustrative financial statements).

However, where consolidated financial statements are prepared, the reporting entity is the Group and therefore the disclosure of key management personnel compensation may need to be extended to include amounts payable to individuals who are not directors of the holding company but nevertheless should be regarded as part of the key management of the Group, for example executive directors of major subsidiaries. These persons may, or may not, also be included in the disclosure of "highest paid employees" required by paragraph A16(25) of the MBLRs (see note 11 to these illustrative financial statements) depending on the nature of their duties and the amount of their compensation package.

HKAS 24.18(b)(ii)
BDR 43(b)

During the year, the Bank provided credit facilities to key management personnel of the Bank and its holding companies and their close family members and companies controlled or significantly influenced by them. The credit facilities were provided in the ordinary course of business and on substantially the same terms as for comparable transactions with persons of a similar standing or, where applicable, with other employees.

	Group and Bank	
	2013	*2012*
	$'000	$'000
At 1 January	X	X
Additional loans made during the year	X	X
Repayment during the year	(X)	(X)
HKAS 24.18(b) At 31 December	X	X
Interest income	X	X

HKAS 24.18(c),(d)

No impairment losses have been recorded against balances outstanding during the year with key management personnel, and no individually assessed impairment allowance been made on balances with key management personnel and their immediate relatives at the year end.

(c) Loans to officers[242]

Loans to officers of the Bank disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

	Group and Bank	
	2013	*2012*
	$'000	$'000
Aggregate amount of relevant loans made by the Bank outstanding at 31 December	X	X
Maximum aggregate amount of relevant loans made by the Bank outstanding during the year	X	X

S161B

[242] In case of a guarantee or security given extended to officers of the AI, disclosures in accordance with section 161B of HKCO is required.

Section 161B of the HKCO also requires the disclosure of any amount paid and any liability incurred by the AI in fulfilling the guarantee or in discharging the security (including any loss incurred by the AI by reason of the enforcement of the guarantee or security). In our view, any guarantee liability carried at the initial amount recognised under HKAS 39, less accumulated amortisation, is not required to be disclosed as a "liability incurred" under section 161B of HKCO to the extent that this unamortised amount represents deferred income. However, if it become probable that the guarantee will be called upon (i.e. a provision needs to be carried in accordance with HKAS 37), in our view it would be appropriate to disclose this provision in order to comply with section 161B. Further details of the accounting policy adopted for financial guarantees issued can be found note 1(q)(i).

52 Non-adjusting events after the reporting period

HKAS 10.19
HKAS 10.21
HKFRS 3.66(b)

(a) Since 31 December 2013, the Bank has entered into a provisional agreement to sell the Group's investment in a subsidiary, ABC Securities Limited, to an independent third party. The transaction has still to be approved by the relevant regulatory authorities. Approvals are not expected until late in 2014. It is anticipated that this transaction will give rise to a non-taxable profit in 2014 of approximately $X. The net assets and turnover of the subsidiary constitute approximately X% and X% of the consolidated net assets and turnover respectively in the financial statements for the year ended 31 December 2013.

(b) After the end of reporting period the directors proposed a final dividend. Further details are disclosed in note 42(b).

53 Immediate parent and ultimate controlling party[243, 244]

S129A
HKAS 1.138(c)
HKAS 24.12

At 31 December 2013, the directors consider the immediate parent and ultimate controlling party of the Group to be ABC Holding Limited, which is incorporated in Hong Kong. This entity does not produce financial statements available for public use.

HKAS 24.13, 24.16

[243] HKAS 24 requires disclosure of both the immediate parent of the reporting entity and, if different, the ultimate controlling party. The ultimate controlling party may be a body corporate, or could be an unincorporated entity or an individual. If neither the immediate parent nor the ultimate controlling party produces financial statements available for public use, HKAS 24 requires the name of the next most senior parent that does so to be disclosed. The standard does not require a negative statement to be given if there are no such entities. However, users may find such a statement informative.

S129A

[244] Section 129A of the HKCO requires disclosure of the name of the "ultimate parent undertaking", i.e., the most senior parent of the reporting entity, whether this entity is a corporate or a non-corporate entity, since the term "undertaking", as defined in the 23rd Schedule to the HKCO, includes a partnership or an unincorporated association carrying on a trade or business, whether for profit or not, as well as a body corporate. If the ultimate parent undertaking is a body corporate, then the country of its incorporation should be disclosed, whereas if it is not a body corporate, then the address of its principal place of business should be disclosed.

Although the disclosure requirements under section 129A of the HKCO and HKAS 24.13 (see previous note) are similar, it should be noted that where the ultimate parent undertaking is controlled by an individual, additional disclosure will be required to meet both the requirements of the HKCO (in respect of disclosure of the "ultimate parent undertaking") and HKAS 24 (in respect of disclosure of the "ultimate controlling party").

54 Accounting estimates and judgements

HKAS 1.122

(a) Critical accounting judgements in applying the Group's accounting policies[245]

In the process of applying the Group's accounting policies, management has made the following accounting judgements:

HKAS 1.122

(i) Held-to-maturity investments

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

If the Group fails to hold these investments to maturity other than for certain specific circumstances, the Group will have to reclassify the entire portfolio of held-to-maturity investments as available-for sale, as such class is deemed to have been tainted.

This would result in held-to-maturity investments being measured at fair value instead of at amortised cost.

HKAS 1.122-124

[245] HKAS 1 requires an entity to disclose, in the summary of significant accounting policies or other notes, the judgements, apart from those involving estimations (see footnote 246 on page 198), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements. As illustrated here, this disclosure extends the more generic policy descriptions that are found in note 1 to explain, how, in particular circumstances, those policies were applied during the period. Management will need to exercise judgement in determining which such circumstances, in any particular period, warrant additional disclosures as being those "that have the most significant effect on the amounts recognised in the financial statements". Further examples, depending on the significance to the entity, might include decisions made during the period as to whether a fall in value of an available-for-sale financial asset was an indication of impairment.

HKFRS 12.7-9

In addition to the above general disclosure requirement about significant judgements in HKAS 1, HKFRS 12 requires an entity to disclose information about significant judgements and assumptions it has made (and changes to those judgements and assumptions) in determining:

- that it has control of another entity; and
- that it has significant influence over another entity.

To comply with the above, an entity should disclose, for example, significant judgements and assumptions made in determining that:

- it does not control another entity even though it holds more than half of the voting rights of the other entity;
- it controls another entity even though it holds less than half of the voting rights of the other entity;
- it is an agent or a principal;
- it does not have significant influence even though it holds 20% or more of the voting rights of another entity; and
- it has significant influence even though it holds less than 20% of the voting rights of another entity.

Since the application of the control model in HKFRS 10 may in some cases require more judgement than under HKAS 27, entities should consider carefully whether they have made any new significant judgements and assumptions when applying HKFRS 10 for the first time which warrant disclosures in the current and future years.

Where a particular matter has involved both accounting estimates and other judgements in the application of policies, the reader may find it easier to understand the information being presented if the disclosures to be made under HKAS 1.122 (concerning other judgements made in the application of policies) and HKAS 1.125 (concerning accounting estimates) were combined in one note or cross-referenced to each other.

HKAS 1.122

(ii) Investment property

The Group has temporarily sub-let vacant properties but has decided not to treat this property as an investment property because it is not the Group's intention to hold this property in the long-term for capital appreciation or rental income. Accordingly, this property is still treated as an item of other property and equipment.

(b) Key sources of estimation uncertainty *Note: For illustrative purposes only. See footnote 246*

HKAS 1.125

Notes 30(c), 31, 41 and 50 contain information about the assumptions and their risk factors relating to valuation of investment property, goodwill impairment, fair value of share options granted and financial instruments. Other key sources of estimation uncertainty are as follows:

HKFRS 7.B5(f)

(i) Impairment losses

Loans and advances

HKAS 1.122, 125,129

Loan portfolios are reviewed periodically to assess whether impairment losses exist. The Group makes judgements as to whether there is any objective evidence that a loan portfolio is impaired, i.e. whether there is a decrease in estimated future cash flows. Objective evidence for impairment is described in accounting policy 1(m). If management has determined, based on their judgement, that objective evidence of impairment exists, expected future cash flows are estimated based on historical loss experience for assets with credit risk characteristics similar to those of the Group. Historical loss experience is adjusted on the basis of the current observable data. Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss experience.

Available-for-sale equity securities

HKAS 1.122, 125,129

The Group determines that available-for-sale equity securities are impaired when there has been a significant or prolonged decline in the fair value below cost. The determination of when a decline in fair value below cost is not recoverable within a reasonable time period is judgemental by nature, so profit and loss could be affected by differences in this judgement.

HKAS 1.125-133

[246] HKAS 1 requires an entity to disclose in the notes information about the assumptions concerning the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:

(a) their nature; and
(b) their carrying amount as at the end of the reporting period.

This disclosure can, and often will, be made in amongst other information disclosed relating to those assets and liabilities. For example, disclosures in respect of contingent liabilities relate to possible losses that may occur in the future. Where such disclosure has not been made elsewhere, a separate note on sources of estimation uncertainty would be presented. Further guidance can be found in paragraphs 126-133 of HKAS 1.

HKAS 8.30

55 Possible impact of amendments, new standards and Interpretations issued but not yet effective for the year ended 31 December 2013

Up to the date of issue of the financial statements[247], the HKICPA has issued a few amendments and a new standard which are not yet effective for the year ended 31 December 2013 and which have not been adopted in these financial statements[248].

	Effective for accounting periods beginning on or after
Amendments to HKAS 32, *Offsetting financial assets and financial liabilities*	1 January 2014
Amendments to HKAS 39, *Novation of derivatives and continuation of hedge accounting*	1 January 2014
HKFRS 9, *Financial instruments*	1 January 2015[249]

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements [except for the following: …. *consider naming any specific developments which may have an impact on the entity's results and/or financial position, and giving further details of the impact in accordance with HKAS 8.30-31*].[250]

HKAS 8.30

[247] HKAS 8.30 does not explicitly state whether the cut-off for this disclosure should be the end of the reporting period or the date of approval of the financial statements. In our view, given the requirements in HKAS 10 to disclose non-adjusting events after the reporting period, the cut-off for the disclosure under HKAS 8.30 should be as near as practicable to the date of approval of the financial statements.

[248] In these illustrative financial statements ABC Bank has early adopted the amendments to HKAS 36 – Recoverable amount disclosures for non-financial assets and therefore these amendments are not included in the list of new/revised HKFRSs in note 55.

[249] As of the time of writing, the current version of HKFRS 9 has a mandatory effective date of annual periods beginning on or after 1 January 2015. On 19 November 2013, the IASB published the amendments to IFRS 9 and announced the removal of the 1 January 2015 mandatory effective date. It does not include an effective date but is available for adoption (subject to local endorsement requirements). An effective date will be added once the standard is complete with a new impairment model and finalisation of any limited amendments to classification and measurement. We expect that any decision made by the IASB on the effective date of IFRS 9 will be followed by the HKICPA, and the deferral of effective date will be reflected in the forthcoming version of HKFRS 9. Therefore, entities should update the disclosure as necessary to reflect the latest development of HKFRS 9 as at the time when the financial statements are issued.

[250] HKAS 8.30 requires entities to disclose known or reasonably estimable information relevant to assessing the possible impact that application of a new Standard or Interpretation will have on the entity's financial statements in the period of initial application. Paragraph 31 of HKAS 8 lists certain items in this respect, such as the Standard or Interpretation's title, the nature of the impending change and its effective date, which an entity "considers disclosing".

It is evident from these paragraphs that management has a certain degree of flexibility in determining how much disclosure is necessary in the circumstances of the entity as regards naming the amendments, new Standards or Interpretations that are currently in issue but not yet adopted, and, if they do name any or all of the amendments, how much information is disclosed about the possible impact. In any event, this note should be based on up to date information as per footnote 247.

Unaudited supplementary information

(Expressed in Hong Kong dollars unless otherwise indicated)

The notes to the consolidated financial statements and the following unaudited supplementary financial intermediary are prepared to comply with the Banking (Disclosure) Rules.

(a) Capital adequacy ratio

		Group	
HKAS 1.135(b)		*2013*	*2012*
BDR 45(8)(a)	Common equity tier 1 capital ratio [251] as at 31 December	X%	X%
BDR 45(8)(b)	Tier 1 capital ratio as at 31 December	X%	X%
BDR 45(8)(c)	Total capital ratio as at 31 December	X%	X%

BDR 13(3)
HKAS 1.135(c)

As mentioned in note 49(e) on the capital management of the Bank, the calculation of the regulatory capital and capital charges are in accordance with the Banking (Capital) Rules. The capital disclosures at 31 December 2013 are compiled in accordance with the Banking (Capital) (Amendment) Rules 2012 effective from 1 January 2013 for the implementation of the Basel III capital framework, whereas the disclosures at 31 December 2012 are prepared under Basel II basis. Therefore, the capital ratios of the two years are not directly comparable.

BDR 33(a)(i)

The subsidiaries of the Group that are excluded from the basis of consolidation for regulatory reporting purposes include ABC Bank (Trustee) Limited and ABC Securities Limited.[252]

[The approach adopted][253]

BDR 45(2)
BDR 45(3)

To comply with the Banking (Disclosure) Rules, all additional information in relation to the Group's regulatory capital disclosures will be published by using the standard disclosure templates[254] as specified by the HKMA under the "Regulatory Disclosures" section on the Group's website www.abcbank.com[255].

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[251] The ratio disclosed here should be consistent with or reconcilable to those reported in the banking returns.

BDR 45(7)

[252] If there are relevant capital shortfall in any of AIs' subsidiaries that are outside the regulatory scope of consolidation, AIs are required to disclose the total amount of such shortfall.

BDR 55(a), (c), (d)

[253] AIs are required to disclose:
- a summary of the approach it uses to assess the adequacy of its capital to support current and future activities;
- its capital requirements for securitisation exposures; and
- the capital charge for market risk calculated in accordance with the approach it uses under the BCR to calculate its market risk or the approach approved by HKMA under BCR 20(2)(a).

BDR 45(2)

[254] The capital information as set out in BDR 45(1)(a), (b), (c), (e) and (f) are required to disclose by using the standard templates specified by the HKMA.

BDR 45(3)

[255] AIs are required to either (i) include the standard disclosure templates applicable to their capital disclosures in the annual financial statements published by them; or (ii) provide a direct link in the financial statements to the relevant sections of their website where the standard disclosure template can be found.

BDR 45(1)(d)
BDR 45(5)

Full terms and conditions of all instruments issued by AIs and included in their capital base are required to make available on their website unless otherwise approved by the HKMA.

(b) Liquidity ratio[133 on page 95]

BDR 51(1)

	Group	
	2013	*2012*
Average liquidity ratio for the year	X%	X%

BDR 51(2)

The average liquidity ratio is computed as the simple average of each calendar month's average ratio and in accordance with the Fourth Schedule to the Hong Kong Banking Ordinance. The ratio includes the liquidity positions of Hong Kong offices and all overseas branches and subsidiaries in its calculation as agreed with the Hong Kong Monetary Authority (HKMA).

(c) Further analysis on loans and advances to customers analysed by industry sector

BDR 47(2),(3)

Loans and advances to customers analysed by the coverage of collateral, overdue amount and the impairment allowance is as follows. The economic sector analysis is based on the categories and definitions used by the HKMA[256].

	Group 2013						
	Gross loans and advances $'000	*% of gross loans and advances covered by collateral*[257]	*Overdue loans and advances*[258] $'000	*Individually assessed impairment allowance*[258] $'000	*Collectively assessed impairment allowance*[258] $'000	*Impairment charged to income statement during the year*[258] $'000	*Impairment allowance written off during the year*[258] $'000
Industrial, commercial and financial							
- Property development	X	X	X	X	X	X	X
- Property investment	X	X	X	X	X	X	X
- Financial concerns	X	X	X	X	X	X	X
- Stock brokers	X	X	X	X	X	X	X
- Wholesale and retail trade	X	X	X	X	X	X	X
- Manufacturing	X	X	X	X	X	X	X
- Transport and transport equipment	X	X	X	X	X	X	X
- Recreational activities	X	X	X	X	X	X	X
- Information technology	X	X	X	X	X	X	X
- Others	X	X	X	X	X	X	X
Individuals							
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme or their respective successor schemes	X	X	X	X	X	X	X
- Loans for the purchase of other residential properties	X	X	X	X	X	X	X
- Credit card advances	X	X	X	X	X	X	(X)
- Others	X	X	X	X	X	X	X
Loans and advances for use in Hong Kong	X	X	X	X	X	X	X
Trade finance	X	X	X	X	X	X	X
Loans and advances for use outside Hong Kong	X	X	X	X	X	X	X
Total	X	X	X	X	X	X	X

CA-D-1 14.4.5

[256] For the required disclosures by "counterparty type" or "industry section" under BDR 48(3), the disclosures made by the AI should be based on the internal management classifications rather than based on the sectors referred to in BDR 47(1) or any other supervisory definition of counterparty type or industry sector. For illustrative purposes, it is assumed that the internal management classification of the Bank is based on industry categories and definitions used by the HKMA. AI should determine the most appropriate classifications for disclosures under BDR 48(3) in view of their individual circumstances.

CA-D-1 14.4.4

[257] AI may disclose either the percentage that the value of collateral represents of the loans and advances to customers, or the absolute amount of the loans and advances which are covered by collateral or other security.

BDR 47(3)

[258] The required disclosures under BDR 47(3) are based on a "counterparty type" or an "industry sector" which constitute not less than 10% of the AI's total amount of loans and advances. The above illustrative disclosure by reconciling the analysis to the total amount of loans and advances is over and above the required disclosure requirement for illustrative purpose only.

	Group 2012						
	Gross loans and advances	*% of gross loans and advances covered by collateral*[257] *on page 202*	*Overdue loans and advances* *258 on page 202*	*Individually assessed impairment allowance* *258 on page 202*	*Collectively assessed impairment allowance* *258 on page 202*	*Impairment charged to income statement during the year* [258 on page 202]	*Impairment allowance written off during the year* [258 on page 202]
	$'000		$'000	$'000	$'000	$'000	$'000
Industrial, commercial and financial							
- Property development	X	X	X	X	X	X	X
- Property investment	X	X	X	X	X	X	X
- Financial concerns	X	X	X	X	X	X	X
- Stock brokers	X	X	X	X	X	X	X
- Wholesale and retail trade	X	X	X	X	X	X	X
- Manufacturing	X	X	X	X	X	X	X
- Transport and transport equipment	X	X	X	X	X	X	X
- Recreational activities	X	X	X	X	X	X	X
- Information technology	X	X	X	X	X	X	X
- Others	X	X	X	X	X	X	X
Individuals							
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme or their respective successor schemes	X	X	X	X	X	X	X
- Loans for the purchase of other residential properties	X	X	X	X	X	X	X
- Credit card advances	X	X	X	X	X	X	X
- Others	X	X	X	X	X	X	X
Loans and advances for use in Hong Kong	X	X	X	X	X	X	X
Trade finance	X	X	X	X	X	X	X
Loans and advances for use outside Hong Kong	X	X	X	X	X	X	X
Total	X	X	X	X	X	X	X

(d) Overdue and rescheduled assets

(i) Overdue loans and advances to customers[259]

		Group			
		2013		*2012*	
		$'000	% of total loans[260]	$'000	% of total loans[260]
BDR 48(1)	Gross loans and advances to customers which have been overdue with respect to either principal or interest for periods of:				
	- 6 months or less but over 3 months	X	X%	X	X%
	- 1 year or less but over 6 months	X	X%	X	X%
	- Over 1 year	X	X%	X	X%
		X	X%	X	X%
CA-D-1 Annex B BDR 48(3)(a)	Current market value of collateral held against the covered portion of overdue loans and advances	X		X	
	Covered portion of overdue loans and advances	X		X	
	Uncovered portion of overdue loans and advances	X		X	
		X		X	
BDR 48(3)(b)	Individual impairment allowances made on overdue loans and advances	X		X	

BDR 48(3)(a) Collateral held with respect to overdue loans and advances is mainly residential properties, cash on deposit with the Group, X and X.

CA-D-1 Annex E Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue and remains unpaid at the year-end. Loans repayable by regular instalments are treated as overdue when an instalment payment is overdue and remains unpaid at year end.[261] Loans repayable on demand are classified as overdue[262] either when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the demand notice, and/or when the loans have remained continuously outside the approved limit advised to the borrower for more than the overdue period in question.

BDR 48(2) [259] If loans and advances to banks contain overdue amounts, additional analysis similar to this note should be made. The overdue analysis of other assets is reported in note 3 of the quarterly "Loans and Advances" return. However the return does not include non-investment debt securities that have been overdue and does not cover the position of subsidiaries of AIs.

BDR 48(1)(c) [260] The aggregate of this analysis normally reconciles to the relevant figures in the audited statement of financial positions.

CA-D-1 Annex E(2) [261] Note that the above analysis of overdue advances by overdue period is different from the analysis for maturity profile purposes disclosed in Note 49(c) to the financial statements for which the HKMA's guideline states that only the portion of the advance which is actually overdue is reported as overdue. Any part of the advance that is not yet due is reported according to its residual maturity unless the repayment of the advance is in doubt, in which case the whole amount is reported as overdue.

[262] As defined in Appendix A to HKFRS 7, a financial asset is past due when a counterparty has failed to make a payment when contractually due. HKFRS 7.IG26 gives a specific example of this, being that a loan should be regarded as "past due" once an interest payment (for example a monthly interest payment) on that loan fails to be paid on time.

(ii) Rescheduled loans and advances to customers

CA-D-1 Annex E

Rescheduled loans and advances are those loans and advances which have been restructured or renegotiated because of a deterioration in the financial position of the borrower, or of the inability of the borrower to meet the original repayment schedule and for which the revised repayment terms are non-commercial to the Group. Rescheduled loans and advances to customers[263] are stated net of any loans and advances that have subsequently become overdue for over 3 months and can be analysed as follows:

BDR 48(4)

	Group			
	2013		*2012*	
	$'000	% of total loans	$'000	% of total loans
Rescheduled loans and advances to customers	X	X%	X	X%

(iii) Other overdue assets[259 on page 204]

BDR 48(6)

	Group			
	Trade bills		*Debt securities*	
	2013 $'000	*2012* $'000	*2013* $'000	*2012* $'000
Other assets which have been overdue with respect to either principal or interest for periods of				
- 6 months or less but over 3 months	X	X	X	X
- 1 year or less but over 6 months	X	X	X	X
- Over 1 year	X	X	X	X
	X	X	X	X

BDR 48(2),48(5)

[263] Similar information on overdue and rescheduled advances to banks and other financial institutions, if any, should also be given.

(iv) Geographical analysis of loans and advances to customers

BDR 46(8),(10)

	Group 2013				
	Gross loans and advances $'000	*Overdue loans and advances* $'000	*Impaired loans (individually determined)* $'000	*Individually assessed impairment allowances* $'000	*Collectively assessed impairment allowances* $'000
Hong Kong	X	X	X	X	X
Rest of Asia-Pacific	X	X	X	X	X
Americas	X	X	X	X	X
Europe	X	X	X	X	X
Other	X	X	X	X	X
	X	X	X	X	X

	Group 2012				
	Gross loans and advances $'000	*Overdue loans and advances* $'000	*Impaired loans (individually determined)* $'000	*Individually assessed impairment allowances* $'000	*Collectively assessed impairment allowances* $'000
Hong Kong	X	X	X	X	X
Rest of Asia-Pacific	X	X	X	X	X
Americas	X	X	X	X	X
Europe	X	X	X	X	X
Other	X	X	X	X	X
	X	X	X	X	X

BDR 46(9)

The above geographical analysis is classified by the location of the borrowers after taking into account the transfer of risk. In general, risk transfer applies when a loan is guaranteed by a party situated in an area different from the counterparty.

(e) Cross border claims[264]

BDR 46(7), (9)

Cross border claims are on-balance sheet exposures of counterparties based on the location of the counterparties after taking into account the transfer of risk. For a claim guaranteed by a party situated in a country different from the counterparty, risk will be transferred to the country of the guarantor. For a claim on the branch of a bank or other financial institution, the risk will be transferred to the country where its head office is situated. Claims on individual countries or areas, after risk transfer, amounting to 10% or more of the aggregate cross border claims are shown as follows:

Group	*2013*			
	Total $'000	*Banks, central banks and other financial institutions* $'000	*Public sector entities* $'000	*Other* $'000
Asia-Pacific excluding Hong Kong	X	X	X	X
of which Australia	X	X	X	X
Americas	X	X	X	X
of which United States	X	X	X	X
Europe	X	X	X	X
of which Germany	X	X	X	X
of which United Kingdom	X	X	X	X

BDR 46(11)(b)(i)

[264] Claims arising between branches and subsidiaries of an AI should be excluded. The amounts disclosed here may be larger than that reported in the "Cross-border claims" return as the return does not cover investment in equity securities.

Group	*2012*			
	Total $'000	*Banks, central banks and other financial institutions* $'000	*Public sector entities* $'000	*Other* $'000
Asia-Pacific excluding Hong Kong	X	X	X	X
of which Australia	X	X	X	X
Americas	X	X	X	X
of which United States	X	X	X	X
Europe	X	X	X	X
of which Germany	X	X	X	X
of which United Kingdom	X	X	X	X

(f) Non-bank Mainland China exposures[265]

BDR 11(6)

The analysis of non-bank Mainland China exposures includes exposures of the Bank and certain of its subsidiaries on the basis agreed with the HKMA.

CA-D-1 Annex F
BDR 49

	2013			
	On-balance sheet exposure $'000	*Off-balance sheet exposure* $'000	*Total* $'000	*Individually assessed impairment* $'000
Mainland entities	X	X	X	X
Companies and individuals outside the Mainland where the credit is granted for use in the Mainland	X	X	X	X
Other counterparties the exposures to whom are considered to be non-bank Mainland exposures	X	X	X	X
	X	X	X	X

BDR 49

[265] The AI should breakdown its Mainland exposure to non-bank counterparties, if material, into categories consistent with its return for non-bank Mainland exposures submitted to the HKMA pursuant to s63 of the HKBO.

	2012			
	On-balance sheet exposure $'000	*Off-balance sheet exposure* $'000	*Total* $'000	*Individually assessed impairment* $'000
Mainland entities	X	X	X	X
Companies and individuals outside the Mainland where the credit is granted for use in the Mainland	X	X	X	X
Other counterparties the exposures to whom are considered to be non-bank Mainland exposures	X	X	X	X
	X	X	X	X

(g) Additional disclosures on credit risk management *Note: For illustrative purposes only. See footnote 266*

(i) Capital requirement

BDR 55(b) The capital requirements on each class of exposures calculated under the standardised (credit risk) approach at the end of reporting period can be analysed as follow:

		2013 $'000	*2012* $'000
	Classes of exposure:		
BCR 54	Sovereign	X	X
BCR 54	Public sector entity	X	X
BCR 54	Multilateral development bank	X	X
BCR 54	Bank	X	X
BCR 54	Securities firm	X	X
BCR 54	Corporate	X	X
BCR 54	Collective investment scheme	X	X
BCR 54	Cash items	X	X
BCR 54	Regulatory retail	X	X
BCR 54	Residential mortgage loans	X	X
BCR 54	Other exposure which are not past due	X	X
BCR 54	Past due	X	X
	Total capital requirements for on-balance sheet exposures	X	X
BCR 71(1)	Direct credit substitutes	X	X
BCR 71(1)	Transaction-related contingencies	X	X
BCR 71(1)	Trade-related contingencies	X	X
BCR 71(1)	Asset sales with recourse	X	X
BCR 71(1)	Forward asset purchases	X	X
BCR 71(1)	Partly-paid-up shares and securities	X	X
BCR 71(1)	Forward forward deposits placed	X	X
BCR 71(1)	Note issuance and revolving underwriting facilities	X	X
BCR 71(1)	Commitments that are unconditionally cancellable	X	X
BCR 71(1)	Other commitments	X	X
BCR 71(2)	Exchange rate contracts	X	X
BCR 71(2)	Interest rate contracts	X	X
BCR 71(2)	Equity contracts	X	X
BCR 71(2)	Precious metal contracts	X	X
BCR 71(2)	Debt security contracts or other commodity contracts	X	X
BCR 71(2)	Credit derivative contracts		
	Other off-balance sheet exposures not elsewhere specified	X	X
	Total capital requirements for off-balance sheet exposures	X	X
		X	X

BDR Part 5-7 [266] An AI shall make additional annual disclosures in respect of the approach it used to calculate the credit risks for non-securitisation exposures in accordance with Part 5, Part 6 or Part 7 of the BDR. **For illustrative purposes**, it is assumed that the Bank adopted the standardised (credit risk) approach (STC approach) to calculate its credit risk, the standardised (market risk) approach (STM approach) to calculate the market risk and the basic indicator approach (BIA approach) to calculate the operational risk. It is also assumed, and as mentioned in footnote 54 on page 35, that securitisation is immaterial to the Bank. Management will need to exercise judgement in determining the appropriate disclosures in light of the circumstances of each AI.

(ii) Capital charge

BDR 55(e)
BDR 62

The capital charge for operational risk calculated in accordance with the basic indicator approach at the end of reporting period is:

	2013	*2012*
	$'000	$'000
Capital charge for operational risk	X	X

(iii) Credit risk exposures

BDR 57(a), (b), (c)

Credit ratings from XYZ Corporate are used for all classes of credit exposures mentioned below. The Bank follows the process prescribed in Part 4 of the Banking (Capital) Rules to map the ratings to the exposures booked in the Bank's banking book.[267]

BDR 57(a),(b)
BDR 57(c)

[267] An AI shall disclose by class of exposure each external credit assessment institution (ECAI) used in relation to its credit risk exposures during the annual reporting period. The names of the ECAIs, and the reasons for any differences on the ECAIs used compared to the last reporting period, shall also be disclosed. A description on the process the AI used to map the ECAI issuer ratings or ECAI issue specific ratings to exposures booked in the AI's banking book shall be disclosed if that process is not a process prescribed in Part 4 of the BCR.

An analysis of the credit risk of the Bank by class of exposures at the end of reporting period is as follows[268]:

BDR 57(d),(e)
BDR 59(2)(a), (b)
CA-D-1 Annex K

	2013							
	Total exposures[269]	*Exposures after recognised credit risk mitigation*		*Risk-weighted amounts*		*Total risk-weighted amounts*	*Total exposure covered by recognised collateral*	*Total exposure covered by recognised guarantees or recognised credit derivative contracts*
		Rated[270]	*Unrated*[271]	*Rated*[270]	*Unrated*[271]			
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
On-balance sheet:								
Sovereign	X	X	X	X	X	X	X	X
Public sector entity	X	X	X	X	X	X	X	X
Multilateral development bank	X	X	X	X	X	X	X	X
Bank	X	X	X	X	X	X	X	X
Securities firm	X	X	X	X	X	X	X	X
Corporate	X	X	X	X	X	X	X	X
Collective investment scheme	X	X	X	X	X	X	X	X
Cash items	X	X	X	X	X	X	X	X
Regulatory retail	X	X	X	X	X	X	X	X
Residential mortgage loans	X	X	X	X	X	X	X	X
Other exposures which are not past due exposures	X	X	X	X	X	X	X	X
Past due exposures	X	X	X	X	X	X	X	X
Off-balance sheet:								
Off-balance sheet exposures other than OTC derivative transactions or credit derivative contracts	X	X	X	X	X	X	X	X
OTC derivative transactions	X	X	X	X	X	X	X	X
Credit derivative contracts	X	X	X	X	X	X	X	X
Other off-balance sheet exposures not elsewhere specified	X	X	X	X	X	X	X	X

BDR 57(f)

The amount of credit exposures risk weighted at 1250% is [X] (2012: [X]).

CA-D-1 16.4.3

[268] It is not mandatory for an AI to follow the specimen disclosure template in Annex K of CA-D-1 for the disclosures in relation to section 57 of the BDR. However, AI should ensure that it consistently applies the same reporting methodology in complying the requirements in Part 5 of the BDR. For example, if an AI discloses the total exposures for each class of exposures without segregation of on- and off- balance sheet exposures, then the AI should apply the same reporting methodology consistently for each reporting period to facilitate period-to-period comparison.

BDR 57(d)

[269] The total amount of exposures refers to the principal amount for on-balance sheet exposures or the credit equivalent amount or default risk exposure for off-balance sheet exposures, net of individually assessed impairment allowance.

CA-D-1 Annex K

[270] Rated exposures include exposures with ECAI issue specific rating and exposures which have an inferred rating (i.e. exposures which do not have an issue-specific rating but whose risk-weights are determined under the BCR by reference to an ECAI issuer rating assigned to the obligor of the exposure or to an ECAI issue rating of any other exposures of the obligor).

CA-D-1 Annex K

[271] The exposures which do not have ECAI issue specific ratings, not inferred rating should be provided as unrated.

2012

BDR 57(d),(e) BDR 59(2)(a), (b) CA-D-1 Annex K	*Total exposures*[269] *on page 212*	*Exposures after recognised credit risk mitigation*		*Risk-weighted amounts*		*Total risk-weighted amounts*	*Total exposure covered by recognised collateral*	*Total exposure covered by recognised guarantees or recognised credit derivative contracts*
		Rated[270] *on page 212*	*Unrated*[271] *on page212*	*Rated*[270] *on page 212*	*Unrated*[271] *on page 212*			
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
On-balance sheet:								
Sovereign	X	X	X	X	X	X	X	X
Public sector entity	X	X	X	X	X	X	X	X
Multilateral development bank	X	X	X	X	X	X	X	X
Bank	X	X	X	X	X	X	X	X
Securities firm	X	X	X	X	X	X	X	X
Corporate	X	X	X	X	X	X	X	X
Collective investment scheme	X	X	X	X	X	X	X	X
Cash items	X	X	X	X	X	X	X	X
Regulatory retail	X	X	X	X	X	X	X	X
Residential mortgage loans	X	X	X	X	X	X	X	X
Other exposures which are not past due exposures	X	X	X	X	X	X	X	X
Past due exposures	X	X	X	X	X	X	X	X
Off-balance sheet:								
Off-balance sheet exposures other than OTC derivative transactions or credit derivative contracts	X	X	X	X	X	X	X	X
OTC derivative transactions	X	X	X	X	X	X	X	X
Credit derivative contracts	X	X	X	X	X	X	X	X
Other off-balance sheet exposures not elsewhere specified	X	X	X	X	X	X	X	X

(iv) Counterparty credit risk-related exposures

BDR 58(1)

[Methodology to assign internal capital and credit limits for counterparty / policies for securing collateral and establishing provisions / policies with respect to exposures that give rise to general wrong-way risk or specific wrong-way risk / impact on amount of collateral to provide if the Bank's credit rating were downgraded].[272]

BDR 58(3)(i)

The following tables summarise the Group's main default risk exposures which arise from securities financing transactions and derivative contracts, which are calculated using the current exposure method[273].

(1) Below is an analysis of the major classes of exposures by counterparty type.

		2013	
		Securities financing transactions $'000	*Derivative contracts* $'000
BDR 58(2)	Notional amounts:		
	Sovereigns	X	X
	Public sector entities	X	X
	Banks	X	X
	Corporate	X	X
	Others	X	X
		X	X
BDR 58(3)(i)	Default risk exposures:		
	Sovereigns	X	X
	Public sector entities	X	X
	Banks	X	X
	Corporate	X	X
	Others	X	X
		X	X
BDR 58(3)(i)	Risk-weighted amounts:		
	Sovereigns	X	X
	Public sector entities	X	X
	Banks	X	X
	Corporate	X	X
	Others	X	X
		X	X

BDR 58(1)

[272] An AI shall disclose, in respect of its counterparty credit risk which arises from securities financing transactions and derivative contracts booked in its banking or trading book, a description of the methodology it uses to assign internal capital and credit limits for counterparty credit exposures, its policies for securing collateral and establishing provisions, its policies with respect to exposures that give rise to general wrong-way risk or specific wrong-way risk, and the impact on it in terms of the amount of collateral that it would have to provide if there were a downgrade in its credit rating.

BDR 58(3)(i)

[273] An AI shall disclose the breakdown of its default risk exposures and risk-weighted amount of the default risk exposures for each type of relevant transaction and for each of the current exposure mehod and the IMM(CRR) approach. In these illustrative financial statements, it is assumed that ABC Bank did not obtain the MA's approval to use the IMM(CRR) approach to calculate the default risk exposures.

		2012	
		Securities financing transactions $'000	*Derivative contracts* $'000
BDR 58(2)	Notional amounts:		
	Sovereigns	X	X
	Public sector entities	X	X
	Banks	X	X
	Corporate	X	X
	Others	X	X
		X	X
BDR 58(3)(i)	Default risk exposures:		
	Sovereigns	X	X
	Public sector entities	X	X
	Banks	X	X
	Corporate	X	X
	Others	X	X
		X	X
BDR 58(3)(i)	Risk-weighted amounts:		
	Sovereigns	X	X
	Public sector entities	X	X
	Banks	X	X
	Corporate	X	X
	Others	X	X
		X	X

(2) Below is an analysis of the counterparty party credit risk exposures.

		2013	
		Securities financing transactions $'000	*Derivative contracts* $'000
BDR 58(3)(a)	Gross total positive fair value which are not securities financing transactions	-	X
BDR 58(3)(b),(c)	Default risk exposures net of bilateral agreements[274]	X	X
BDR 58(3)(d)	Default risk exposures net of cross-product agreements	X	X
BDR 58 (3)(e)	Recognised collateral held[275]:		
	Debt securities	X	X
	Cash on deposit with the Bank	X	X
	Gold bullion	X	X
	Residential properties	X	X
	Others	X	X
		X	X
BDR 58 (3)(f)	Default risk exposures net of recognised collateral held	X	X
BDR 38(3)(g)	Risk-weighted amounts	X	X
BDR 38(3)(h)	Notional amounts of recognised credit derivative contracts which provide credit protection	X	X

BCR 58(3)(b),(c)

[274] The amount should take into account the effect of any valid bilateral netting agreements.

[275] Division 5 of Part 4 of the BCR covers the discussion on recognised collateral in calculating the credit risk under the STC approach.

		2012	
		Securities financing transactions $'000	*Derivative contracts* $'000
BDR 58(3)(a)	Gross total positive fair value which are not securities financing transactions	-	X
BDR 58(3)(b),(c)	Default risk exposures net of bilateral agreements[274 on page 216]	X	X
BDR 58(3)(d)	Default risk exposures net of cross-product agreements	X	X
BDR 58 (3)(e)	Recognised collateral held[275 on page 216]		
	Debt securities	X	X
	Cash on deposit with the Bank	X	X
	Gold bullion	X	X
	Residential properties	X	X
	Others	X	X
		X	X
BDR 58 (3)(f)	Default risk exposures net of recognised collateral held	X	X
BDR 38(3)(g)	Risk-weighted amounts	X	X
BDR 38(3)(h)	Notional amounts of recognised credit derivative contracts which provide credit protection	X	X

(3) Credit derivative contracts which create exposures to counterparty credit risk:

		2013 Notional amount $'000	*2012 Notional amount $'000*
BDR 58(4)(a)	Used for management of the Bank's credit portfolio:		
BDR 58(4)(a)	Credit default swaps		
BDR 58(4)(b)	- protection bought	X	X
BDR 58(4)(b)	- protection sold	X	X
BDR 58(4)(a)	Total return swaps		
BDR 58(4)(b)	- protection bought	X	X
BDR 58(4)(b)	- protection sold	X	X
		X	X
BDR 58(4)(a)	Used in the Bank's intermediation activities:		
BDR 58(4)(a)	Credit default swaps		
BDR 58(4)(b)	- protection bought	X	X
BDR 58(4)(b)	- protection sold	X	X
BDR 58(4)(a)	Total return swaps		
BDR 58(4)(b)	- protection bought	X	X
BDR 58(4)(b)	- protection sold	X	X
		X	X

(v) Credit risk mitigation

BDR 59(1)

Describe:

- policies and processes, and an indication of the extent to which it makes use of, on-balance sheet and off-balance sheet recognised netting;
- valuation and management of collateral
- main types of recognised collateral taken by the AI;
- main types of guarantor and credit derivative counterparty and their creditworthiness for the recognised guarantees and recognised credit derivative contracts which constitute its credit risk mitigation;
- credit and market risk concentrations within the credit risk mitigation used by the AI.

(vi) Market risk[276]

		2013 Capital charge $'000	*2012 Capital charge $'000*
BDR 61(2)(b)(i)	Interest rate exposures (including options)	X	X
BDR 61(2)(b)(ii)	Equity rate exposures (including options)	X	X
BDR 61(2)(b)(iii)	Foreign exchange exposures (including gold and options)	X	X
BDR 61(2)(b)(iv)	Commodity exposures (including options)	X	X
		X	X

BDR 61(1), BDR 61(2)(a) BDR 61(3)

[276] An AI shall disclose the fact if it has an exemption under section 22(1) of the BCR. For AI using the STM approach to calculate its market risk, it shall disclose its positions covered by the approach.
It is assumed the Bank adopted the STM approach to calculate its market risk. If the AI uses the IMM approach, references should be made to section 61(3) of the BDR for the disclosure requirements.

(vii) Equity exposures[277]

		2013 $'000	*2012* $'000
BDR 63(c)(i)	Cumulative realised gains/losses from sales and liquidations	X	X
	Unrealised gains/losses:		
BDR 63(c)(ii)	- recognised in or deducted from reserves but not through the income statement	X	X

(viii) Interest rate exposures[278]

		2013		
		HK Dollars $'000	*US Dollars* $'000	*Euro Dollars* $'000
BDR 64(d)	Interest rate changes by X basis points			
	- increase in earnings	X	X	X
	- decrease in earnings	(X)	(X)	(X)

		2012		
		HK Dollars $'000	*US Dollars* $'000	*Euro Dollars* $'000
BDR 64(d)	Interest rate changes by X basis points			
	- increase in earnings	X	X	X
	- decrease in earnings	(X)	(X)	(X)

(h) Corporate governance

BDR 52(b), (ba)

The Bank is committed to high standards of corporate governance, and has fully complied throughout the year with the guideline on "Corporate Governance of Locally Incorporated Authorised Institutions" and "Guideline on a Sound Remuneration System" issued by the HKMA.[279]

BDR 52(a)

Board committees Note: For illustrative purposes only. See footnote 280

The Board of Directors has established a number of committees including the Executive Committee, Risk Management Committee, Asset and Liability Committee and Audit Committee.

BDR 63(a),(b) [277] An AI shall disclose, in respect of its equity exposures booked in its banking book:
- how it differentiates between its equity holdings taken for relationship and strategic reasons and its equity holdings taken for other reasons (including the reason of capital gains);
- a description of its main policies covering the valuation and accounting of equity holdings, including the accounting techniques and valuation methodologies the AI uses, the key assumptions and practices affecting such valuation, and any significant changes in those practices during the annual reporting period.

BDR 64(a),(b),(c) [278] An AI shall disclose, in respect of its interest rate exposures arising from its banking book:
- the nature of risk;
- the key assumptions the AI uses in its measurement of the risk; and
- the frequency of its measurement of the risk.

BDR 52(b),(c) [279] If an AI has not complied with the module or complied with only part of the module or complied for only part of the accounting period, the statement should specify the details of, and reasons, for, the non-compliance.

BDR 52(a) [280] An AI should disclose the roles, functions and compositions of key specialised committees established under the Board of Directors. Typical specialised committees include the Executive Committee, Credit Committee, Asset and Liability Committee and Audit Committee. The example of the minimum disclosure provided here is for illustrative purposes only. Disclosures will differ depending on the circumstances of each institution.

(i) Executive Committee

The Executive Committee meets regularly to review the management and performance of the Group and operates a general management committee under the direct authority of the Board. The Committee comprises three executive directors and the chief executive.

(ii) Risk Management Committee

The Risk Management Committee assists the Board in formulating the Group's risk appetite and strategies for managing risk. It is responsible for the implementation and maintenance of the Group's risk management framework and monitoring overall portfolio risk. It also participates in evaluating large credit applications and making credit decisions. The Committee comprises the chief executive, the chief credit officer, the chief financial officer and the heads of commercial banking and investment banking.

(iii) Asset and Liability Committee

The Asset and Liability Committee is responsible for the implementation and maintenance of the overall risk management framework relating to the structure of statement of financial position, market risks, trading, funding and liquidity management across the Group's banking business. It recommends policy and guidelines to the Board. The Committee comprises the chief executive, the chief financial officer, the treasurer, the chief credit officer and the officer in charge of deposit taking. It meets every alternate week and more often when conditions require.

(iv) Audit Committee

The Audit Committee meets regularly with the senior financial, internal audit, legal and compliance management and the external auditors to review and discuss financial performance, consider the nature and scope of audit review and the effectiveness of the systems of internal control and compliance with local regulations. The Committee also discusses matters raised by the external auditors and ensure that all audit recommendations are implemented. The Committee comprises all three non-executive directors.

Five year summary (notes 1 to 2)

(Expressed in Hong Kong dollars)

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	Note	2013	2012	2011	2010	2009
		$'m	$'m	$'m	$'m	$'m
Results						
Net interest income		X	X	X	X	X
Operating income		X	X	X	X	X
Operating expenses		(X)	(X)	(X)	(X)	(X)
Impairment losses		(X)	(X)	(X)	-	-
Charge for bad and doubtful debts		-	-	-	(X)	(X)
Profit before taxation	1	X	X	X	X	X
Income tax		(X)	(X)	(X)	(X)	(X)
Profit attributable to shareholders		X	X	X	X	X
Assets and liabilities						
Loan and advances to customer		X	X	X	X	X
Total assets	1	X	X	X	X	X
Total deposits		X	X	X	X	X
Total liabilities		X	X	X	X	X
Equities		X	X	X	X	X
Earnings per share	2					
- Basic		$X	$X	$X	$X	$X
- Diluted		$X	$X	$X	$X	$X
Ratios[281]						
Capital adequacy ratio		X%	X%	X%	X%	X%
Average liquidity ratio for the year		X%	X%	X%	X%	X%

[281] These are extra analyses over and above the minimum information required by MBLRs Appendix 16.

Notes to the five year summary[282]:

1 *In order to comply with the amendments to HKAS 28, Investments in associates, in 2009 the group changed its accounting policy for recognising impairment losses on investments in associates accounted for under the equity method. As a result, impairment losses are no longer allocated to the goodwill inherent in the carrying value of those investments and may be reversed in subsequent periods when there has been a favourable change in the estimates used to determine recoverable amounts. This policy is applied prospectively as from the year ended 31 December 2009 and net assets and profits for earlier periods have not been restated.*

2 *As a result of the sub-division of ordinary shares and capitalisation issue in 2010 and 2011 respectively, figures for the years from 2009 to 2010 have been adjusted for comparison purposes.*

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[282] Where the published results and statement of assets and liabilities have not been prepared on a consistent basis, the inconsistency should be explained in the summary.

Appendix A
Recent HKFRS developments

This appendix lists the new Standards, amendments to, and Interpretations of, HKFRSs in issue as at 16 September 2013 which were not yet effective for the periods beginning on or after 1 January 2012 and therefore may need to be considered for the first time in the preparation of the 2013 financial statements. The appendix contains two tables:

- Table A1 lists recent HKFRS developments which are required to be adopted in annual accounting periods beginning on or after 1 January 2013
- Table A2 lists those developments which are available for early adoption in that period, but are not yet mandatory.

The appendix includes a brief overview of these new developments, focusing particularly on those which are likely to be of interest or concern. All of these developments are as a direct consequence of amendments and revisions to IFRSs made by the IASB and adopted by the HKICPA word-for-word and with the same effective dates. More information on these developments can be obtained from your usual KPMG contact.

** all of the effective dates given below refer to the start of an annual accounting period, unless otherwise noted. For example, the amendments to HKAS 1 in respect of presentation of items of other comprehensive income are mandatory in respect of all annual periods which began on or after 1 July 2012.*

Effective date*	**Table A1: Amendments to HKFRSs first effective for annual periods beginning 1 January 2013**	
1 Jul 2012	Amendments to HKAS 1, *Presentation of financial statements* "Presentation of items of other comprehensive income"	The amendments require entities to group together the items of OCI that may be reclassified to profit or loss in the future (e.g. realised gains or losses on available-for-sale financial assets) by presenting them separately from those that would never be reclassified to profit or loss (e.g. revaluation surplus of property, plant and equipment). The amendments also change the titles "Income statement" to "Statement of profit or loss" and "Statement of comprehensive income" to "Statement of profit or loss and other comprehensive income". However, entities are still allowed to use other titles, such as the old titles.

1 Jan 2013	HKFRS 10
	"Consolidated financial statements"
	
	HKAS 27 (2011)
	"Separate financial statements"
		The source of HKFRS 10, IFRS 10, is the result of the consolidation project undertaken by the IASB with the objective of developing a single control model to replace both IAS 27, *Consolidated and separate financial statements* and SIC-12, *Consolidation – Special purpose entities*. The consolidation project became a priority project as a result of the global financial crisis, which highlighted the need to reduce perceived structuring opportunities and to increase transparency about entities' off balance sheet activities.
		In order to achieve those objectives, IFRS 10, and consequently HKFRS 10, introduces the following key changes in respect of *when* to consolidate an investee:
		• Under HKFRS 10 a single model is applied to all investee relationships to determine whether one entity has control over another entity, irrespective of whether or not the investee is a special purpose entity. This model focuses on whether the investor has all of the following:
		  • power over the investee;
		  • exposure or rights to variable returns from its involvement with
		  • the investee; and
		  • the ability to use its power over the investee to affect those
		  • returns.
		• Although in many cases the control conclusion (i.e. whether to consolidate or not) is expected to be the same under the new HKFRS 10 as compared to the existing HKAS 27, HKFRS 10 differs from HKAS 27 in the following key respects:
		(continued)

Effective date*	**Table A1 (continued):** **Amendments to HKFRSs first effective for annual periods beginning 1 January 2013**	

1 Jan 2013	HKFRS 10
	"Consolidated financial statements"
	
	HKAS 27 (2011)
	"Separate financial statements"
	(continued)
		• the standard contains substantially more guidance and application examples on how the control model applies in practice. This includes guidance on:
		  • principal versus agent relationships;
		  • franchises; and
		  • protective rights and kick-out rights
		• the concept of de facto control is explicitly required to be considered in the control analysis;
		• the concept of a "deemed separate entity" (or "silo") is introduced, which means that control can be identified over a ring-fenced subset of specified assets and liabilities of an investee; and
		• potential voting rights are only taken into account in reaching a control conclusion when those rights are substantive, whereas at present all currently exercisable potential voting rights need to be considered.
		
		HKFRS 10 also covers *how* to consolidate an investee once control is identified, although these requirements are largely unchanged from HKAS 27 (2008). The revised version of HKAS 27 ("HKAS 27 (2011)") now only covers the requirements for separate (i.e. company-level) financial statements, with some minor clarifications. The requirements in HKAS 28 (2008) and the superseded HKAS 31 for separate financial statements have also been incorporated into HKAS 27 (2011).
		
		HKFRS 10 and HKAS 27 (2011) are effective for annual periods beginning on or after 1 January 2013.
		
		At the date of initial application of HKFRS 10, an entity is required to reassess whether its involvement with an investee gives it control, in accordance with the new model. The "date of initial application" of HKFRS 10 refers to "the beginning of the annual reporting period for which the Standard is applied for the first time". For example, if an entity with a calendar year end has not early adopted HKFRS 10, then the "date of initial application" is 1 January 2013.
		
		If this re-assessment does not result in a change in the control conclusion, the entity is not required to make adjustments to comparatives. However, if there is a change in the control conclusion in respect of that investee (for example, in respect of entities over which the group has de facto control), HKFRS 10 should be applied retrospectively by restating comparatives. This requirement to restate the comparatives is limited to one year (i.e. the period immediately preceding the date of initial application of HKFRS 10). Entities that provide comparatives for more than one period have the option of leaving additional comparative periods unchanged.
		
		If upon the initial application of HKFRS 10 an entity starts consolidating an investee which was not previously consolidated, depending on the date on which control was obtained, an entity may choose which version of HKFRS 3, *Business combinations* to apply acquisition accounting. If the control was obtained after the effective date of HKFRS 3 (2008) (i.e. annual periods beginning on or after 1 July 2009, or at an earlier date if HKFRS 3 (2008) has been adopted early), the entity should apply HKFRS 3 (2008). If the control was obtained before the effective date of HKFRS 3 (2008), the entity can choose to apply HKFRS 3 (2004) or HKFRS 3 (2008).

Effective date*	**Table A1 (continued):** **Amendments to HKFRSs first effective for annual periods beginning 1 January 2013**	
1 Jan 2013	HKFRS 11 "Joint arrangements"	HKFRS 11 has been issued to improve accounting requirements for joint arrangements, previously covered by HKAS 31, *Interests in joint ventures*. The IASB was concerned with two aspects of IAS 31 (the source of HKAS 31): first, it has exclusive focus on structure (legal form) of the joint arrangements in determining the accounting for the arrangements; second, it allows a free choice between proportionate consolidation and equity method for jointly controlled entities. As a result, IFRS 11, and consequently HKFRS 11, divides joint arrangements into 2 types: "joint operation" and "joint venture", each having its own accounting model as follows: • In a "joint operation" the parties have rights to the assets and obligations for the liabilities relating to the arrangement. In respect of the accounting for a joint operation, the entity is required to recognize its own assets, liabilities and transactions, including its share of those incurred jointly. • In a "joint venture", the parties have rights to the net assets of the arrangement as a whole. In respect of the accounting for a joint venture, the entity is required to account for it using the equity method in accordance with HKAS 28 (2011). Proportionate consolidation is no longer allowed. Entities are required to determine the type of an arrangement by considering the structure, legal form, contractual terms and other facts and circumstances relevant to their rights and obligations under the arrangement. This is a case by case decision which may require the use of judgment, rather than a policy choice. HKAS 31 and HK(SIC)-31, *Jointly controlled entities – Non-monetary contributions by venturers*, are withdrawn upon the effective date of HKFRS 11, i.e. annual periods beginning on or after 1 January 2013. HKFRS 11 requires retrospective application, with specific restatement requirements for certain situations, which are intended to provide some simplifications when transitioning from HKAS 31 to HKFRS 11. The requirement to restate comparatives is limited to the period immediately preceding the date of initial application of HKFRS 11.
1 Jan 2013	HKAS 28 (2011) "Investments in associates and joint ventures"	HKAS 28 (2011) was issued as part of the above package of standards. It is substantially the same as HKAS 28 (2008) except for the following: • HKAS 28 (2011) includes expanded guidance on how to apply HKFRS 5, *Non-current assets held for sale and discontinued operations*, to an investment or a portion of an investment in an associate or a joint venture meets the criteria to be classified as held for sale; and • HKAS 28 (2011) modifies the accounting required when there are changes in interest which result in a change in the nature of the investment but equity method continues to be applied (i.e. an associate becomes a joint venture, or vice versa). In such cases, under HKAS 28 (2011), there is no re-measurement of the retained interest to fair value.

Effective date*	**Table A1 (continued):** **Amendments to HKFRSs first effective for annual periods beginning 1 January 2013**	
1 Jan 2013	HKFRS 12 "Disclosure of interests in other entities"	HKFRS 12 has been issued to bring together all the disclosure requirements about the entities' interests in subsidiaries, joint arrangements and associates into one standard. The requirements strengthen the existing disclosure requirements, with the aim of enabling users of financial statements to understand better the nature, risks and effects of these interests. HKFRS 12 also requires new disclosures relating to the entity's interests in any unconsolidated structured entities. In the first year of adoption, comparative information to be disclosed under HKFRS 12 is only limited to the period immediately preceding the date of initial application of the Standard. Moreover, an entity need not provide comparative information for the disclosures in respect of interests in unconsolidated structured entities.
1 Jan 2013	HKFRS 13 "Fair value measurement"	The Standard replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. It provides guidance on how to measure fair value when it is required or permitted by other HKFRSs, but does not extend the use of fair value accounting, i.e. no new requirements to measure assets or liabilities at fair value have been introduced. The Standard also contains extensive disclosure requirements which are intended to provide information that enables users of financial statements to assess the methods and inputs used by the entities when developing fair value measurements and the effect of the measurement on the entities' financial results. These include extending the application of the 3-level "fair value hierarchy" concept previously applied to financial instruments to all fair value measurements for assets and liabilities within the scope of the Standard, for example investment properties carried at fair value.
1 Jan 2013	Revised HKAS 19 "Employee benefits"	The revised Standard aims to improve the accounting for defined benefit plans. Under the revised Standard, all actuarial gains and losses are recognised immediately in the period they occur. The corridor method in the previous HKAS 19 for deferral of actuarial gains and losses has been eliminated. All past service costs, including unvested amounts, are also recognised immediately. In addition, the revised Standard requires the changes in the net defined benefit liability (asset) to be split and presented in the statement of comprehensive income as follows: • service cost (current and past service cost and any gain or loss on settlements) in profit or loss; • net interest on the net defined benefit liability (asset) in profit or loss; and • re-measurement of the defined benefit liability (asset) in OCI. The net interest on the net defined benefit liability (asset) is calculated as a single net interest figure based on the discount rate that is used to measure the defined benefit obligation. Therefore, unlike the previous HKAS 19 under which an entity recognised in profit or loss an expected return on plan assets based on market expectations, the entity now recognises in profit or loss the interest income on plan assets calculated using the discount rate applied on defined benefit obligation. The difference between this interest income and the actual return on plan assets is included in the remeasurement of the net defined benefit liability (asset) component and recognised in OCI. *(continued)*

Effective date*	**Table A1 (continued):** **Amendments to HKFRSs first effective for annual periods beginning 1 January 2013**	
1 Jan 2013	Revised HKAS 19 "Employee benefits" *(continued)*	The revised Standard also includes more minor changes to definition of short-term employee benefits (in respect of the distinction between short-term and long-term), the definition of return on plan assets, the timing of recognition of termination benefits and expands the disclosure requirements for defined benefit plans. Revised HKAS 19 is effective for annual periods beginning on or after 1 January 2013. The revised Standard generally requires retrospective application, but provides two exceptions to this rule: • an entity need not adjust the carrying amounts of assets outside the scope of HKAS 19 (such as inventories and property, plant and equipment) for changes in employee benefit costs that were included in their carrying amounts before the date of initial application (i.e. the beginning of the earliest prior period presented in the financial statements in which HKAS 19 (2011) is initially adopted); and • in the first year of adoption an entity need not present comparative information for the disclosures about the sensitivity of the defined benefit obligation.
1 Jan 2013	HK(IFRIC) 20 "Stripping costs in the production phase of a surface mine"	The Interpretation clarifies the accounting for costs incurred in removing waste (i.e. stripping costs) during the production phase of surface mining activity. It sets out the criteria to be met for capitalising the production stripping costs as an asset and the initial and subsequent measurement requirements.

1 Jan 2013	Annual Improvements to HKFRSs
	2009 – 2011 Cycle
		This cycle of annual improvements contains amendments to five standards with consequential amendments to other standards and interpretations, all of which are effective for annual periods beginning on or after 1 January 2013. Details are as follows:
		• HKFRS 1, *First-time adoption of Hong Kong Financial Reporting Standards* has been amended:
		  • to allow, but not require, an entity that has applied HKFRS 1 in the past but did not contain an explicit and unreserved statement of compliance with HKFRSs in its most recent previous annual financial statements, to apply HKFRS 1 if such entity presents its financial statements in accordance with HKFRS again; and
		  • to allow a first-time adopter of HKFRSs to carry forward the borrowing costs capitalised in accordance with previous GAAP in its opening statement of financial position without restatement. Borrowing costs incurred on or after the date of transition (or an earlier date as permitted by HKAS 23, *Borrowing costs*) should be accounted for in accordance with HKAS 23, including those incurred on qualifying assets already under construction at that date.
		  NB The above amendments to HKFRS 1 are not relevant to existing adopters of HKFRSs
		• HKAS 1 has been amended to clarify that an opening statement of financial position (the third balance sheet) is required only if a change in accounting policy, a retrospective restatement or a reclassification has a material effect on the information presented in the opening statement of financial position. In addition, except for the disclosures required by paragraphs 41-44 of HKAS 1 and HKAS 8, related notes to the opening statement of financial position are no longer required. The amendments also set out requirements when additional comparative information is voluntarily presented.
		(continued)

Effective date*	**Table A1 (continued):** **Amendments to HKFRSs first effective for annual periods beginning 1 January 2013**	

1 Jan 2013	Annual Improvements to HKFRSs 2009 – 2011 Cycle
	(continued)
		• HKAS 16, *Property, plant and equipment* has been amended to clarify that spare parts, stand-by equipment and servicing equipment should be accounted for in accordance with HKAS 16 if they meet the definition of property, plant and equipment i.e. if they are held for use in the production or supply of goods or services, for rental to others or for administrative purposes and are expected to be used during more than one period. Otherwise, such items are classified as inventory.
		• HKAS 32, *Financial instruments: Presentation* has been amended to delete any specific guidance on the recognition of income taxes relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction, and to clarify instead that these should be accounted for in accordance with HKAS 12, *Income taxes*.
		• HKAS 34, *Interim financial reporting* has been amended:
		  • to clarify that total assets for a particular reportable segment are required to be disclosed only when (a) the amounts are regularly provided to the chief operating decision maker and (b) there has been a material change in the total assets for that segment from the amount disclosed in the last annual financial statements; and
		  • to require total liabilities for a particular reportable segment to be disclosed when the amounts are regularly provided to the CODM and there has been a material change in the total liabilities for that segment from the amount disclosed in the last annual financial statements.

1 Jan 2013	Amendments to HKFRS 1, *Firsttime adoption of Hong Kong Financial Reporting Standards* "Government loans"	The amendments require a first-time adopter of HKFRSs to apply the requirements to measure government loans with a below-market rate of interest at fair value on initial recognition prospectively from the date of transition to HKFRSs. Alternatively, a first-time adopter may elect to apply the requirements retrospectively if the information needed was obtained when it first accounted for the loan. This election is available on a loan-by-loan-basis. *NB These amendments are not relevant to existing adopters of HKFRSs*
1 Jan 2013	Amendments to HKFRS 7, *Financial instruments: Disclosures* "Disclosures – Offsetting financial assets and financial liabilities"	The amendments introduce new disclosures in respect of offsetting financial assets and financial liabilities. These new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32, *Financial instruments: Presentation.* They are also required for financial assets and financial liabilities that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with HKAS 32. In accordance with paragraph B41 of the Application Guidance attached to HKFRS 7, loans and customer deposits at the same institution and financial instruments that are subject only to a collateral agreement are outside the scope of the disclosures introduced by the amendments.

Effective date*	**Table A2:** **Amendments to HKFRSs which are not yet mandatory for annual periods beginning 1 January 2013 but may be adopted early**	
1 Jan 2014	Amendments to HKAS 32, *Financial instruments: Presentation* "Offsetting financial assets and financial liabilities"	The amendments clarify the offsetting requirements by adding application guidance to HKAS 32. The existing offsetting requirements in HKAS 32.42 are that a financial asset and financial liability should be offset when, and only when, the entity: • currently has a legally enforceable right to set off the recognized amounts; and • intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. The additional guidance clarifies when the entity "currently has a legally enforceable right to set off" and when a gross settlement mechanism is considered equivalent to net settlement.
1 Jan 2014	Amendments to HKFRS 10, *Consolidated financial statements,* HKFRS 12, *Disclosure of interests in other entities* and HKAS 27 *Separate financial statements* "Investment entities"	The amendments give relief from consolidation to those parents which meet all of the following criteria: • the parent obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services; • the parent commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and • the parent measures and evaluates the performance of substantially all of its investments on a fair value basis. Such parents are referred to as "investment entities" in the amendments. Examples of investment entities could include private equity organisations, venture capital organisations, pension funds, sovereign wealth funds and other investment funds. Under the amendments, investment entities are prohibited from consolidating their subsidiaries. Instead, they are required to carry their subsidiaries at fair value through profit or loss ("FVTPL"). The only subsidiaries that fall outside the FVTPL requirement are those subsidiaries which provide services which relate to the investment entity's investment activities. Such service subsidiaries would still need to be consolidated by the investment entity. The exemption from consolidation is only applicable to parents who qualify as investment entities in their own right. It does not carry upwards to parents higher up the group if those higher parents are not themselves investment entities. In such cases, the higher parents would have to consolidate all entities that it controls, including those controlled through an investment entity subsidiary. The amendments also introduce new disclosure requirements for investment entities, in particular relating to any judgments that the entity made in determining that it is an investment entity. Investment entities are required to apply the amendments, on a modified retrospective basis, for annual periods beginning on or after 1 January 2014. Earlier application is permitted. This may be of particular interest to investment entities who would otherwise need to start consolidating subsidiaries under HKFRS 10 as from 1 January 2013.

Effective date*	**Table A2 (continued): Amendments to HKFRSs which are not yet mandatory for annual periods beginning 1 January 2013 but may be adopted early**	
1 Jan 2014	Amendments to HKAS 36, *Impairment of assets* "Recoverable amount disclosures for non-financial assets"	As a result of HKFRS 13's consequential amendments to other HKFRSs, the disclosure requirements of HKAS 36 were amended to require the disclosure of recoverable amount for each cash-generating unit for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit is significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives. Subsequent to the issue of IFRS 13 (i.e. the source of HKFRS 13), the IASB learned that the amended disclosure requirements of IAS 36 did not accurately reflect its intention, which was to require the disclosure of recoverable amount for an impaired asset only. As a result, the IASB issued amendments to IAS 36 to remove the requirement to disclose the recoverable amount of each CGU. On the other hand, the amendments expand the disclosure requirements for impaired assets whose recoverable amounts are based on fair value less costs of disposal. Equivalent amendments were made to HKAS 36 by the HKICPA. The amendments require retrospective application, however, entities need not provide comparative information for the prior period if HKFRS 13 has not been applied in that period.
1 Jan 2014	Amendments to HKAS 39, *Financial instruments: Recognition and measurement* "Novation of derivatives and continuation of hedge accounting"	The amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendments were issued in response to legislative changes across many jurisdictions that would lead to the widespread novation of over-the-counter derivatives. Similar relief will be included in HKFRS 9, *Financial instruments*.
1 Jan 2014	HK(IFRIC) 21 "Levies"	HK(IFRIC) 21 has been issued as an interpretation of HKAS 37, *Provisions, contingent liabilities and contingent assets*. The Interpretation provides guidance on when a liability to pay a levy imposed by a government should be recognised. It clarifies that the obligating event that gives rise to such liability is the activity that triggers the payment of the levy as identified by the legislation. Income taxes and other outflows of resources within the scope of other standards (i.e. outside the scope of HKAS 37), and fines or other penalties that are imposed for breaches of the legislation, are scoped out from the Interpretation.
1 Jan 2015	HKFRS 9 "Financial instruments" Amendments to HKFRS 9, *Financial instruments* and HKFRS 7, *Financial instruments: Disclosures* "Mandatory effective date and transition disclosures"	The source of HKFRS 9, IFRS 9, is the result of a wider project being undertaken by the IASB to reduce the complexity of the current requirements and replace IAS 39, *Financial instruments: recognition and measurement*. In November 2009, the IASB issued IFRS 9 (2009) which deals with classification and measurement of financial assets only. IFRS 9 (2009) retains but simplifies the mixed measurement model by allowing only two primary measurement categories for financial assets: amortised cost and fair value, with the basis of classification dependent on the entity's business model and the contractual cash flow characteristics of the financial asset. The HKICPA issued IFRS 9 (2009) in the form of HKFRS 9 (2009) in November 2009. In October 2010, the IASB issued an expanded version of IFRS 9 (IFRS 9 (2010)) to include the requirements with respect to classification and measurement of financial liabilities, and derecognition of financial assets and liabilities. The derecognition requirements have been carried forward without amendment from IAS 39. With respect to the classification and measurement of financial liabilities, there are two substantive changes from current IAS 39 requirements, in relation to the fair value option and derivatives linked to unquoted equity instruments. The HKICPA issued IFRS 9 (2010) in the form of HKFRS 9 (2010) in November 2010. *(continued)*

Effective date*	**Table A2 (continued):** **Amendments to HKFRSs which are not yet mandatory for annual periods beginning 1 January 2013 but may be adopted early**	
1 Jan 2015	HKFRS 9 "Financial instruments" Amendments to HKFRS 9, *Financial instruments* and HKFRS 7, *Financial instruments: Disclosures* "Mandatory effective date and transition disclosures" *(continued)*	*Effective date and transitional provisions* HKFRS 9 (2009) and HKFRS 9 (2010), as originally issued, had a mandatory effective date of annual periods beginning on or after 1 January 2013. In December 2011, the IASB deferred the effective date to 1 January 2015 due to extended timeline for completing the IAS 39 replacement project. However, at its November 2013 meeting, the IASB tentatively decided that the mandatory effective date of IFRS 9 will be no earlier than annual periods beginning on or after 1 January 2017. On 19 November 2013, the IASB issued IFRS 9 *Financial Instruments (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39)* amending IFRS 9 to include the new general hedge accounting model, allow adoption of the treatment of fair value changes due to own credit on liabilities designated at fair value through profit or loss, and remove the 1 January 2015 effective date. The new version of IFRS 9 does not include an effective date but is available for adoption (subject to local endorsement requirements). An effective date will be added once the standard is complete with a new impairment model and finalisation of any limited amendments to classification and measurement. The current version of HKFRS 9 as of the time of writing has the following provisions regarding early adoption and transitions: Entities that early adopt HKFRS 9 may elect to apply HKFRS 9 (2009) rather than HKFRS 9 (2010). If an entity elects to apply HKFRS 9 (2010), it must apply it in its entirety. An early adopter of HKFRS 9 continues to apply HKAS 39 for other accounting requirements for financial instruments within its scope that are not covered by HKFRS 9. Entities that initially adopt HKFRS 9 on or after 1 January 2013 (either adopt it on its effective date i.e. 1 January 2015 or early adopt it prior to the effective date but on or after 1 January 2013) need not restate comparatives. In the first year of adoption, any difference between (a) the previous carrying amount and (b) the carrying amount at the beginning of the annual reporting period that includes the date of initial application should be recognised in the opening retained earnings (or other component of equity, as appropriate). However, such entities are required to provide the disclosures on transition from HKAS 39 to HKFRS 9 set out in HKFRS 7.44S-44W, including a reconciliation of closing HKAS 39 balances to opening HKFRS 9 balances on the date of initial application of HKFRS 9.

Appendix B
HKFRSs in issue at 16 September 2013

This appendix lists all the Standards and Interpretations in issue at 16 September 2013 in numerical order. This information has been further analysed in two separate indices as follows:

- Table B1 lists all HKFRSs and HKASs in issue and cross-refers these to any related Interpretations; whereas
- Table B2 lists all Interpretations in issue and cross-refers these to the source HKFRSs or HKASs which they are interpreting.

In the tables below "*" and "#" have the following meanings:

- "*" indicates that the Standard or Interpretation (or an amendment to it) is first effective for annual periods beginning 1 January 2013. Table A1 of Appendix A contains further details of these recent amendments or new Standards/ Interpretations.
- "#" indicates that the Standard or Interpretation (or an amendment to it) is not yet mandatory in annual periods beginning 1 January 2013, but is available for early adoption. Table A2 of Appendix A contains further details of these recent amendments or new Standards/ Interpretations.
- "AIP09-11" indicates that the Standard is amended by the "Annual Improvements to HKFRSs 2009-2011 Cycle" omnibus standard, issued by the HKICPA in June 2012. These amendments are first effective for annual periods beginning 1 January 2013.

Table B1: **HKFRSs and HKASs in issue at 29 October 2012**		***Related Interpretations***	
HKFRS 1 [AIP09-11]	First-time adoption of Hong Kong Financial Reporting Standards	*HK(IFRIC) 9*	*Reassessment of embedded derivatives*
		HK(IFRIC) 12	*Service concession arrangements*
Amendments to HKFRS 1*	Government loans	*HK(IFRIC) 18*	*Transfers of assets from customers*
HKFRS 2	Share-based payment	*Nil*	
HKFRS 3	Business combinations	*HK(IFRIC) 9*	*Reassessment of embedded derivatives*
		HK(IFRIC) 17	*Distributions of non-cash assets to owners*
HKFRS 4	Insurance contracts	*Nil*	
HKFRS 5	Non-current assets held for sale and discontinued operations	*HK(IFRIC) 17*	*Distributions of non-cash assets to owners*
HKFRS 6	Exploration for and evaluation of mineral resources	*Nil*	
HKFRS 7	Financial instruments: Disclosures	*HK(IFRIC) 12*	*Service concession arrangements*
Amendments to HKFRS 7*	Disclosures – Offsetting financial assets and financial liabilities	*HK(IFRIC) 17*	*Distributions of non-cash assets to owners*
Amendments to HKFRS 9 and HKFRS 7#	Mandatory effective date and transition disclosures	*HK(INT) 5*	*Presentation of financial statements – Classification by the borrower of a term loan that contains a repayment on demand clause*
HKFRS 8	Operating segments	*Nil*	

Table B1 (continued): **HKFRSs and HKASs in issue at 16 September 2013**		***Related Interpretations***	
HKFRS 9[#]	Financial instruments	*HK(IFRIC) 2*	*Members' shares in co-operative entities and similar instruments*
Amendments to HKFRS 9 and HKFRS 7[#]	Mandatory effective date and transition disclosures	*HK(IFRIC) 5*	*Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds*
		HK(IFRIC) 10	*Interim financial reporting and impairment*
		HK(IFRIC) 12	*Service concession arrangements*
		HK(IFRIC) 19	*Extinguishing financial liabilities with equity instruments*
HKFRS 10*	Consolidated financial statements	*HK(IFRIC) 5*	*Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds*
Amendments to HKFRSs 10, and 12, HKAS 27[#]	Investment entities	*HK(IFRIC) 17*	*Distributions of non-cash assets to owners*
HKFRS 11*	Joint arrangements	*HK(IFRIC) 5*	*Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds*
HKFRS 12*	Disclosure of interests in other entities	*Nil*	
Amendments to HKFRSs 10, and 12, HKAS 27[#]	Investment entities		
HKFRS 13*	Fair value measurement	*Nil*	
HKAS 1[AIP09-11]	Presentation of financial statements	*HK(IFRIC) 1*	*Changes in existing decommissioning, restoration and similar liabilities*
Amendments to HKAS 1*	Presentation of items of other comprehensive income	*HK(IFRIC) 14*	*HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction*
		HK(IFRIC) 15	*Agreements for the construction of real estate*
		HK(IFRIC) 17	*Distributions of non-cash assets to owners*
		HK(SIC) 27	*Evaluating the substance of transactions involving the legal form of a lease*
		HK(SIC) 29	*Disclosure – Service concession arrangements*
		HK(INT) 5	*Presentation of financial statements – Classification by the borrower of a term loan that contains a repayment on demand clause*
HKAS 2	Inventories	*HK(IFRIC) 20 **	*Stripping costs in the production phase of a surface mine*
HKAS 7	Statement of cash flows	*Nil*	

Table B1 (continued): HKFRSs and HKASs in issue at 16 September 2013		**Related Interpretations**	
HKAS 8	Accounting policies, changes in accounting estimates and errors	*Nil*	
HKAS 10	Events after the reporting period	*HK(IFRIC) 17*	*Distributions of non-cash assets to owners*
HKAS 11	Construction contracts	*HK(IFRIC) 12*	*Service concession arrangements*
		HK(IFRIC) 15	*Agreements for the construction of real estate*
HKAS 12	Income taxes	*HK(IFRIC) 7*	*Applying the restatement approach under HKAS 29 Financial reporting in hyperinflationary economies*
		HK(SIC) 25	*Income taxes – Changes in the tax status of an enterprise or its shareholders*
HKAS 16 [AIP09-11]	Property, plant and equipment	*HK(IFRIC) 1*	*Changes in existing decommissioning, restoration and similar liabilities*
		HK(IFRIC) 4	*Determining whether an arrangement contains a lease*
		HK(IFRIC) 12	*Service concession arrangements*
		HK(IFRIC) 18	*Transfers of assets from customers*
		HK(INT) 4	*Leases - Determination of the length of lease term in respect of Hong Kong land leases*
		*HK(IFRIC) 20 **	*Stripping costs in the production phase of a surface mine*
HKAS 17	Leases	*HK(IFRIC) 4*	*Determining whether an arrangement contains a lease*
		HK(IFRIC) 12	*Service concession arrangements*
		HK(SIC) 15	*Operating leases - Incentives*
		HK(SIC) 27	*Evaluating the substance of transactions involving the legal form of a lease*
		HK(INT) 4	*Leases - Determination of the length of lease term in respect of Hong Kong land leases*
HKAS 18	Revenue	*HK(IFRIC) 12*	*Service concession arrangements*
		HK(IFRIC) 13	*Customer loyalty programmes*
		HK(IFRIC) 15	*Agreements for the construction of real estate*
		HK(IFRIC) 18	*Transfers of assets from customers*
		HK(SIC) 27	*Evaluating the substance of transactions involving the legal form of a lease*
		HK(SIC) 31	*Revenue - Barter transactions involving advertising services*

Table B1 (continued): **HKFRSs and HKASs in issue at 16 September 2013**		***Related Interpretations***	
Revised HKAS 19*	Employee benefits	*HK(IFRIC) 14*	*HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction*
HKAS 20	Accounting for government grants and disclosure of government assistance	*HK(IFRIC) 12*	*Service concession arrangements*
		HK(IFRIC) 18	*Transfers of assets from customers*
		HK(SIC) 10	*Government assistance - No specific relation to operating activities*
HKAS 21	The effects of changes in foreign exchange rates	*HK(IFRIC) 16*	*Hedges of a net investment in a foreign operation*
HKAS 23	Borrowing costs	*HK(IFRIC) 1*	*Changes in existing decommissioning, restoration and similar liabilities*
		HK(IFRIC) 12	*Service concession arrangements*
HKAS 24	Related party disclosures	*Nil*	
HKAS 26	Accounting and reporting by retirement benefit plans	*Nil*	
HKAS 27 (2011) *	Separate financial statements	*HK(IFRIC) 5*	*Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds*
Amendments to HKFRSs 10, and 12, HKAS 27#	Investment entities	*HK(IFRIC) 17*	*Distributions of non-cash assets to owners*
HKAS 28 (2011) *	Investments in associates and joint ventures	*HK(IFRIC) 5*	*Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds*
HKAS 29	Financial reporting in hyperinflationary economies	*HK(IFRIC) 7*	*Applying the restatement approach under HKAS 29 Financial reporting in hyperinflationary economies*
HKAS 32 AIP09-11	Financial instruments: Presentation	*HK(IFRIC) 2*	*Members' shares in co-operative entities and similar instruments*
Amendments to HKAS 32#	Offsetting financial assets and financial liabilities	*HK(IFRIC) 12*	*Service concession arrangements*
HKAS 33	Earnings per share	*Nil*	
HKAS 34 AIP09-11	Interim financial reporting	*HK(IFRIC) 10*	*Interim financial reporting and impairment*
		HK(IFRIC) 21#	*Levies*
HKAS 36	Impairment of assets	*HK(IFRIC) 1*	*Changes in existing decommissioning, restoration and similar liabilities*
Amendments to HKAS 36#		*HK(IFRIC) 10*	*Interim financial reporting and impairment*
		HK(IFRIC) 12	*Service concession arrangements*

Table B1 (continued): **HKFRSs and HKASs in issue at 29 October 2012**		***Related Interpretations***	
HKAS 37	Provisions, contingent liabilities and contingent assets	*HK(IFRIC) 1*	*Changes in existing decommissioning, restoration and similar liabilities*
		HK(IFRIC) 5	*Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds*
		HK(IFRIC) 6	*Liabilities arising from participating in a specific market - Waste electrical and electronic equipment*
		HK(IFRIC) 12	*Service concession arrangements*
		HK(IFRIC) 13	*Customer loyalty programmes*
		HK(IFRIC) 14	*HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction*
		HK(IFRIC) 15	*Agreements for the construction of real estate*
		HK(IFRIC) 21#	*Levies*
HKAS 38	Intangible assets	*HK(IFRIC) 4*	*Determining whether an arrangement contains a lease*
		HK(SIC) 32	*Intangible assets - Web site costs*
		HK(IFRIC) 12	*Service concession arrangements*
		*HK(IFRIC) 20 **	*Stripping costs in the production phase of a surface mine*
HKAS 39	Financial instruments: Recognition and measurement	*HK(IFRIC) 2*	*Members' shares in co-operative entities and similar instruments*
Amendments to HKAS 39#	Novation of derivatives and continuation of hedge accounting	*HK(IFRIC) 5*	*Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds*
		HK(IFRIC) 9	*Reassessment of embedded derivatives*
		HK(IFRIC) 10	*Interim financial reporting and impairment*
		HK(IFRIC) 12	*Service concession arrangements*
		HK(IFRIC) 16	*Hedges of a net investment in a foreign operation*
		HK(IFRIC) 19	*Extinguishing financial liabilities with equity instruments*
HKAS 40	Investment property	*Nil*	
HKAS 41	Agriculture	*Nil*	

Table B2: HK(SIC), HK(IFRIC) and HK Interpretations in issue at 16 September 2013		***Source HKFRSs or HKASs***	
HK(SIC) 10	Government assistance - No specific relation to operating activities	*HKAS 20*	*Accounting for government grants and disclosure of government assistance*
HK(SIC) 15	Operating leases - Incentives	*HKAS 17*	*Leases*
HK(SIC) 25	Income taxes - Changes in the tax status of an enterprise or its shareholders	*HKAS 12*	*Income taxes*
HK(SIC) 27	Evaluating the substance of transactions involving the legal form of a lease	*HKAS 1*	*Presentation of financial statements*
		HKAS 17	*Leases*
		HKAS 18	*Revenue*
HK(SIC) 29	Disclosure - Service concession arrangements	*HKAS 1*	*Presentation of financial statements*
HK(SIC) 31	Revenue - Barter transactions involving advertising services	*HKAS 18*	*Revenue*
HK(SIC) 32	Intangible assets - Web site costs	*HKAS 38*	*Intangible assets*
HK(IFRIC) 1	Changes in existing decommissioning, restoration and similar liabilities	*HKAS 1*	*Presentation of financial statements*
		HKAS 16	*Property, plant and equipment*
		HKAS 23	*Borrowing costs*
		HKAS 36	*Impairment of assets*
		HKAS 37	*Provisions, contingent liabilities and contingent assets*
HK(IFRIC) 2 [AIP09-11]	Members' shares in co-operative entities and similar instruments	HKFRS 9[#]	*Financial instruments*
		HKAS 32	*Financial instruments: Presentation*
		HKAS 39	*Financial instruments: Recognition and measurement*
HK(IFRIC) 4	Determining whether an arrangement contains a lease	*HKAS 16*	*Property, plant and equipment*
		HKAS 17	*Leases*
		HKAS 38	*Intangible assets*

Table B2 (continued): HK(SIC), HK(IFRIC) and HK Interpretations in issue at 16 September 2013		***Source HKFRSs or HKASs***	
HK(IFRIC) 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds	*HKFRS 9#*	*Financial instruments*
		*HKFRS 10**	*Consolidated financial statements*
		*HKFRS 11**	*Joint arrangements*
		*HKAS 27 (2011) **	*Consolidated and separate financial statements*
		*HKAS 28 (2011) **	*Investments in associates*
		HKAS 37	*Provisions, contingent liabilities and contingent assets*
		HKAS 39	*Financial instruments: Recognition and measurement*
HK(IFRIC) 6	Liabilities arising from participating in a specific market - Waste electrical and electronic equipment	*HKAS 37*	*Provisions, contingent liabilities and contingent assets*
HK(IFRIC) 7	Applying the restatement approach under HKAS 29 *Financial reporting in hyperinflationary economies*	*HKAS 12*	*Income taxes*
		HKAS 29	*Financial reporting in hyperinflationary economies*
HK(IFRIC) 9	Reassessment of embedded derivatives	*HKFRS 1*	*First-time adoption of Hong Kong Financial Reporting Standards*
		HKFRS 3	*Business combinations*
		HKAS 39	*Financial instruments: Recognition and measurement*
HK(IFRIC) 10	Interim financial reporting and impairment	*HKFRS 9#*	*Financial instruments*
		HKAS 34	*Interim financial reporting*
		HKAS 36	*Impairment of assets*
		HKAS 39	*Financial instruments: Recognition and measurement*

Table B2 (continued): HK(SIC), HK(IFRIC) and HK Interpretations in issue at 16 September 2013		***Source HKFRSs or HKASs***	
HK(IFRIC) 12	Service concession arrangements	*HKFRS 1*	*First-time adoption of Hong Kong Financial Reporting Standards*
		HKFRS 7	*Financial instruments: Disclosures*
		HKFRS 9#	*Financial instruments*
		HKAS 11	*Construction contracts*
		HKAS 16	*Property, plant and equipment*
		HKAS 17	*Leases*
		HKAS 18	*Revenue*
		HKAS 20	*Accounting for government grants and disclosure of government assistance*
		HKAS 23	*Borrowing costs*
		HKAS 32	*Financial instruments: Presentation*
		HKAS 36	*Impairment of assets*
		HKAS 37	*Provisions, contingent liabilities and contingent assets*
		HKAS 38	*Intangible assets*
		HKAS 39	*Financial instruments: Recognition and measurement*
HK(IFRIC) 13	Customer loyalty programmes	*HKAS 18*	*Revenue*
		HKAS 37	*Provisions, contingent liabilities and contingent assets*
HK(IFRIC) 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction	*HKAS 1*	*Presentation of financial statements*
		HKAS 19	*Employee benefits*
		HKAS 37	*Provisions, contingent liabilities and contingent assets*
HK(IFRIC) 15	Agreements for the construction of real estate	*HKAS 1*	*Presentation of financial statements*
		HKAS 11	*Construction contracts*
		HKAS 18	*Revenue*
		HKAS 37	*Provisions, contingent liabilities and contingent assets*

Table B2 (continued): HK(SIC), HK(IFRIC) and HK Interpretations in issue at 16 September 2013		***Source HKFRSs or HKASs***	
HK(IFRIC) 16	Hedges of a net investment in a foreign operation	*HKAS 21*	*The effects of changes in foreign exchange rates*
		HKAS 39	*Financial instruments: Recognition and measurement*
HK(IFRIC) 17	Distributions of non-cash assets to owners	*HKFRS 3*	*Business combinations*
		HKFRS 5	*Non-current assets held for sale and discontinued operations*
		HKFRS 7	*Financial instruments: Disclosures*
		*HKFRS 10**	*Consolidated financial statements*
		HKAS 1	*Presentation of financial statements*
		HKAS 10	*Events after the reporting period*
		*HKAS 27 (2011) **	*Separate financial statements*
HK(IFRIC) 18	Transfers of assets from customers	*HKFRS 1*	*First-time adoption of Hong Kong Financial Reporting Standards*
		HKAS 16	*Property, plant and equipment*
		HKAS 18	*Revenue*
		HKAS 20	*Accounting for government grants and disclosure of government assistance*
HK(IFRIC) 19	Extinguishing financial liabilities with equity instruments	*HKFRS 9#*	*Financial instruments*
		HKAS 39	*Financial instruments: Recognition and measurement*
HK(IFRIC) 20*	Stripping costs in the production phase of a surface mine	*HKAS 2*	*Inventories*
		HKAS 16	*Property, plant and equipment*
		HKAS 38	*Intangible assets*
HK(IFRIC) 21#	Levies	*HKAS 34*	*Interim financial reporting*
		HKAS 37	*Provisions, contingent liabilities and contingent assets*
HK(INT) 4	Leases - Determination of the length of lease term in respect of Hong Kong land leases	*HKAS 16*	*Property, plant and equipment*
		HKAS 17	*Leases*
HK(INT) 5	Presentation of financial statements – Classification by the borrower of a term loan that contains a repayment on demand clause	*HKFRS 7*	*Financial instruments: Disclosures*
		HKAS 1	*Presentation of financial statements*

Appendix C
Exposure drafts in issue at 16 September 2013

Exposure drafts (EDs) are discussion documents issued for comment and are not mandatory. The proposals are an indication with respect to the detailed content of future accounting pronouncements, but they cannot be adopted early to the extent that they contradict existing requirements. Therefore, particular care should be taken if intending to follow any of the proposals or guidance in the EDs that propose changes to existing HKFRSs.

The HKICPA has adopted a practice of inviting comments on IASB EDs during the IASB consultation period, for the HKICPA to consider and pass on to the IASB as part of its submission. In such cases, the HKICPA has stated it will not issue a specific Hong Kong ED on the same subject unless any changes made by the IASB are so significant as to warrant, in the opinion of the HKICPA, seeking further comment. If the HKICPA does not consider it necessary to seek further comment it will generally adopt the Standard or Interpretation, once finalised by the IASB.

Exposure drafts	Expiry date of IASB comment period
EDs not yet finalised by IASB at 16 September 2013	
Exposure draft, *Agriculture: Bearer plants (Proposed amendments to IAS 16 and IAS 41)*	28 October 2013
Exposure draft (revised 2013), *Insurance contracts*	25 October 2013
Exposure draft (revised 2013), *Leases*	13 September 2013
Exposure draft, *Regulatory deferral accounts*	4 September 2013
Exposure draft, *Defined benefit plans: Employee contributions (Proposed amendments to IAS 19)*	25 July 2013
Exposure draft, *Financial instruments: Expected credit losses*	5 July 2013
Exposure draft, *Acquisition of an interest in a joint operation (Proposed amendment to IFRS 11)*	23 April 2013
Exposure draft, *Sale or contribution of assets between an investor and its associate or joint venture (Proposed amendments to IFRS 10 and IAS 28)*	23 April 2013
Exposure draft, *Clarification of acceptable methods of depreciation and amortisation (Proposed amendments to IAS 16 and IAS 38)*	2 April 2013
Exposure draft, *Classification and measurement: Limited amendments to IFRS 9 (Proposed amendments to IFRS 9 (2010))*	28 March 2013
Exposure draft, *Equity method: Share of other net asset changes (Proposed amendments to IAS 28)*	22 March 2013
Exposure draft, *Annual improvements to IFRSs 2011 – 2013 cycle*	18 February 2013
Exposure draft, *Annual Improvements to IFRSs 2010 – 2012 cycle*	5 September 2012
Exposure draft (revised 2011), *Revenue from contracts with customers*	13 March 2012
Supplement to exposure draft, *Financial instruments: Amortised cost and impairment*	1 April 2011
Exposure draft, *Hedge accounting*	9 March 2011
Exposure draft, *Conceptual framework for financial reporting: The reporting entity*	16 July 2010
NB the proposals in this 2010 ED and the comments received on it have been summarised and included as an appendix to the discussion paper, A review of the conceptual framework for financial reporting, issued by the IASB in July 2013 with a comment period ending 14 January 2014. The IASB intends to update the "Reporting entity" ED in light of the comments received on the 2010 ED and include re-exposure of the proposals in the coming exposure draft of "A review of the conceptual framework for financial reporting"	
IFRIC Draft Interpretations in issue	
DI/2012/2, *Put options written on non-controlling interests*	1 October 2012

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