

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*



## **2012 FINAL RESULTS**

---

### **RESULTS FOR THE YEAR ENDED 31 DECEMBER 2012**

#### Highlights

- Net operating profit before impairment amounted to HK\$534 million and showed an improvement of 74% year on year because the previous year's net operating profit was inflated by the effect of the recovery of amounts previously written-off in relation to the Lehman Brothers Minibonds Repurchase Scheme of HK\$235 million
- Profit attributable to shareholders amounted to HK\$543 million, translating into earnings of HK\$1.25 per share and return on equity of 7.64%
- Net interest income at HK\$837 million was 3% higher than that of last year as total assets increased by 4.26% but net interest margin narrowed 7 basis points to 1.10% year on year. Net interest margin improved from 1.06% in the first half of 2012 to 1.13% in the second half of 2012
- Revaluation of financial instruments at fair value through profit or loss turned from net losses of HK\$102 million in the previous year to net gains of HK\$57 million in 2012 as the financial market sentiments for Hong Kong and mainland China related debt securities had improved
- New impairment allowances under individual assessment on loans and advances dropped by 79% to HK\$6 million this year, and a total of HK\$71 million of impairment allowances on loans and advances was reversed after recoveries from various customers and a reduction in total loans and advances
- Asset quality of loans and advances continued to improve with impaired loan ratio at 0.06%, provision coverage of impaired loans and advances at 779.36%, and rescheduled loan ratio at 0.54%
- Investments in available-for-sale securities rose by 128.70% to HK\$4,222 million and such investments were mainly in senior debt securities guaranteed or issued by large corporate entities
- Total customer deposits increased by 4.15% to HK\$67,509 million
- Total assets increased by 4.26% to HK\$80,755 million with net asset value per share (before final dividend) at HK\$16.95
- Capital adequacy ratio was maintained at 15.34% and core capital ratio was at 10.57%
- The Bank's core business lines and overall financial health are sound, its non-performing loan ratio is low and asset quality is good, and its capital adequacy and liquidity ratios are well above the relevant statutory requirements
- Total dividends for the financial year of 2012, including the interim cash dividend of HK\$0.11 per share paid in September 2012 (2011 interim cash dividend: HK\$0.15 per share), amounted to HK\$0.46 per share (2011 total dividends: HK\$0.50 per share)

The Directors of Chong Hing Bank Limited (the “Bank”) are pleased to announce the audited consolidated results of the Bank and its subsidiaries (the “Group”) for the year ended 31 December 2012, together with the comparative figures for the corresponding year in 2011. The financial information in this announcement is based on the audited consolidated financial statements of the Group and does not constitute the Group’s statutory accounts for the year ended 31 December 2012.

## CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	<b>2012</b> <b>HK\$’000</b>	<b>2011</b> <b>HK\$’000</b> <b>(Restated)</b>	<b>Variance</b> <b>%</b>
Interest income		<b>1,563,820</b>	1,369,989	+14.15
Interest expense		<b>(726,912)</b>	(554,668)	+31.05
Net interest income	4	<b>836,908</b>	815,321	+2.65
Fee and commission income		<b>253,949</b>	276,257	-8.08
Fee and commission expenses		<b>(64,584)</b>	(58,534)	+10.34
Net fee and commission income	5	<b>189,365</b>	217,723	-13.02
Net gains (losses) on financial instruments at fair value through profit or loss	6	<b>57,473</b>	(102,418)	+156.12
Net gains (losses) on fair value hedge	6	<b>1,200</b>	(20,679)	+105.80
Other operating income	7	<b>237,835</b>	404,855	-41.25
Operating expenses	8	<b>(788,591)</b>	(773,555)	+1.94
		<b>534,190</b>	541,247	-1.30
Reversal of impairment allowances on loans and advances	15	<b>65,228</b>	107,188	-39.15
Net losses on disposal of property and equipment		<b>(1,861)</b>	(4,128)	-54.92
Net gains on disposal of available-for-sale securities		<b>594</b>	697	-14.78
Net gains on disposal of and fair value adjustments on investment properties	16	<b>12,206</b>	9,065	+34.65
Impairment loss on available-for-sale securities		-	(4,473)	+100.00
Share of profits of associates		<b>36,028</b>	18,056	+99.53
Profit before taxation		<b>646,385</b>	667,652	-3.19
Taxation	9	<b>(103,045)</b>	(106,936)	-3.64
Profit for the year - attributable to owners of the Bank		<b>543,340</b>	560,716	-3.10
Earnings per share - basic	11	<b>HK\$1.25</b>	HK\$1.29	-3.10

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<b>2012</b>	<b>2011</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
		<b>(Restated)</b>
Profit for the year	<u>543,340</u>	<u>560,716</u>
Other comprehensive income		
Exchange differences arising on translation	4,588	6,547
Surplus on remeasurement of retirement benefits	–	10,268
Income tax effect relating to retirement benefits	–	(1,694)
Fair value gains (losses) of available-for-sale securities arising during the year	183,500	(89,234)
Amount reclassified to the profit or loss upon disposal of available-for-sale securities	(594)	(697)
Amount reclassified to the profit or loss upon impairment of available-for-sale securities	–	4,473
Income tax effect relating to disposal of available-for-sale securities	98	12
Income tax effect relating to fair value change of available-for-sale securities	(29,914)	13,086
Share of other comprehensive income (expense) of associates	<u>430</u>	<u>(53)</u>
Other comprehensive income (expense) for the year (net of tax)	<u>158,108</u>	<u>(57,292)</u>
Total comprehensive income for the year	<u>701,448</u>	<u>503,424</u>
Total comprehensive income attributable to:		
Owners of the Bank	<u>701,448</u>	<u>503,424</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	2012 HK\$'000	2011 HK\$'000 (Restated)	Variance %
<b>Assets</b>				
Cash and short-term funds	12	17,331,877	18,659,276	-7.11
Placements with banks and other financial institutions maturing between one to twelve months		4,789,513	2,169,007	+120.82
Derivative financial instruments	13	187,911	129,556	+45.04
Financial assets at fair value through profit or loss	14	1,213,410	1,845,589	-34.25
Available-for-sale securities	14	4,222,217	1,846,485	+128.66
Held-to-maturity securities	14	9,600,020	8,288,082	+15.83
Advances and other accounts	15	42,109,218	43,247,956	-2.63
Interests in associates		182,970	153,872	+18.91
Investment properties	16	135,318	127,171	+6.41
Property and equipment	17	928,380	918,968	+1.02
Prepaid lease payments for land	18	2,423	2,483	-2.42
Deferred tax assets	24	1,502	16,861	-91.09
Goodwill	25	50,606	50,606	-
<b>Total assets</b>		<b><u>80,755,365</u></b>	<b><u>77,455,912</u></b>	<b>+4.26</b>
<b>Liabilities</b>				
Deposits and balances of banks and other financial institutions		1,843,477	1,086,836	+69.62
Financial assets sold under repurchase agreements	19	433,681	420,652	+3.10
Deposits from customers	20	67,508,748	64,815,713	+4.15
Certificates of deposit	21	667,636	1,545,562	-56.80
Derivative financial instruments	13	248,656	265,696	-6.41
Other accounts and accruals		740,229	558,495	+32.54
Current tax liabilities		16,327	31,176	-47.63
Loan capital	22	1,898,957	1,852,153	+2.53
Deferred tax liabilities	24	23,574	6,897	+241.80
<b>Total liabilities</b>		<b><u>73,381,285</u></b>	<b><u>70,583,180</u></b>	<b>+3.96</b>
<b>Equity attributable to owners of the Bank</b>				
Share capital	23	217,500	217,500	-
Reserves		7,156,580	6,655,232	+7.53
<b>Total equity</b>		<b><u>7,374,080</u></b>	<b><u>6,872,732</u></b>	<b>+7.29</b>
<b>Total liabilities and equity</b>		<b><u>80,755,365</u></b>	<b><u>77,455,912</u></b>	<b>+4.26</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Share capital	Share premium	Goodwill	Investment revaluation reserve	General reserve	Translation reserve	Regulatory reserve	Retained profits	Total
	<i>Note</i>	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>At 1 January 2012 (as restated)</b>		217,500	1,542,817	(182)	33,807	1,388,500	21,648	408,000	3,260,642	6,872,732
Profit for the year		-	-	-	-	-	-	-	543,340	543,340
Exchange differences arising on translation		-	-	-	-	-	4,588	-	-	4,588
Fair value gains of available-for-sale securities arising during the year		-	-	-	183,500	-	-	-	-	183,500
Amount reclassified to the profit or loss upon disposal of available-for-sale securities		-	-	-	(594)	-	-	-	-	(594)
Income tax effect relating to disposal of available-for-sale securities		-	-	-	98	-	-	-	-	98
Income tax effect relating to fair value change of available-for-sale securities		-	-	-	(29,914)	-	-	-	-	(29,914)
Share of reserves of associates		-	-	-	430	-	-	-	-	430
Other comprehensive income		-	-	-	153,520	-	4,588	-	-	158,108
Total comprehensive income for the year		-	-	-	153,520	-	4,588	-	543,340	701,448
Interim dividend paid for financial year 2012	10	-	-	-	-	-	-	-	(47,850)	(47,850)
Final dividend paid for financial year 2011	10	-	-	-	-	-	-	-	(152,250)	(152,250)
Release of regulatory reserve to retained profits		-	-	-	-	-	-	(21,000)	21,000	-
<b>At 31 December 2012</b>		<u>217,500</u>	<u>1,542,817</u>	<u>(182)</u>	<u>187,327</u>	<u>1,388,500</u>	<u>26,236</u>	<u>387,000</u>	<u>3,624,882</u>	<u>7,374,080</u>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Goodwill	Investment revaluation reserve	General reserve	Translation reserve	Regulatory reserve	Retained profits	Total
Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>At 1 January 2011 (as originally stated)</b>	217,500	1,542,817	(182)	106,220	1,388,500	15,101	331,000	2,976,973	6,577,929
Effect of change in accounting policy	—	—	—	—	—	—	—	8,879	8,879
<b>At 1 January 2011 (as restated)</b>	217,500	1,542,817	(182)	106,220	1,388,500	15,101	331,000	2,985,852	6,586,808
Profit for the year	—	—	—	—	—	—	—	560,716	560,716
Exchange differences arising on translation	—	—	—	—	—	6,547	—	—	6,547
Surplus on remeasurement of retirement benefits	—	—	—	—	—	—	—	10,268	10,268
Income tax effect relating to retirement benefits	—	—	—	—	—	—	—	(1,694)	(1,694)
Fair value losses of available-for-sale securities arising during the year	—	—	—	(89,234)	—	—	—	—	(89,234)
Amount reclassified to the profit or loss upon disposal of available-for-sale securities	—	—	—	(697)	—	—	—	—	(697)
Amount reclassified to the profit or loss upon impairment of available-for-sale securities	—	—	—	4,473	—	—	—	—	4,473
Share of reserves of associates	—	—	—	(53)	—	—	—	—	(53)
Income tax effect relating to disposal of available-for-sale securities	—	—	—	12	—	—	—	—	12
Income tax effect relating to fair value change of available-for-sale securities	—	—	—	13,086	—	—	—	—	13,086
Other comprehensive (expense) income	—	—	—	(72,413)	—	6,547	—	8,574	(57,292)
Total comprehensive (expense) income for the year	—	—	—	(72,413)	—	6,547	—	569,290	503,424
Interim dividend paid for financial year 2011	10	—	—	—	—	—	—	(65,250)	(65,250)
Final dividend paid for financial year 2010	10	—	—	—	—	—	—	(152,250)	(152,250)
Earmark of retained profits as regulatory reserve	—	—	—	—	—	—	77,000	(77,000)	—
<b>At 31 December 2011 (as restated)</b>	<u>217,500</u>	<u>1,542,817</u>	<u>(182)</u>	<u>33,807</u>	<u>1,388,500</u>	<u>21,648</u>	<u>408,000</u>	<u>3,260,642</u>	<u>6,872,732</u>

The retained profits of the Group included retained profits of HK\$66,564,000 (2011: retained profits of HK\$37,896,000) retained by the associates of the Group.

The regulatory reserve is set up in compliance with the Hong Kong Monetary Authority's requirements and is distributable to owners of the Bank subject to consultation with the Hong Kong Monetary Authority.

The general reserve comprises transfers from previous years' retained profits.

## CONSOLIDATED STATEMENT OF CASH FLOWS

	2012 HK\$'000	2011 HK\$'000
<b>OPERATING ACTIVITIES</b>		
Profit before taxation	646,385	667,652
Adjustments for:		
Net interest income	(836,908)	(815,321)
Reversal of impairment allowances on loans and advances	(65,228)	(107,188)
Net losses on disposal of property and equipment	1,861	4,128
Net gains on disposal of available-for-sale securities	(594)	(697)
Net gains on disposal of and fair value adjustments on investment properties	(12,206)	(9,065)
Impairment loss on available-for-sale securities	–	4,473
Share of profits of associates	(36,028)	(18,056)
Net (gains) losses on fair value hedge	(1,200)	20,679
Dividend income from investments	(10,799)	(9,820)
Depreciation	59,209	54,742
Release of prepaid lease payments for land	66	66
Exchange adjustments	818	2,204
Operating cash flows before movements in operating assets and liabilities	<u>(254,624)</u>	<u>(206,203)</u>
(Increase) decrease in operating assets:		
Money at call and short notice with original maturity over three months	(1,738,466)	(987,888)
Exchange fund bills with original maturity over three months	(50,061)	299,500
Placements with banks and other financial institutions with original maturity over three months	(1,975,578)	506,294
Financial assets at fair value through profit or loss	632,179	(71,136)
Advances to customers	2,187,309	(3,237,766)
Advances to banks and other financial institutions	(659,433)	(980,509)
Other accounts	(254,426)	(41,491)
Increase (decrease) in operating liabilities:		
Deposits and balances of banks and other financial institutions with original maturity over three months	1,003,864	(581)
Financial assets sold under repurchase agreements	13,029	420,652
Deposits from customers	2,693,035	1,315,494
Certificates of deposits	(877,926)	1,545,562
Derivative financial instruments	(51,127)	54,607
Other accounts and accruals	127,317	64,126
Cash generated from (used in) operations	<u>795,092</u>	<u>(1,319,339)</u>
Hong Kong Profits Tax paid	(99,265)	(118,437)
Overseas tax paid	(16,409)	(17,461)
Interest received	1,219,979	1,112,206
Interest paid	<u>(605,553)</u>	<u>(436,416)</u>
<b>NET CASH FROM (USED IN) OPERATING ACTIVITIES</b>	<u><b>1,293,844</b></u>	<u><b>(779,447)</b></u>

## CONSOLIDATED STATEMENT OF CASH FLOWS - continued

	2012 HK\$'000	2011 HK\$'000
<b>INVESTING ACTIVITIES</b>		
Interest received from available-for-sale securities and held-to-maturity securities	274,151	222,805
Dividends received on investments	10,799	9,820
Dividends received from associates	7,360	1,050
Purchase of held-to-maturity securities	(20,184,070)	(6,786,192)
Purchase of available-for-sale securities	(2,168,631)	(703,916)
Purchase of property and equipment	(70,105)	(247,951)
Proceeds from redemption of held-to-maturity securities	18,872,132	9,376,156
Proceeds from sale and redemption of available-for-sale securities	1,748	39,972
Proceeds from disposal of property and equipment	6	–
Proceeds from disposal of investment properties	4,316	–
<b>NET CASH (USED IN) FROM INVESTING ACTIVITIES</b>	<b><u>(3,252,294)</u></b>	<b><u>1,911,744</u></b>
<b>FINANCING ACTIVITIES</b>		
Interest paid on loan capital	(65,225)	(64,325)
Repurchase of loan capital	–	(783,196)
Dividends paid	(200,100)	(217,500)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b><u>(265,325)</u></b>	<b><u>(1,065,021)</u></b>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(2,223,775)</b>	<b>67,276</b>
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>	<b><u>17,092,730</u></b>	<b><u>17,025,454</u></b>
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	<b><u><u>14,868,955</u></u></b>	<b><u><u>17,092,730</u></u></b>
Represented by:		
Cash and balances with banks and other financial institutions	6,060,810	6,393,092
Money at call and short notice with original maturity of less than three months	7,565,351	7,549,078
Exchange fund bills with original maturity of less than three months	499,995	3,299,912
Placements with banks and other financial institutions with original maturity of less than three months	1,309,116	664,188
Deposits and balances of banks and other financial institutions with original maturity of less than three months	(566,317)	(813,540)
	<b><u><u>14,868,955</u></u></b>	<b><u><u>17,092,730</u></u></b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. BASIS OF PREPARATION

The financial information in this final results announcement does not constitute the Group's statutory financial statements for the year ended 31 December 2012 but is derived from those financial statements.

The accounting policies and methods of computation used in the preparation of these final results are consistent with those adopted in the preparation of the Group's annual statutory financial statements for the year ended 31 December 2011 except that the Group has applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which have or will become effective.

### **Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs")**

In the current year, the Group has applied (i) the new and revised HKFRSs that have become effective and (ii) certain new and revised HKFRSs in advance of their effective date issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), as follows:

#### **HKFRSs that have become effective for the year**

Amendments to HKAS 12	Deferred tax - Recovery of underlying assets
Amendments to HKFRS 7	Disclosures - Transfers of financial assets

#### **HKFRSs that have been early applied for the year**

HKFRS 10	Consolidated financial statements
HKFRS 11	Joint arrangements
HKFRS 12	Disclosure of interests in other entities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition guidance
HKAS 27 (as revised in 2011)	Separate financial statements
HKAS 28 (as revised in 2011)	Investments in associates and joint ventures

Except as described below, the application of the above new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and the Group's financial positions for the current and prior years and / or on the disclosures set out in the consolidated financial statements.

#### **Amendments to HKAS 12 Deferred tax: Recovery of underlying assets**

The Group has applied for the first time the amendments to HKAS 12 "Deferred tax: Recovery of underlying assets" in the current year. Under the amendments, investment properties that are measured using the fair value model in accordance with HKAS 40 "Investment property" are presumed to be recovered entirely through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. BASIS OF PREPARATION - continued

### Application of New and Revised Hong Kong Financial Reporting Standards (“HKFRSs”) - continued

#### Amendments to HKAS 12 Deferred tax: Recovery of underlying assets - continued

The Group measures its investment properties using the fair value model. As a result of the application of the amendments to HKAS 12, the directors reviewed the Group’s investment property portfolios in Hong Kong and the People’s Republic of China (the “PRC”) and concluded that all of the Group’s investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time. Therefore, the directors have determined that the ‘sale’ presumption set out in the amendments to HKAS 12 is not rebutted.

The application of the amendments to HKAS 12 has resulted in the Group not recognising any deferred taxes on changes in fair value of the investment properties located in Hong Kong as the Group is not subject to any income taxes on disposal of these investment properties. Previously, the Group recognised deferred taxes on changes in fair value of investment properties on the basis that the entire carrying amounts of the properties were recovered through use.

Upon the application of the amendments to HKAS 12, the Group recognises deferred tax on changes in fair value of its investment property in the PRC on the basis that the Group is subject to income taxes and land appreciation tax on disposal of this investment property.

The amendments to HKAS 12 have been applied retrospectively, resulting in the Group’s deferred tax liabilities being decreased by HK\$8,879,000 as at 1 January 2011, with the corresponding credit being recognised in retained profits. Similarly, the deferred tax liabilities have been decreased by HK\$10,140,000 as at 31 December 2011.

In the current year, no deferred taxes have been provided for changes in fair value of the Group’s investment properties located in Hong Kong. The change in accounting policy has resulted in the Group’s income tax expense for the years ended 31 December 2012 and 31 December 2011 being reduced by HK\$1,340,000 and HK\$1,261,000 respectively and hence resulted in profit for the years ended 31 December 2012 and 31 December 2011 being increased by HK\$1,340,000 and HK\$1,261,000 respectively.

#### Summary of the effects of the above change in accounting policy

The effects of change in accounting policy described above on the results for the current and prior years by line items are as follows:

	<b>2012</b>	<b>2011</b>
	<b>HK\$’000</b>	<b>HK\$’000</b>
Decrease in taxation	<b>1,340</b>	1,261
Increase in profit for the year	<b><u>1,340</u></b>	<u>1,261</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. BASIS OF PREPARATION - continued

### Application of New and Revised Hong Kong Financial Reporting Standards (“HKFRSs”) - continued

#### Amendments to HKAS 12 Deferred tax: Recovery of underlying assets - continued

#### Summary of the effects of the above change in accounting policy - continued

The effects of the above change in accounting policy on the financial positions of the Group as at 1 January 2011 and 31 December 2011 are as follows:

	As at 1 January 2011 HK\$'000 (originally stated)	Adjustments HK\$'000	As at 1 January 2011 HK\$'000 (restated)	As at 31 December 2011 HK\$'000 (originally stated)	Adjustments HK\$'000	As at 31 December 2011 HK\$'000 (restated)
Deferred tax (liabilities) assets	<u>(20,357)</u>	<u>8,879</u>	<u>(11,478)</u>	<u>6,721</u>	<u>10,140</u>	<u>16,861</u>
Total effects on net assets	<u>6,577,929</u>	<u>8,879</u>	<u>6,586,808</u>	<u>6,862,592</u>	<u>10,140</u>	<u>6,872,732</u>
Retained earnings	<u>2,976,973</u>	<u>8,879</u>	<u>2,985,852</u>	<u>3,250,502</u>	<u>10,140</u>	<u>3,260,642</u>
Total effects on equity	<u>6,577,929</u>	<u>8,879</u>	<u>6,586,808</u>	<u>6,862,592</u>	<u>10,140</u>	<u>6,872,732</u>

The effect of the above change in accounting policy on the financial positions of the Group as at 31 December 2012 is as follows:

	As at 31 December 2012 HK\$'000 (restated)
Decrease in deferred tax liabilities	<u>1,340</u>
Total effects on net assets	<u>1,340</u>
Increase in retained earnings	<u>1,340</u>
Total effects on equity	<u>1,340</u>

The effects of the above change in accounting policy on the Group’s basic earnings per share for the current and prior years are insignificant.

#### Amendments to HKFRS 7 Disclosures - Transfers of financial assets

The Group has applied for the first time the amendments to HKFRS 7 Disclosures - Transfers of financial assets in the current year. The amendments increase the disclosure requirements for transactions involving the transfer of financial assets in order to provide greater transparency around risk exposures when financial assets are transferred.

The Group entered into repurchase agreements with an entity to sell held-to-maturity securities and available-for-sale securities subject to a master agreement to repurchase these securities at the agreed dates and prices. As the Group has not transferred the significant risks and rewards relating to these held-to-maturity securities and available-for-sale securities, it continues to recognise the full carrying amounts of the held-to-maturity securities and available-for-sale securities, and has recognised the cash received on the transfer as financial assets sold under repurchase agreements (see note 19). The relevant disclosures have been made regarding the transfer of these held-to-maturity securities and available-for-sale securities, on application of the amendments to HKFRS 7. In accordance with the transitional provisions set out in the amendments to HKFRS 7, the Group has not provided comparative information for the disclosures required by the amendments.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. BASIS OF PREPARATION - continued

### Application of New and Revised Hong Kong Financial Reporting Standards (“HKFRSs”) - continued

#### New and revised standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011). To follow the accounting policies of the ultimate holding company, the Group has early adopted these new and revised standards in advance of its effective date of 1 January 2013.

Key requirements of these five standards are described below:

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. HK(SIC) - INT 12 Consolidation - Special purpose entities will be withdrawn upon the effective date of HKFRS 10. Under HKFRS 10, there is only one basis for consolidation, that is, control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 Interests in joint ventures. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. HK(SIC) - INT 13 Jointly controlled entities - Non-monetary contributions by venturers will be withdrawn upon the effective date of HKFRS 11. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas joint ventures under HKAS 31 can be accounted for using the equity method of accounting or proportionate consolidation.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and / or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards. As at 31 December 2012, the Group did not have interests in any unconsolidated structured entities.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013 with earlier application permitted provided that all of these standards are applied at the same time.

The above new and revised standards require retrospective application with certain exceptions. The directors have performed analysis of the impact of the application of the amendments and determined that interests in jointly controlled entities previously recorded in the financial statements should be classified as interests in associates when all facts and circumstances are considered upon the early adoption of these new and revised standards. The prior year's classification has been amended. It had no material impact on the consolidated financial statements for the current and prior years.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2. NEW AND REVISED HKFRSs ISSUED BUT NOT YET EFFECTIVE

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRS 7	Disclosures - Offsetting financial assets and financial liabilities <sup>1</sup>
Amendments to HKFRS 9 and HKFRS 7	Mandatory effective date of HKFRS 9 and transition disclosures <sup>3</sup>
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment entities <sup>2</sup>
Amendments to HKAS 1	Annual improvements to HKFRSs 2009-2011 cycle <sup>1</sup>
HKFRS 9	Financial instruments <sup>3</sup>
HKFRS 13	Fair value measurement <sup>1</sup>
Amendments to HKAS 1	Presentation of items of other comprehensive income <sup>4</sup>
Amendments to HKAS 32	Offsetting financial assets and financial liabilities <sup>2</sup>
HK(IFRIC) - INT 20	Stripping costs in the production phase of a surface mine <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2013.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2014.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2015.

<sup>4</sup> Effective for annual periods beginning on or after 1 July 2012.

#### **Amendments to HKAS 32 Offsetting financial assets and financial liabilities and amendments to HKFRS 7 Disclosures - Offsetting financial assets and financial liabilities**

The amendments to HKAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of “currently has a legally enforceable right of set-off” and “simultaneous realisation and settlement”.

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments to HKFRS 7 are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

The directors anticipate that the application of these amendments to HKAS 32 and HKFRS 7 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2. NEW AND REVISED HKFRSs ISSUED BUT NOT YET EFFECTIVE - continued

#### **HKFRS 9 Financial instruments**

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

All recognised financial assets that are within the scope of HKAS 39 “Financial instruments: Recognition and measurement” are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors anticipate that the adoption of HKFRS 9 in the future may have significant impact on amounts reported in respect of the Group’s financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

#### **HKFRS 13 Fair value measurement**

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 “Financial instruments: Disclosures” will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that the application of the new standard may affect certain amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2. NEW AND REVISED HKFRSs ISSUED BUT NOT YET EFFECTIVE - continued

#### Amendments to HKAS 1 Presentation of items of other comprehensive income

The amendments to HKAS 1 “Presentation of items of other comprehensive income” introduce new terminology for the “statement of comprehensive income” and “income statement”. Under the amendments to HKAS 1, a ‘statement of comprehensive income’ is renamed as a ‘statement of profit or loss and other comprehensive income’ and an ‘income statement’ is renamed as a ‘statement of profit or loss’. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis - the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in future accounting periods.

The directors anticipated that the application of the other new and revised standards, amendments or interpretation will have no material impact on the consolidated financial statements.

### 3. SEGMENT INFORMATION

#### (a) Operating segments

The Group’s operating segments, which are also the reportable segments, based on information regularly reviewed by the chief operating decision maker (Executive Committee) of the Group for the purpose of allocating resources to segments and assessing their performance on business divisions of the Group, are as follows:

The corporate and retail banking services provided by the Group are principally lending and trade finance facilities, auto financing, consumer financing, overdraft facilities, mandatory provident fund services, provision of fixed deposits, current and savings accounts, credit cards and personal wealth management services. The Group also provides automated telephone and internet banking services to its customers. Other banking services offered include remittance and money exchange, safe deposit boxes, autopay and direct debit services.

Treasury activities mainly comprise inter-bank placement and deposit transactions, management of overall interest rate risk and liquidity of the Group and centralised cash management. Income from foreign exchange activities is generated from services provided to customers in the form of foreign exchange trading and forward contracts, and from the Bank’s cash management activities through foreign currency funding swaps.

Securities dealing activities of the Group include securities trading, stockbroking and futures broking.

Others comprise investment holding, insurance, other investment advisory services and property investments.

No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 3. SEGMENT INFORMATION - continued

#### (a) Operating segments - continued

(i) Operating segment information for the year ended 31 December 2012 is presented below:

#### Operating segment revenues and results

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Interest income from external customers	1,012,559	548,938	2,323	-	-	1,563,820
Interest expense to external customers	(567,076)	(159,836)	-	-	-	(726,912)
Inter-segment interest income (Note 1)	255,975	-	-	-	(255,975)	-
Inter-segment interest expense (Note 1)	-	(255,975)	-	-	255,975	-
Net interest income	701,458	133,127	2,323	-	-	836,908
Fee and commission income	137,194	-	116,755	-	-	253,949
Fee and commission expenses	(64,006)	-	(578)	-	-	(64,584)
Net gains on financial instruments at fair value through profit or loss	677	56,796	-	-	-	57,473
Net gains on fair value hedge	-	1,200	-	-	-	1,200
Other operating income (Note 2)	84,632	108,228	-	44,140	-	237,000
Segment revenue						
Total operating income	859,955	299,351	118,500	44,140	-	1,321,946
Comprising:						
- segment revenue from customers	603,980	555,326	118,500	44,140		
- inter-segment transactions	255,975	(255,975)	-	-		
Operating expenses (Note 3)	(470,941)	(30,213)	(69,493)	(10,769)	-	(581,416)
Reversal of impairment allowances on loans and advances	65,228	-	-	-	-	65,228
Net losses on disposal of property and equipment	(1,852)	-	-	(9)	-	(1,861)
Net gains on disposal of available-for-sale securities	-	-	-	594	-	594
Net gains on disposal of and fair value adjustments on investment properties	-	-	-	12,206	-	12,206
Segment profit	452,390	269,138	49,007	46,162	-	816,697
Unallocated corporate expenses						(207,175)
Unallocated corporate income						835
						610,357
Share of profits of associates						36,028
Profit before taxation						646,385

Notes: 1. Inter-segment pricing for funding transactions is charged at prevailing customer deposit interest rates.

2. The difference between the other operating income in the consolidated income statement and the other operating income in the operating segments is the unallocated corporate income.

3. The difference between the operating expenses in the consolidated income statement and the operating expenses in the operating segments is the unallocated corporate expenses.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 3. SEGMENT INFORMATION - continued

#### (a) Operating segments - continued

(i) Operating segment information for the year ended 31 December 2012 is presented below: - continued

#### Operating segment assets and liabilities as at 31 December 2012

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Consolidated HK\$'000
<b>Assets</b>					
Segment assets	48,290,655	31,156,460	232,982	437,396	80,117,493
Interests in associates					182,970
Unallocated corporate assets					454,902
Consolidated total assets					<u>80,755,365</u>
<b>Liabilities</b>					
Segment liabilities	67,818,689	5,172,703	174,138	65,204	73,230,734
Unallocated corporate liabilities					150,551
Consolidated total liabilities					<u>73,381,285</u>

#### Other information - amounts included in the measure of segment results and segment assets

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Capital expenditure during the year	35,531	1,178	243	508	32,645	70,105
Depreciation	36,227	1,475	5,295	179	16,033	59,209
Release of prepaid lease payments for land	<u>66</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>66</u>

The accounting policies of the operating segments are the same as the Group's accounting policies.

All direct costs incurred by different segments are grouped under respective segments. Indirect costs and support functions' costs are allocated to various segments and products based on effort and time spent while segments' other operating income is allocated depending on the nature of costs incurred. Costs and support functions' costs and income related to corporate activities that cannot be reasonably allocated to segments or products are grouped as unallocated corporate expenses and unallocated corporate income respectively.

Assets and liabilities related to corporate activities that cannot be reasonably allocated to segments, products and support functions are grouped as unallocated corporate assets and liabilities. All direct segment assets and liabilities are grouped under respective segments.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 3. SEGMENT INFORMATION - continued

#### (a) Operating segments - continued

(ii) Operating segment information for the year ended 31 December 2011 is presented below:

#### Operating segment revenues and results

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Interest income from external customers	827,367	540,008	2,614	-	-	1,369,989
Interest expense to external customers	(442,555)	(112,113)	-	-	-	(554,668)
Inter-segment interest income (Note 1)	179,437	-	-	-	(179,437)	-
Inter-segment interest expense (Note 1)	-	(179,437)	-	-	179,437	-
Net interest income	564,249	248,458	2,614	-	-	815,321
Fee and commission income	124,152	-	152,105	-	-	276,257
Fee and commission expenses	(58,219)	-	(315)	-	-	(58,534)
Net gains (losses) on financial instruments at fair value through profit or loss	183	(100,692)	-	(1,909)	-	(102,418)
Net losses on fair value hedge	-	(20,679)	-	-	-	(20,679)
Other operating income (expenses)	316,206	54,168	(2)	34,483	-	404,855
Segment revenue						
Total operating income	946,571	181,255	154,402	32,574	-	1,314,802
Comprising:						
- segment revenue from customers	767,134	360,692	154,402	32,574		
- inter-segment transactions	179,437	(179,437)	-	-		
Operating expenses (Note 2)	(467,071)	(30,618)	(71,234)	(8,706)	-	(577,629)
Reversal of impairment allowances on loans and advances	107,188	-	-	-	-	107,188
Net losses on disposal of property and equipment	(4,127)	-	-	(1)	-	(4,128)
Net gains on disposal of available-for-sale securities	-	-	-	697	-	697
Net gains on disposal of and fair value adjustments on investment properties	-	-	-	9,065	-	9,065
Impairment loss on available-for-sale securities	-	-	-	(4,473)	-	(4,473)
Segment profit	582,561	150,637	83,168	29,156	-	845,522
Unallocated corporate expenses						(195,926)
						649,596
Share of profits of associates						18,056
Profit before taxation						667,652

Notes: 1. Inter-segment pricing for funding transactions is charged at prevailing customer deposit interest rates.

2. The difference between the operating expenses in the consolidated income statement and the operating expenses in the operating segments is the unallocated corporate expenses.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 3. SEGMENT INFORMATION - continued

#### (a) Operating segments - continued

(ii) Operating segment information for the year ended 31 December 2011 is presented below: - continued

#### Operating segment assets and liabilities as at 31 December 2011

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Consolidated HK\$'000
<b>Assets</b>					
Segment assets	50,025,308	26,405,590	130,014	408,662	76,969,574
Interests in associates					153,872
Other unallocated corporate assets					<u>322,326</u>
Consolidated total assets					<u><u>77,445,772</u></u>
<b>Liabilities</b>					
Segment liabilities	65,096,187	5,212,929	69,744	56,972	70,435,832
Unallocated corporate liabilities					<u>147,348</u>
Consolidated total liabilities					<u><u>70,583,180</u></u>

#### Other information - amounts included in the measure of segment results and segment assets

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Capital expenditure during the year	10,084	666	1,287	63	235,851	247,951
Depreciation	31,287	1,616	5,818	108	15,913	54,742
Release of prepaid lease payments for land	66	-	-	-	-	66
Impairment losses on available-for-sale securities	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,473)</u>	<u>-</u>	<u>(4,473)</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 3. SEGMENT INFORMATION - continued

#### (b) Geographical information

Geographical information (including geographical analysis of total segment revenue) is analysed by the Group based on the locations of the principal operations of the branches and subsidiaries which are responsible for reporting the results or booking the assets. Non-current assets presented below are based on the location of the entities' country of domicile which is the same as the location of the non-current assets.

Details of geographical information are set out below:

	2012						
	Total operating income HK\$'000	Profit before taxation HK\$'000	Total assets HK\$'000	Total liabilities HK\$'000	Total contingent liabilities and commitments HK\$'000	Non-current assets HK\$'000	Capital expenditure during the year HK\$'000
Hong Kong	1,220,635	569,471	78,627,449	72,677,568	22,673,877	1,286,546	68,057
Macau and Shantou, Mainland China	85,984	67,172	1,533,533	631,873	376,181	12,915	2,004
America	16,162	9,742	594,383	71,844	15,215	170	44
Total	<u>1,322,781</u>	<u>646,385</u>	<u>80,755,365</u>	<u>73,381,285</u>	<u>23,065,273</u>	<u>1,299,631</u>	<u>70,105</u>
	2011						
	Total operating income HK\$'000	Profit before taxation HK\$'000	Total assets HK\$'000	Total liabilities HK\$'000	Total contingent liabilities and commitments HK\$'000	Non-current assets HK\$'000	Capital expenditure during the year HK\$'000
Hong Kong (restated)	1,211,607	588,642	75,418,775	69,606,383	17,496,575	1,239,949	247,621
Macau and Shantou, Mainland China	89,786	72,124	1,490,218	889,429	263,082	12,913	234
America	13,409	6,886	546,919	87,368	37,677	172	96
Total (restated)	<u>1,314,802</u>	<u>667,652</u>	<u>77,455,912</u>	<u>70,583,180</u>	<u>17,797,334</u>	<u>1,253,034</u>	<u>247,951</u>

Note: Total operating income consists of net interest income, net fee and commission income, net gains (losses) on financial instruments at fair value through profit or loss, net gains (losses) on fair value hedge and other operating income.

Non-current assets consist of interests in associates, investment properties, property and equipment, prepaid lease payments for land (non-current portion) and goodwill.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 4. NET INTEREST INCOME

	<b>2012</b>	<b>2011</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Interest income		
Balances and placements with banks and other financial institutions	<b>317,724</b>	281,526
Investments in securities	<b>293,085</b>	260,547
Loans and advances	<b>890,160</b>	797,409
Interest rate swaps	<b>62,851</b>	30,507
	<u><b>1,563,820</b></u>	<u>1,369,989</u>
Interest expense		
Deposits and balances from banks and customers	<b>(588,238)</b>	(449,237)
Financial assets sold under repurchase agreements	<b>(4,640)</b>	(4,084)
Certificates of deposit	<b>(31,417)</b>	(7,126)
Loan capital in issue	<b>(66,910)</b>	(73,635)
Interest rate swaps	<b>(35,707)</b>	(20,586)
	<u><b>(726,912)</b></u>	<u>(554,668)</u>
Net interest income	<u><b>836,908</b></u>	<u>815,321</u>
Included within interest income		
Interest income on impaired loans and advances	<u><b>374</b></u>	<u>1,214</u>

Included within interest income and interest expense are HK\$1,484,940,000 (2011: HK\$1,297,997,000) and HK\$691,205,000 (2011: HK\$534,082,000) for financial assets and financial liabilities that are not at fair value through profit or loss, respectively.

Included above is interest income from unlisted investments in securities of HK\$293,085,000 (2011: HK\$260,547,000).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 5. NET FEE AND COMMISSION INCOME

	2012 HK\$'000	2011 HK\$'000
Fee and commission income		
Securities dealings	116,755	152,105
Credit lines	15,090	13,364
Trade finance	12,067	11,381
Credit card services	68,880	63,620
Agency services	25,085	22,262
Others	<u>16,072</u>	<u>13,525</u>
Total fee and commission income	253,949	276,257
Less: Fee and commission expense	<u>(64,584)</u>	<u>(58,534)</u>
Net fee and commission income	<u>189,365</u>	<u>217,723</u>
of which:		
Net fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading nor designated at fair value through profit or loss		
- fee income	104,855	96,043
- fee expenses	<u>(62,511)</u>	<u>(57,547)</u>
	<u>42,344</u>	<u>38,496</u>

### 6. NET GAINS (LOSSES) ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS / NET GAINS (LOSSES) ON FAIR VALUE HEDGE

	2012 HK\$'000	2011 HK\$'000
Net gains (losses) on financial instruments at fair value through profit or loss		
- designated at fair value through profit or loss ( <i>Note 1</i> )	(28,721)	(47,833)
- held for trading ( <i>Note 2</i> )	<u>86,194</u>	<u>(54,585)</u>
	<u>57,473</u>	<u>(102,418)</u>
Net gains (losses) on fair value hedge		
- net losses on hedged items attributable to the hedged risk	(23,068)	(175,030)
- net gains on hedging instruments	<u>24,268</u>	<u>154,351</u>
	<u>1,200</u>	<u>(20,679)</u>

*Note 1: The net gains (losses) on financial instruments designated at fair value through profit or loss in both years were primarily attributable to the changes in credit risk of the structured products and the convertible bonds.*

*Note 2: The net gains (losses) mainly related to interest rate swaps held for trading and cross-currency interest rate swap held for trading. Details of the outstanding contracts as at 31 December 2012 and 2011 are set out in note 13.*

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 7. OTHER OPERATING INCOME

	2012 HK\$'000	2011 HK\$'000
Dividend income		
- Listed investments	6,214	6,128
- Unlisted investments	4,585	3,692
Net exchange gains and net gains from foreign currency contracts	108,228	54,168
Gross rents from investment properties	16,447	14,424
Less: Outgoings	(1,206)	(1,133)
Net rental income	15,241	13,291
Safe deposit box rentals	36,136	32,181
Insurance underwriting premium less claims and commission expense	18,100	11,372
Other banking services income	45,117	44,154
Recovery of amounts previously written-off in relation to Minibonds Repurchase Scheme ( <i>Note</i> )	–	234,632
Others	4,214	5,237
	<u>237,835</u>	<u>404,855</u>

*Note: The Bank announced on 28 March 2011 that it has entered into an agreement (“Agreement”) with the Lehman Brothers, the trustee and the receiver for the Lehman Brothers Minibonds (“Minibonds”), and fifteen other distributing banks in relation to the recovery of the Minibonds’ underlying collateral (“Collateral”). Pursuant to the Agreement, the Bank received recoveries of amounts previously written-off in the years 2009 and 2010 (included in “Expenses relating to Minibonds Repurchase Scheme” in the consolidated financial statements for the years 2009 and 2010) from the Collateral during the period, net of ex-gratia payments to customers who held the Minibonds, amounting to HK\$234,632,000.*

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 8. OPERATING EXPENSES

	2012 HK\$'000	2011 HK\$'000
Auditor's remuneration	4,304	4,141
Staff costs (including directors' emoluments)		
- Salaries and other costs	423,522	401,432
- Retirement benefits scheme contributions	30,846	28,672
Total staff costs	454,368	430,104
Depreciation	59,209	54,742
Release of prepaid lease payments for land	66	66
Premises and equipment expenses, excluding depreciation / release of prepaid lease payments for land:		
- Rentals and rates for premises	44,030	47,540
- Others	26,367	21,085
Other operating expenses	200,247	215,877
	<u>788,591</u>	<u>773,555</u>

Included in the premises and equipment expenses are minimum lease payments under operating lease of HK\$37,220,000 (2011: HK\$41,243,000).



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 9. TAXATION

	2012 HK\$'000	2011 HK\$'000
The tax charge comprises:		
Hong Kong Profits Tax		
- Current year	84,641	99,708
- Over provision in prior years	<u>(229)</u>	<u>(299)</u>
	84,412	99,409
Overseas taxation		
- Current year	16,815	17,983
- Over provision in prior years	(402)	(418)
Deferred tax ( <i>Note 24</i> )	<u>2,220</u>	<u>(10,038)</u>
	<u>103,045</u>	<u>106,936</u>

Hong Kong Profits Tax is calculated at 16.5% (2011: 16.5%) of the estimated assessable profit for the year.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

The tax charge for the year can be reconciled to the Group's profit before taxation per the consolidated income statement as follows:

	2012 HK\$'000	2011 HK\$'000
Profit before taxation	<u>646,385</u>	<u>667,652</u>
Tax at the domestic income tax rate of 16.5% (2011: 16.5%)	106,654	110,163
Tax effect of share of profits of associates	(5,945)	(2,979)
Tax effect of expenses not deductible for tax purpose	64	3,610
Tax effect of income not taxable for tax purpose	(4,881)	(3,933)
Over provision in prior years	(631)	(717)
Effect of different tax rates of subsidiaries and branches operating in other jurisdictions	5,350	1,630
Others	<u>2,434</u>	<u>(838)</u>
Tax charge for the year	<u>103,045</u>	<u>106,936</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 10. DIVIDENDS

	<b>2012</b> <b>HK\$'000</b>	<b>2011</b> <b>HK\$'000</b>
Dividends recognised as distribution during the year:		
2012 Interim - HK\$0.11 (2011: 2011 Interim - HK\$0.15) per share	<b>47,850</b>	65,250
2011 Final - HK\$0.35 (2011: 2010 Final - HK\$0.35) per share	<u><b>152,250</b></u>	<u>152,250</u>
	<u><b>200,100</b></u>	<u>217,500</u>

The final dividend of HK\$0.35 per share, totalling HK\$152,250,000, in respect of the current financial year (2011: HK\$0.35 per share, totalling HK\$152,250,000) has been proposed by the directors and is subject to approval by the shareholders in the next annual general meeting.

### 11. EARNINGS PER SHARE - BASIC

The calculation of basic earnings per share is based on the profit attributable to owners of the Bank of HK\$543,340,000 (2011: HK\$560,716,000) and on 435,000,000 (2011: 435,000,000) ordinary shares in issue during the year.

No dilution earnings per share is presented as no potential ordinary shares were in issue for the year ended 31 December 2012 (2011: nil).

### 12. CASH AND SHORT-TERM FUNDS

	<b>2012</b> <b>HK\$'000</b>	<b>2011</b> <b>HK\$'000</b>
Cash and balances with banks and other financial institutions	<b>6,060,810</b>	6,393,092
Money at call and short notice	<b>10,472,554</b>	8,717,815
Exchange fund bills	<u><b>798,513</b></u>	<u>3,548,369</u>
	<u><b>17,331,877</b></u>	<u>18,659,276</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 13. DERIVATIVE FINANCIAL INSTRUMENTS

	2012			2011		
	Notional amount HK\$'000	Fair values		Notional amount HK\$'000	Fair values	
		Assets HK\$'000	Liabilities HK\$'000		Assets HK\$'000	Liabilities HK\$'000
Derivatives held for trading						
- Foreign currency forward contracts	6,037,758	16,584	21,380	1,318,444	8,181	5,783
- Interest rate swaps	796,280	4,562	95,192	1,359,407	5,320	190,608
- Cross-currency interest rate swap	36,040	-	1,582	40,360	-	6,719
Derivatives designated as hedging instruments						
- Interest rate swaps	5,286,864	166,765	120,792	3,161,088	116,055	51,907
- Cross-currency interest rate swaps	233,306	-	9,710	233,306	-	10,679
		<u>187,911</u>	<u>248,656</u>		<u>129,556</u>	<u>265,696</u>

The currencies of foreign currency forward buy contracts as at 31 December 2012 mainly comprise Hong Kong dollars and Australian dollars (2011: Hong Kong dollars, Renminbi and Australian dollars), and the currencies in the forward sale contracts mainly comprise Renminbi and United States dollars (2011: Renminbi and United States dollars). As at 31 December 2012 and 2011, all of these contracts have a settlement date within one year from the end of the reporting period.

The remaining maturity of interest rate swaps and cross-currency interest rate swap held for trading ranged from 1 to 8 years (2011: 1 to 9 years).

Of the interest rate swaps held for trading with a notional amount of HK\$796,280,000 (2011: HK\$1,359,407,000) as at 31 December 2012 and 2011, the notional amount of HK\$60,000,000 (2011: HK\$60,000,000) was floating-to-fixed rate swaps, the remaining notional amount of HK\$736,280,000 (2011: HK\$1,299,407,000) was fixed-to-floating rate swaps.

The cross-currency interest rate swap held for trading as at 31 December 2012 and 2011 was a floating-to-floating rate swap paying Japanese yen receiving United States dollars.

The replacement costs and credit risk weighted amounts of derivative exposures calculated based on the Banking (Capital) Rules of the Hong Kong Banking Ordinance are as follows:

	2012			2011		
	Notional amount HK\$'000	Replacement cost HK\$'000	Credit risk	Notional amount HK\$'000	Replacement cost HK\$'000	Credit risk
			weighted amount HK\$'000			weighted amount HK\$'000
Exchange rate contracts	6,307,104	16,584	22,865	1,592,110	8,181	14,662
Interest rate contracts	6,083,144	171,327	53,978	4,520,495	121,375	38,601
		<u>187,911</u>	<u>76,843</u>		<u>129,556</u>	<u>53,263</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 13. DERIVATIVE FINANCIAL INSTRUMENTS - continued

Replacement cost is the cost which would be incurred by the Group if it was required to enter into another contract to replace the existing transaction or existing contract with another counterparty with substantially the same economic consequences for the Group and is calculated by marking-to-market the existing transaction or contract. If the resultant value is positive for the Group, the replacement cost shall be the resultant value of the existing transaction or existing contract. If the resultant value is negative for the Group, the replacement cost shall be zero. Replacement cost is a close approximation of the credit risk for these contracts at the end of the reporting period.

The derivative financial instruments including exchange rate contracts and interest rate contracts have been recognised in the statements of financial position at fair value.

The fair values of the derivative financial instruments do not take into account the effect of any bilateral netting agreement.

#### **Fair value hedge of fixed-rate bonds**

The Group designates certain interest rate swaps and cross-currency interest rate swaps as fair value hedges of the fair value of available-for-sale debt securities with carrying amounts of HK\$3,990,868,000 (2011: HK\$1,638,649,000) as at 31 December 2012. The purpose is to minimise its exposure to fair value changes of its fixed-rate bonds by swapping these fixed-rate bonds from fixed rates to floating rates. The interest rate swaps and cross-currency interest rate swaps and the corresponding fixed-rate bonds have the same terms and management of the Group considers that the interest rate swaps and cross-currency interest rate swaps are highly effective hedging instruments. The remaining maturity of these interest rate swaps, cross-currency interest rate swaps and debt securities ranged from 2 to 10 years.

During the years ended 31 December 2012 and 2011, the above fair value hedges were effective in hedging the fair value exposures to interest rate movements and as a result, both the gains in fair value of the bonds of HK\$25,349,000 (2011: gains of HK\$59,347,000) and losses in fair value of the interest rate swaps of HK\$25,759,000 (2011: losses of HK\$50,107,000) and gains in fair value of cross-currency interest rate swaps of HK\$478,000 (2011: losses of HK\$8,354,000) were included in the consolidated income statement.

#### **Fair value hedge of subordinated note issued**

The Group designates an interest rate swap as fair value hedge of the fair value change of the interest rate movement of the US\$225 million subordinated note issued (see note 22 for details). The purpose is to minimise its exposure to fair value changes of its fixed-rate note by swapping fixed-rate note from fixed rates to floating rates. The interest rate swap and the hedged subordinated note have the same terms and management of the Group considers that the interest rate swap is a highly effective hedging instrument.

The hedge was effective in hedging the fair value exposure to interest rate movements and as a result, both the increase in fair value of the note of HK\$48,417,000 (2011: increase in fair value of HK\$234,377,000) and gains in fair value of the interest rate swap of HK\$49,549,000 (2011: gains of HK\$212,812,000) were included in the consolidated income statement.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 14. INVESTMENTS IN SECURITIES

	Financial assets at fair value through profit or loss				Total HK\$'000
	Held for trading HK\$'000	Designated at fair value HK\$'000	Available-for-sale securities HK\$'000	Held-to-maturity securities HK\$'000	
<b>2012</b>					
Equity securities:					
Listed in Hong Kong	261	–	184,012	–	184,273
Listed overseas	–	–	9,055	–	9,055
	<u>261</u>	<u>–</u>	<u>193,067</u>	<u>–</u>	<u>193,328</u>
Unlisted	–	–	35,610	–	35,610
	<u>261</u>	<u>–</u>	<u>228,677</u>	<u>–</u>	<u>228,938</u>
Debt securities:					
Certificates of deposit	–	–	–	3,693,321	3,693,321
Structured products	–	419,101	–	–	419,101
Convertible bonds	–	794,048	–	–	794,048
Other debt securities - Unlisted	–	–	3,993,540	5,906,699	9,900,239
	<u>–</u>	<u>1,213,149</u>	<u>3,993,540</u>	<u>9,600,020</u>	<u>14,806,709</u>
Total:					
Listed in Hong Kong	261	–	184,012	–	184,273
Listed overseas	–	–	9,055	–	9,055
Unlisted	–	1,213,149	4,029,150	9,600,020	14,842,319
	<u>261</u>	<u>1,213,149</u>	<u>4,222,217</u>	<u>9,600,020</u>	<u>15,035,647</u>
Market value of listed securities:					
Listed in Hong Kong	261	–	184,012	–	184,273
Listed overseas	–	–	9,055	–	9,055
	<u>261</u>	<u>–</u>	<u>193,067</u>	<u>–</u>	<u>193,328</u>
As analysed by issuing entities:					
Central government and central banks	–	–	–	3,382	3,382
Public sector entities	–	–	56,016	196,401	252,417
Banks and other financial institutions	43	419,101	353,885	7,809,345	8,582,374
Corporate entities	218	794,048	3,807,796	1,590,892	6,192,954
Others	–	–	4,520	–	4,520
	<u>261</u>	<u>1,213,149</u>	<u>4,222,217</u>	<u>9,600,020</u>	<u>15,035,647</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 14. INVESTMENTS IN SECURITIES - continued

	Financial assets at fair value through profit or loss				Total HK\$'000
	Held for trading HK\$'000	Designated at fair value HK\$'000	Available-for-sale securities HK\$'000	Held-to-maturity securities HK\$'000	
<b>2011</b>					
Equity securities:					
Listed in Hong Kong	307	–	166,834	–	167,141
Listed overseas	–	–	6,952	–	6,952
	307	–	173,786	–	174,093
Unlisted	–	–	33,053	–	33,053
	307	–	206,839	–	207,146
Debt securities:					
Certificates of deposit	–	–	–	1,571,244	1,571,244
Structured products	–	417,647	–	–	417,647
Convertible bonds	–	1,427,635	–	–	1,427,635
Other debt securities - Unlisted	–	–	1,639,646	6,716,838	8,356,484
	–	1,845,282	1,639,646	8,288,082	11,773,010
Total:					
Listed in Hong Kong	307	–	166,834	–	167,141
Listed overseas	–	–	6,952	–	6,952
Unlisted	–	1,845,282	1,672,699	8,288,082	11,806,063
	307	1,845,282	1,846,485	8,288,082	11,980,156
Market value of listed securities:					
Listed in Hong Kong	307	–	166,834	–	167,141
Listed overseas	–	–	6,952	–	6,952
	307	–	173,786	–	174,093
As analysed by issuing entities:					
Central government and central banks	–	–	–	130,797	130,797
Public sector entities	–	–	56,566	185,187	241,753
Banks and other financial institutions	58	417,647	255,574	6,823,243	7,496,522
Corporate entities	249	1,427,635	1,529,784	1,148,855	4,106,523
Others	–	–	4,561	–	4,561
	307	1,845,282	1,846,485	8,288,082	11,980,156

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 14. INVESTMENTS IN SECURITIES - continued

For the equity securities classified as available-for-sale financial instruments, impairment losses accumulated through the years of HK\$44,879,000 (2011: HK\$65,583,000) and HK\$16,012,000 (2011: HK\$36,262,000) have been provided by the Group and the Bank respectively.

Included in structured products are credit linked notes of HK\$419,101,000 (2011: HK\$372,141,000) and fund linked note of nil (2011: HK\$45,506,000). The credit linked notes held by the Group and the Bank bear three-month LIBOR with spreads range from 1.3% to 2.0% per annum and maturity date ranging from 2015 to 2016. The note issuers are not obligated to repay the debt to the Group and the Bank if the reference entities (rated A1 or above by Moody's as at 31 December 2012 and 2011) default. The fund linked note held by the Group and the Bank bears zero coupon rate with a maturity in 2012. On its maturity date, the principal of the note is guaranteed by the issuer (rated A1 by Moody's as at 31 December 2011) and the return is linked with the performance of an index developed by the issuer.

Unlisted equity securities classified as available-for-sale held by the Group and the Bank amounting to HK\$35,571,000 (2011: HK\$32,974,000) and HK\$31,603,000 (2011: HK\$29,006,000) respectively are measured at cost less impairment. No impairment has been recognised.

Certain held-to-maturity certificates of deposit of HK\$17,054,000 (2011: HK\$15,534,000) held by the San Francisco Branch of the Bank have been pledged to the State of California of the United States of America in compliance with the requirements of the California Financial Code.

Debt securities classified as held-to-maturity amounting to HK\$3,382,000 (2011: HK\$130,797,000) were issued by the Government of Hong Kong Special Administrative Region and the Government of the People's Republic of China ("PRC").

The convertible bonds and the debt securities classified as available-for-sale securities and held-to-maturity securities held by the Group and the Bank are mainly guaranteed or issued by corporates and financial institutions from the PRC, Hong Kong and Australia.

The certificates of deposit classified as held-to-maturity securities held by the Group and the Bank are mainly issued by banks from the PRC, Japan and Hong Kong. Of the above, held-to-maturity certificates of deposit amounting to HK\$1,731,693,000 (2011: HK\$333,072,000) and held-to-maturity debt securities amounting to HK\$900,850,000 (2011: HK\$320,808,000) held by the Group and the Bank are credit exposures with the PRC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 15. ADVANCES AND OTHER ACCOUNTS

	2012 HK\$'000	2011 HK\$'000
Advances to customers		
Bills receivable	373,401	403,729
Trade bills	453,669	302,481
Other advances to customers	<u>38,365,119</u>	<u>40,632,274</u>
	<b>39,192,189</b>	<b>41,338,484</b>
Interest receivable	232,270	162,580
Impairment allowances		
- Individually assessed	(24,054)	(40,553)
- Collectively assessed	<u>(164,506)</u>	<u>(172,015)</u>
	<b>39,235,899</b>	<b>41,288,496</b>
Advances to banks and other financial institutions	<u>2,164,842</u>	<u>1,505,409</u>
	<b>41,400,741</b>	<b>42,793,905</b>
Other accounts	708,477	454,051
	<u><b>42,109,218</b></u>	<u><b>43,247,956</b></u>

Included in the "Other Accounts" of the Group is an amount of approximately HK\$246,484,000 (2011: HK\$200,762,000) placed as reserve funds with the financial institutions in the PRC by the Shantou Branch of the Bank. Among which, HK\$64,861,000 (2011: HK\$88,493,000) and HK\$13,699,000 (2011: HK\$19,249,000) is the mandatory reserve deposit and surplus reserve deposits placed with the People's Bank of China respectively. The mandatory reserve deposits are not available for the Group's daily operation; HK\$167,924,000 (2011: HK\$93,020,000) is the fixed deposits placed with other financial institutions in the PRC in compliance with the requirements of Regulations Governing Foreign Financial Institutions of the PRC.

The remaining balance of "Other Accounts" of the Group amounting to HK\$461,993,000 (2011: HK\$253,289,000) mainly included account receivables from customers in relation to securities dealing of HK\$200,377,000 (2011: HK\$90,528,000) and a variation margin of HK\$94,479,000 (2011: HK\$1,952,000) deposited in a bank for certain interest rate swaps, foreign currency forward contracts and repurchase agreements.

Impairment allowances on advances:

	Individual assessment HK\$'000	Collective assessment HK\$'000	Total HK\$'000
Balance at 1 January 2012	40,553	172,015	212,568
Reversal of impairment allowances (net)	(57,513)	(7,715)	(65,228)
- Increase in impairment allowances	6,214	-	6,214
- Amounts reversed	(63,727)	(7,715)	(71,442)
Amounts written off	(3,709)	-	(3,709)
Recoveries of advances written off in previous years	45,097	-	45,097
Unwinding effect of discount rate	(374)	-	(374)
Exchange difference	-	206	206
Balance at 31 December 2012	<u>24,054</u>	<u>164,506</u>	<u>188,560</u>
Balance at 1 January 2011	21,564	125,089	146,653
Reversal of impairment allowances (net)	(154,050)	46,862	(107,188)
- Increase in impairment allowances	29,575	46,862	76,437
- Amounts reversed	(183,625)	-	(183,625)
Amounts written off	(1,847)	-	(1,847)
Recoveries of advances written off in previous years	176,100	-	176,100
Unwinding effect of discount rate	(1,214)	-	(1,214)
Exchange difference	-	64	64
Balance at 31 December 2011	<u>40,553</u>	<u>172,015</u>	<u>212,568</u>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 15. ADVANCES AND OTHER ACCOUNTS - continued

Details of the impaired loans are as follows:

	2012 HK\$'000	2011 HK\$'000
Gross impaired loans	24,194	78,189
Less: Impairment allowances under individual assessment	<u>(24,054)</u>	<u>(40,553)</u>
Net impaired loans	<u>140</u>	<u>37,636</u>
Gross impaired loans as a percentage of gross advances to customers	<u>0.06%</u>	<u>0.19%</u>
Market value of collateral pledged	<u>76,635</u>	<u>107,078</u>

### 16. INVESTMENT PROPERTIES

	2012 HK\$'000	2011 HK\$'000
At 1 January	127,171	116,400
Net increase in fair value recognised in the income statement	9,390	9,065
Disposals	(1,500)	–
Exchange adjustments	<u>257</u>	<u>1,706</u>
At 31 December	<u>135,318</u>	<u>127,171</u>

All of the Group's property interests held under operating leases to earn rentals and / or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

Net gains on disposal of and fair value adjustments on investment properties:

	2012 HK\$'000	2011 HK\$'000
Net gains on disposal of investment properties	2,816	–
Net gains on fair value adjustments on investment properties	<u>9,390</u>	<u>9,065</u>
	<u>12,206</u>	<u>9,065</u>

Investment properties owned by the Group were revalued at 31 December 2012 by adopting the direct comparison approach and with reference to the recent transactions for similar premises by Vigers Hong Kong Limited, independent professionally qualified valuers. The fair value is mainly arrived at by reference to comparable market transactions for similar properties.

The fair value of investment properties were estimated based on assumptions that there would be no forced sale situation in any manner for these investment properties and the structure of these investment properties were in a reasonable condition at the end of the reporting period.

The investment properties are rented out under operating leases.

The carrying amount of investment properties of the Group comprises:

	2012 HK\$'000	2011 HK\$'000
Leasehold properties		
Held in Hong Kong on medium-term lease (10 - 50 years unexpired)	101,990	94,100
Held outside Hong Kong on medium-term lease (10 - 50 years unexpired)	<u>33,328</u>	<u>33,071</u>
	<u>135,318</u>	<u>127,171</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 17. PROPERTY AND EQUIPMENT

	Leasehold land HK\$'000	Buildings HK\$'000	Equipment HK\$'000	Total HK\$'000
<b>COST</b>				
At 1 January 2012	562,418	372,392	505,334	1,440,144
Additions	13,003	2,893	54,209	70,105
Disposals	–	–	(13,308)	(13,308)
Exchange adjustments	–	–	371	371
At 31 December 2012	<u>575,421</u>	<u>375,285</u>	<u>546,606</u>	<u>1,497,312</u>
<b>ACCUMULATED DEPRECIATION</b>				
At 1 January 2012	90,078	53,963	377,135	521,176
Depreciation	10,927	8,251	40,031	59,209
Eliminated on disposals	–	–	(11,441)	(11,441)
Exchange adjustments	–	–	(12)	(12)
At 31 December 2012	<u>101,005</u>	<u>62,214</u>	<u>405,713</u>	<u>568,932</u>
<b>CARRYING AMOUNTS</b>				
At 31 December 2012	<u><u>474,416</u></u>	<u><u>313,071</u></u>	<u><u>140,893</u></u>	<u><u>928,380</u></u>
<b>COST</b>				
At 1 January 2011	396,264	316,663	515,369	1,228,296
Additions	166,154	55,729	26,068	247,951
Disposals	–	–	(36,330)	(36,330)
Exchange adjustments	–	–	227	227
At 31 December 2011	<u>562,418</u>	<u>372,392</u>	<u>505,334</u>	<u>1,440,144</u>
<b>ACCUMULATED DEPRECIATION</b>				
At 1 January 2011	83,303	47,266	367,956	498,525
Depreciation	6,775	6,697	41,270	54,742
Eliminated on disposals	–	–	(32,202)	(32,202)
Exchange adjustments	–	–	111	111
At 31 December 2011	<u>90,078</u>	<u>53,963</u>	<u>377,135</u>	<u>521,176</u>
<b>CARRYING AMOUNTS</b>				
At 31 December 2011	<u><u>472,340</u></u>	<u><u>318,429</u></u>	<u><u>128,199</u></u>	<u><u>918,968</u></u>

The above items of property and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold land	Over the lease term of leasehold land
Buildings	Over the shorter of the lease term of the land upon which the buildings are situated or 2%
Equipment	10% - 20%

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 17. PROPERTY AND EQUIPMENT - continued

The carrying amounts of leasehold land shown above comprise:

	2012 HK\$'000	2011 HK\$'000
Leasehold land in Hong Kong:		
Held on long-term lease (over 50 years unexpired)	123,565	121,490
Held on medium-term lease (10 - 50 years unexpired)	349,912	347,400
Leasehold land outside Hong Kong:		
Held on medium-term lease (10 - 50 years unexpired)	939	3,450
	<u>474,416</u>	<u>472,340</u>

The carrying amounts of buildings shown above comprise:

	2012 HK\$'000	2011 HK\$'000
Leasehold properties (building)		
Held in Hong Kong on long-term lease (over 50 years unexpired)	193,771	198,308
Held in Hong Kong on medium-term lease (10-50 years unexpired)	112,480	113,144
Held outside Hong Kong on medium-term lease (10-50 years unexpired)	6,820	6,977
	<u>313,071</u>	<u>318,429</u>

### 18. PREPAID LEASE PAYMENTS FOR LAND

The Group's prepaid lease payments for land comprise:

	2012 HK\$'000	2011 HK\$'000
<b>COST</b>		
Outside Hong Kong held on:		
Leases of between 10 to 50 years	2,850	2,850
Net book value at 1 January	2,483	2,535
Release of prepaid operating lease payments	(66)	(66)
Exchange adjustments	6	14
Net book value at 31 December	<u>2,423</u>	<u>2,483</u>
Analysed as:		
Current portion	66	66
Non-current portion	2,357	2,417
Total	<u>2,423</u>	<u>2,483</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 19. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	2012 HK\$'000	2011 HK\$'000
Analysed by collateral type:		
Debt securities classified as:		
Available-for-sale	326,687	228,439
Held-to-maturity	<u>106,994</u>	<u>192,213</u>
	<u><b>433,681</b></u>	<u><b>420,652</b></u>

As at 31 December 2012, debt securities which are classified as available-for-sale and held-to-maturity with carrying amount of HK\$393,490,000 (2011: HK\$295,717,000) and HK\$117,621,000 (2011: HK\$240,883,000) respectively were sold under repurchase agreements with other banks. All repurchase agreements are due within 12 months from the end of the reporting period.

### 20. DEPOSITS FROM CUSTOMERS

	2012 HK\$'000	2011 HK\$'000
Demand deposits and current accounts	5,238,918	4,501,674
Savings deposits	21,557,659	18,357,575
Time, call and notice deposits	<u>40,712,171</u>	<u>41,956,464</u>
	<u><b>67,508,748</b></u>	<u><b>64,815,713</b></u>

### 21. CERTIFICATES OF DEPOSIT

The Group and the Bank have issued certificates of deposit which are measured at amortised cost with a total carrying amount of HK\$667,636,000 as at 31 December 2012 (2011: HK\$1,545,562,000). Included in certificates of deposit are certificates of deposit of HK\$100,000,000 issued at the rate of three-month HIBOR plus 1% which will mature in 2013 and certificates of deposit of HK\$567,636,000 issued at interest rate between 1.0% to 2.9% per annum which will mature in 2013. All certificates of deposit issued are not secured by any collateral.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 22. LOAN CAPITAL

	2012 HK\$'000	2011 HK\$'000
US\$225 million fixed rate subordinated note due 2020 under fair value hedge (after adjustment of hedged interest rate risk) <i>(Notes (a) &amp; (b))</i>	<u>1,898,957</u>	<u>1,852,153</u>

*Notes:*

(a) *This represented subordinated note qualifying as tier 2 capital with face value of US\$225,000,000 issued on 5 November 2010. The note will mature on 4 November 2020. If at any time (on or) after 1 January 2013, the note no longer fully qualify as term subordinated debt for inclusion in Category II - Supplementary Capital of the Bank upon changes to regulatory requirements, the Bank may, at its option and subject to the prior written approval of the HKMA, exercise a change of the status of the note by serving the "Change in Status Notice" to the noteholders. Upon a "Change in Status Notice" becoming effective, the note shall thereafter constitute unsubordinated obligations and the rate of interest on the note shall be reduced from 6% per annum to 5.5% per annum. As the "Change in Status Notice" has not been served, the rate of interest on the note remains at 6% per annum.*

(b) *The subordinated note issued is not secured by any collateral.*

### 23. SHARE CAPITAL

	2012 & 2011 HK\$'000
Authorised: 600,000,000 shares of HK\$0.50 each	<u>300,000</u>
Issued and fully paid: 435,000,000 shares of HK\$0.50 each	<u>217,500</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 24. DEFERRED TAXATION

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2012 HK\$'000	2011 HK\$'000 (Restated)
Deferred tax assets	1,502	16,861
Deferred tax liabilities	<u>(23,574)</u>	<u>(6,897)</u>
	<u>(22,072)</u>	<u>9,964</u>

The following are the major deferred tax assets (liabilities) recognised and movements thereon during the current and prior reporting year:

	Accelerated tax depreciation HK\$'000	Collectively assessed impairment allowance HK\$'000	Investment properties HK\$'000	Revaluation of available- for-sale securities HK\$'000	Remeasurement of retirement benefits HK\$'000	Total HK\$'000
At 1 January 2012						
(as originally stated)	(10,540)	27,869	(13,014)	(2,797)	(1,694)	(176)
Effect of changes in						
accounting policy ( <i>Note 1</i> )	–	–	10,140	–	–	10,140
At 1 January 2012 (as restated)	<u>(10,540)</u>	<u>27,869</u>	<u>(2,874)</u>	<u>(2,797)</u>	<u>(1,694)</u>	<u>9,964</u>
(Charge) to profit or loss						
for the year ( <i>Note 9</i> )	(847)	(1,338)	(35)	–	–	(2,220)
(Charge) to other comprehensive						
income for the year	–	–	–	(29,816)	–	(29,816)
At 31 December 2012	<u>(11,387)</u>	<u>26,531</u>	<u>(2,909)</u>	<u>(32,613)</u>	<u>(1,694)</u>	<u>(22,072)</u>
At 1 January 2011						
(as originally stated)	(13,302)	20,031	(11,191)	(15,895)	–	(20,357)
Effect of changes in						
accounting policy ( <i>Note 1</i> )	–	–	8,879	–	–	8,879
At 1 January 2011 (as restated)	<u>(13,302)</u>	<u>20,031</u>	<u>(2,312)</u>	<u>(15,895)</u>	<u>–</u>	<u>(11,478)</u>
Credit (charge) to profit						
for the year ( <i>Note 9</i> )	2,762	7,838	(562)	–	–	10,038
Credit (charge) to other						
comprehensive						
income for the year	–	–	–	13,098	(1,694)	11,404
At 31 December 2011	<u>(10,540)</u>	<u>27,869</u>	<u>(2,874)</u>	<u>(2,797)</u>	<u>(1,694)</u>	<u>9,964</u>

Under the Enterprise Income Tax Law of the PRC, withholding tax is imposed on profits distributed by the Bank's PRC branch from 1 January 2008 onwards. Deferred taxation has not been provided in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC branch amounting to HK\$209,801,000 (2011: HK\$159,590,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 25. GOODWILL

	2012 HK\$'000	2011 HK\$'000
<b>COST</b>		
At 1 January and 31 December	<b>110,606</b>	110,606
<b>IMPAIRMENT</b>		
At 1 January and 31 December	<u><b>60,000</b></u>	<u>60,000</u>
<b>CARRYING VALUES</b>		
At 31 December	<u><b>50,606</b></u>	<u>50,606</u>

The Group acquired 100% of issued share capital of Chong Hing Insurance Company Limited. The amount of goodwill arising as a result of acquisition was HK\$110,606,000.

For the year ended 31 December 2012, management has reviewed goodwill for impairment testing purposes. The review comprised of a comparison of the carrying amount and value in use of an acquired subsidiary (the smallest cash-generating unit) to which the goodwill has been allocated. The acquired subsidiary is involved in insurance business.

The value in use calculations primarily use cash flow projections based on three-year financial budgets approved by management of the subsidiary and estimated terminal value at the end of the three-year period. There are a number of assumptions and estimates involved for the preparation of cash flow projections for the period covered by the approved budget and estimated terminal value. Key assumptions include the expected growth in revenues and selection of discount rates of 12%.

Value in use is derived at by discounting the expected future cash flows. Management's financial model assumes a flat growth in underwriting profit.

The management of the Group determines that there is no impairment loss on the goodwill for the year ended 31 December 2012 and 2011.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 26. CONTINGENT LIABILITIES AND COMMITMENTS

	2012 HK\$'000	2011 HK\$'000
<b>Contingent liabilities and commitments</b>		
<b>- contractual amounts</b>		
Direct credit substitutes	1,077,350	1,163,474
Trade-related contingencies	425,309	373,802
Forward asset purchases	7,864	8,550
Undrawn formal standby facilities, credit lines and other commitments:		
Which are unconditionally cancellable without prior notice	10,938,340	6,880,736
With an original maturity of one year and under	8,137,008	7,093,803
With an original maturity of over one year	2,420,887	2,210,112
Lease commitments	58,515	66,857
	<u>23,065,273</u>	<u>17,797,334</u>

The credit risk weighted amount of contingent liabilities and commitments is HK\$3,507,559,000 (2011: HK\$3,235,547,000).

The credit risk weighted amount is calculated based on “standardised approach”. The risk weights used in the computation of credit risk weighted amounts range from 0% to 100% (2011: 0% to 100%) which is assessed in accordance with the Banking (Capital) Rules.

Direct credit substitutes included financial guarantees given by the Group and the Bank.

Most of contingent liabilities and commitments are denominated in Hong Kong dollars.

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2012 HK\$'000	2011 HK\$'000
Within one year	24,416	32,258
In the second to fifth years inclusive	33,627	33,998
Over five years	472	601
	<u>58,515</u>	<u>66,857</u>

Operating lease payments represent rental payable by the Group for certain of its office properties. Leases are negotiated for an average term of three years and rentals are fixed.

Capital commitments outstanding at the end of the reporting period are as follows:

	2012 HK\$'000	2011 HK\$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of property and equipment	7,864	8,550

At the end of the reporting period, the Group as lessor had contracted with tenants for the following future minimum lease payments:

	2012 HK\$'000	2011 HK\$'000
Within one year	23,051	2,827
In the second to fifth years inclusive	24,557	640
	<u>47,608</u>	<u>3,467</u>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 27. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following material transactions with related parties:

	Interest, commission and rental income		Interest and rental expenses	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Ultimate holding company / immediate holding company / fellow subsidiaries	<u>9,935</u>	<u>7,777</u>	<u>16,618</u>	<u>25,205</u>
Associates	<u>19,852</u>	<u>16,757</u>	<u>3,260</u>	<u>3,317</u>
Key management personnel ( <i>Note</i> )	<u>5,513</u>	<u>6,514</u>	<u>10,960</u>	<u>9,524</u>

At the end of reporting period, the Group had the following material outstanding balances with related parties:

	Loan to related parties		Deposit from related parties	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Ultimate holding company / immediate holding company / fellow subsidiaries	<u>34,592</u>	<u>36,800</u>	<u>159,663</u>	<u>159,138</u>
Associates	<u>14,337</u>	<u>37,599</u>	<u>97,147</u>	<u>75,730</u>
Key management personnel ( <i>Note</i> )	<u>417,568</u>	<u>969,505</u>	<u>653,558</u>	<u>651,396</u>

The above outstanding balances bear interest at rates similar to those made available to non-related parties. A portion of the loans to related parties are secured with properties, securities and fixed deposit.

Amounts due from related parties are included in advances and other accounts on statement of financial position.

Amounts due to related parties are included in deposits from customers on statement of financial position.

#### Compensation of key management personnel (*Note*)

The remuneration of directors and other members of key management during the year was as follows:

	2012 HK\$'000	2011 HK\$'000
Short-term benefits	<u>66,002</u>	61,726
Post employment benefits	<u>4,873</u>	<u>4,286</u>
	<u>70,875</u>	<u>66,012</u>

The remuneration of directors and key management is reviewed by Remuneration Committee having regard to the performance of individuals and market trends.

*Note: Includes key management personnel, close family members of key management personnel and entity that is controlled or jointly controlled, directly or indirectly, by key management personnel.*

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

### 1. ADVANCES TO CUSTOMERS - BY INDUSTRY SECTORS

The Group's gross advances to customers (including advances booked in overseas branches and subsidiaries) are analysed and reported by industry sectors according to the usage of the loans and / or business activities of the borrowers are as follows:

	2012				
	Gross loans and advances HK\$'000	Collective impairment allowances HK\$'000	Individual impairment allowances HK\$'000	Loans and advances secured by collateral HK\$'000	Gross impaired advances HK\$'000
Loans for use in Hong Kong					
Industrial, commercial and financial					
- Property development	1,366,467	1,347	-	769,767	-
- Property investment	8,924,108	-	1,774	8,857,224	1,774
- Financial concerns	1,741,910	-	-	1,131,827	-
- Stockbrokers	594,689	150	-	438,481	-
- Wholesale and retail trade	1,460,007	5,157	3,273	1,085,418	3,273
- Manufacturing	1,677,166	557	1,098	994,699	1,098
- Transport and transport equipment	754,094	-	-	696,577	-
- Recreational activities	2,154	8	-	2,154	-
- Information technology	15,320	108	-	75	-
- Others	7,114,661	25,619	4,669	3,556,824	4,669
Individuals					
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	475,392	-	-	475,392	-
- Loans for the purchase of other residential properties	6,613,370	238	-	6,611,275	-
- Credit card advances	109,491	4,883	328	2,947	375
- Others	1,717,229	6,561	2,181	1,354,133	2,181
	<u>32,566,058</u>	<u>44,628</u>	<u>13,323</u>	<u>25,976,793</u>	<u>13,370</u>
Trade finance	1,246,727	29,924	8,516	427,959	8,516
Loans for use outside Hong Kong	<u>5,379,404</u>	<u>89,954</u>	<u>2,215</u>	<u>2,564,067</u>	<u>2,308</u>
	<u><u>39,192,189</u></u>	<u><u>164,506</u></u>	<u><u>24,054</u></u>	<u><u>28,968,819</u></u>	<u><u>24,194</u></u>

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

### 1. ADVANCES TO CUSTOMERS - BY INDUSTRY SECTORS - continued

	2011				
	Gross loans and advances HK\$'000	Collective impairment allowances HK\$'000	Individual impairment allowances HK\$'000	Loans and advances secured by collateral HK\$'000	Gross impaired advances HK\$'000
Loans for use in Hong Kong					
Industrial, commercial and financial					
- Property development	2,320,064	2,531	–	725,399	–
- Property investment	8,865,657	–	2,120	8,761,108	1,773
- Financial concerns	2,429,291	–	–	1,285,610	–
- Stockbrokers	577,841	179	–	518,642	–
- Wholesale and retail trade	1,562,043	6,081	5,284	802,006	6,182
- Manufacturing	1,616,168	590	5,452	816,796	9,777
- Transport and transport equipment	881,549	–	–	469,532	–
- Recreational activities	1,089	5	–	1,089	–
- Information technology	424	52	–	178	–
- Others	8,015,559	31,083	6,324	3,393,053	25,598
Individuals					
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	527,447	–	–	527,443	–
- Loans for the purchase of other residential properties	6,459,070	257	–	6,456,622	–
- Credit card advances	76,156	5,507	228	6,698	314
- Others	<u>1,686,550</u>	<u>7,117</u>	<u>5,914</u>	<u>1,323,649</u>	<u>9,897</u>
	35,018,908	53,402	25,322	25,087,825	53,541
Trade finance	1,183,074	31,055	12,243	405,584	21,956
Loans for use outside Hong Kong	<u>5,136,502</u>	<u>87,558</u>	<u>2,988</u>	<u>2,285,455</u>	<u>2,692</u>
	<u><u>41,338,484</u></u>	<u><u>172,015</u></u>	<u><u>40,553</u></u>	<u><u>27,778,864</u></u>	<u><u>78,189</u></u>



## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

### 2. ADVANCES TO CUSTOMERS - BY GEOGRAPHICAL AREAS

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

	2012				
	Total advances HK\$'000	Advances overdue for over three months HK\$'000	Impaired advances HK\$'000	Individual impairment allowance HK\$'000	Collective impairment allowance HK\$'000
Hong Kong	37,188,661	113,460	21,886	23,266	151,692
People's Republic of China	832,593	2,308	2,308	788	5,070
Macau	231,764	-	-	-	2,318
America	535,681	-	-	-	5,426
Others	403,490	-	-	-	-
	<u>39,192,189</u>	<u>115,768</u>	<u>24,194</u>	<u>24,054</u>	<u>164,506</u>
	2011				
	Total advances HK\$'000	Advances overdue for over three months HK\$'000	Impaired advances HK\$'000	Individual impairment allowance HK\$'000	Collective impairment allowance HK\$'000
Hong Kong	39,707,568	94,937	75,497	39,440	161,768
People's Republic of China	622,384	2,692	2,692	1,113	4,141
Macau	114,711	-	-	-	669
America	451,395	-	-	-	5,437
Others	442,426	-	-	-	-
	<u>41,338,484</u>	<u>97,629</u>	<u>78,189</u>	<u>40,553</u>	<u>172,015</u>

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

### 3. CROSS-BORDER CLAIMS

The Group's cross-border claims by countries or geographical areas which constitute 10% or more of the relevant disclosure items after taking into account any risk transfers are as follows:

	31 December 2012			
	Banks and other financial institutions HK\$'000	Public sector entities HK\$'000	Others HK\$'000	Total HK\$'000
Asia Pacific excluding Hong Kong	20,341,530	90,476	861,630	21,293,636
- of which - China	9,268,912	32,078	580,226	9,881,216
- of which - Japan	<u>3,875,185</u>	<u>3,241</u>	<u>1,679</u>	<u>3,880,105</u>
	31 December 2011			
	Banks and other financial institutions HK\$'000	Public sector entities HK\$'000	Others HK\$'000	Total HK\$'000
Asia Pacific excluding Hong Kong	15,487,390	918,826	734,718	17,140,934
- of which - China	8,456,240	857,526	571,831	9,885,597
- of which - Australia	2,815,725	2,223	–	2,817,948
Western Europe	<u>2,857,996</u>	<u>2,525</u>	<u>169,331</u>	<u>3,029,852</u>

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

### 4. CURRENCY RISK

The Group's foreign currency exposures arising from non-trading and structural position which constitute 10% or more of the total net position in all foreign currencies are as follows:

	<b>2012</b>		
	<b>USD</b>	<b>RMB</b>	<b>Total</b>
Equivalent in thousand of HK\$			
Spot assets	<b>14,311,091</b>	<b>6,588,766</b>	<b>20,899,857</b>
Spot liabilities	<b>(9,612,043)</b>	<b>(5,364,226)</b>	<b>(14,976,269)</b>
Forward purchases	<b>338,731</b>	<b>18,405</b>	<b>357,136</b>
Forward sales	<b>(5,011,862)</b>	<b>(1,096,712)</b>	<b>(6,108,574)</b>
Net long position	<b><u>25,917</u></b>	<b><u>146,233</u></b>	<b><u>172,150</u></b>
	<b>MOP</b>	<b>RMB</b>	<b>Total</b>
Net structural position	<b><u>48,545</u></b>	<b><u>351,377</u></b>	<b><u>399,922</u></b>
		<b>2011</b>	
			<b>RMB</b>
Equivalent in thousand of HK\$			
Spot assets			6,496,856
Spot liabilities			(6,307,434)
Forward purchases			264,518
Forward sales			<u>(383,066)</u>
Net long position			<u>70,874</u>
	<b>MOP</b>	<b>RMB</b>	<b>Total</b>
Net structural position	<b><u>48,545</u></b>	<b><u>105,169</u></b>	<b><u>153,714</u></b>

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

### 5. OVERDUE AND RESCHEDULED ASSETS

	2012	
	Gross amount of advances HK\$'000	Percentage to total advances %
Advances overdue for		
- 6 months or less but over 3 months	78,204	0.2
- 1 year or less but over 6 months	5,012	0.0
- over 1 year	<u>32,552</u>	<u>0.1</u>
Total overdue advances	<u>115,768</u>	<u>0.3</u>
Rescheduled advances	<u>210,821</u>	<u>0.5</u>
Individual impairment allowances made in respect of overdue loans and advances	<u>23,723</u>	

	2011	
	Gross amount of advances HK\$'000	Percentage to total advances %
Advances overdue for		
- 6 months or less but over 3 months	30,179	0.1
- 1 year or less but over 6 months	16,141	0.0
- over 1 year	<u>51,309</u>	<u>0.1</u>
Total overdue advances	<u>97,629</u>	<u>0.2</u>
Rescheduled advances	<u>219,858</u>	<u>0.5</u>
Individual impairment allowances made in respect of overdue loans and advances	<u>35,758</u>	

The value of the security of the above overdue advances is analysed as follows:

	2012 HK\$'000	2011 HK\$'000
Covered portion of overdue loans and advances	99,371	68,867
Uncovered portion of overdue loans and advances	<u>16,397</u>	<u>28,762</u>
	<u>115,768</u>	<u>97,629</u>
Market value of collateral held against covered portion of overdue loans and advances	<u>1,487,330</u>	<u>252,500</u>

There were no advances to banks and other financial institutions or other assets which were overdue for over three months as at 31 December 2012 and 31 December 2011, nor were there any rescheduled advances to banks and other financial institutions.

Reposessed assets held by the Group as at 31 December 2012 amounted to HK\$48,320,000 (2011: HK\$63,050,000).



## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

### 6. NON-BANK MAINLAND EXPOSURES

	31 December 2012			Individual impairment allowance HK\$'000
	On-balance sheet exposure HK\$'000	Off-balance sheet exposure HK\$'000	Total HK\$'000	
Types of counterparties				
Mainland entities	2,832,392	710,131	3,542,523	–
Companies and individuals outside Mainland where the credit is granted for use in Mainland	5,373,881	1,206,393	6,580,274	7,445
Other counterparties the exposures to whom are considered to be non-bank Mainland exposures	<u>91,659</u>	<u>–</u>	<u>91,659</u>	<u>–</u>
	<u>8,297,932</u>	<u>1,916,524</u>	<u>10,214,456</u>	<u>7,445</u>

	31 December 2011			Individual impairment allowance HK\$'000
	On-balance sheet exposure HK\$'000	Off-balance sheet exposure HK\$'000	Total HK\$'000	
Types of counterparties				
Mainland entities	1,870,137	231,133	2,101,270	–
Companies and individuals outside Mainland where the credit is granted for use in Mainland	4,572,958	1,177,710	5,750,668	12,392
Other counterparties the exposures to whom are considered to be non-bank Mainland exposures	<u>61,110</u>	<u>–</u>	<u>61,110</u>	<u>–</u>
	<u>6,504,205</u>	<u>1,408,843</u>	<u>7,913,048</u>	<u>12,392</u>

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

### 7. LIQUIDITY RATIO

	<b>2012</b> %	<b>2011</b> %
Average liquidity ratio for the year	<u><b>44.91</b></u>	<u><b>42.41</b></u>

The average liquidity ratio is calculated as the ratio, expressed as a percentage, of the average of each calendar month's average ratio, as specified in the Fourth Schedule of the Hong Kong Banking Ordinance, with reference to the financial information of the Bank, Chong Hing Finance Limited, Right Way Investments Limited and Gallbraith Limited.

### 8. CAPITAL MANAGEMENT

#### Capital adequacy ratio

	<b>2012</b> %	<b>2011</b> % <i>(Note)</i>
Capital adequacy ratio	<b>15.34</b>	15.44
Core capital ratio	<b>10.57</b>	10.58

The capital adequacy ratios as at 31 December 2012 and 31 December 2011 are computed on the consolidated basis of the Bank and certain of its subsidiaries as specified by the Hong Kong Monetary Authority for its regulatory purposes, and are in accordance with the Banking (Capital) Rules of the Hong Kong Banking Ordinance which became effective on 1 January 2007.

Capital adequacy ratio was compiled in accordance with the Banking (Capital) Rules under section 98A of the Hong Kong Banking Ordinance for the implementation of the "Basel II" capital accord, which became effective on 1 January 2007. In accordance with the Banking (Capital) Rules, the Bank has adopted the "standardised approach" for the calculation of the risk-weighted assets for credit risk, "standardised (market risk) approach" for the calculation of market risk and "basic indicator approach" for the calculation of operational risk. The capital adequacy ratio is consolidated, under the Banking (Capital) Rules, with reference to the financial information of the Bank, Chong Hing Finance Limited, Right Way Investments Limited, Gallbraith Limited, Chong Hing Information Technology Limited, Card Alliance Company Limited, Top Benefit Enterprise Limited and Hero Marker Limited.

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

### 8. CAPITAL MANAGEMENT - continued

#### Capital base

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

	2012 HK\$'000	2011 HK\$'000 (Note)
Core capital		
Paid-up ordinary share capital	217,500	217,500
Share premium	1,542,817	1,542,817
Published reserves	3,673,778	3,376,550
Profit and loss account	290,491	260,692
Less: Net deferred tax assets	<u>(1,502)</u>	<u>(6,721)</u>
Total core capital	5,723,084	5,390,838
Other deductions from core capital	<u>(120,711)</u>	<u>(120,596)</u>
Core capital after deductions	<u>5,602,373</u>	<u>5,270,242</u>
Supplementary capital		
Reserves attributable to fair value gains on revaluation of holdings of land and buildings	38,885	35,117
Collective impairment allowances	164,506	172,208
Regulatory reserve for general banking risks	387,000	408,000
Reserves attributable to fair value gains on revaluation of holdings of available-for-sale equities and debt securities	109,326	14,711
Unrealised fair value gains arising from holding of equities and debt securities designated at fair value through profit or loss	46,355	59,573
Term subordinated debt	<u>1,898,957</u>	<u>1,852,153</u>
Total supplementary capital	2,645,029	2,541,762
Other deductions from supplementary capital	<u>(120,711)</u>	<u>(120,596)</u>
Supplementary capital after deductions	<u>2,524,318</u>	<u>2,421,166</u>
Total capital base after deductions	<u><u>8,126,691</u></u>	<u><u>7,691,408</u></u>

*Note: The capital ratios as at 31 December 2011 have not been restated as a result of the adoption of the amendments to Hong Kong Accounting Standard 12 "Deferred tax: Recovery of underlying assets" in the current period. Accordingly, the comparative amounts under the core capital would not correspond with the figures in the consolidated financial information.*

Deductions from total capital base mainly include investments in subsidiaries of which their risk-weighted assets have not been consolidated into the total risk-weighted assets of the Group, which mainly conduct non-banking related business. Those subsidiaries are Chong Hing Commodities and Futures Limited, Chong Hing Insurance Company Limited, Chong Hing (Management) Limited, Chong Hing (Nominees) Limited and Chong Hing Securities Limited.

## **UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION**

### **9. BASIS OF CONSOLIDATION**

The consolidated financial statements covers the consolidated financial information of the Bank and all its subsidiaries and included the attributable share of interest in the Group's associates.

In preparing the capital adequacy ratio and liquidity ratio of the Group, they are prepared according to the basis of consolidation for regulatory purposes. The main difference between the consolidation basis for accounting and regulatory purposes is that the former includes the Bank, all its subsidiaries and the attributable share of interests in the Group's associates whereas the latter includes the Bank and only some of the Group's subsidiaries which mainly conduct banking business or other business incidental to banking business.

### **10. LIST OF SUBSIDIARIES FOR FINANCIAL REPORTING CONSOLIDATION**

Card Alliance Company Limited

Chong Hing Commodities and Futures Limited

Chong Hing Finance Limited

Chong Hing Information Technology Limited

Chong Hing Insurance Company Limited

Chong Hing (Management) Limited

Chong Hing (Nominees) Limited

Chong Hing Securities Limited

Gallbraith Limited

Hero Marker Limited

Right Way Investments Limited

Top Benefit Enterprise Limited

## **STATEMENT OF COMPLIANCE**

In preparing the accounts for 2012, the Bank has fully complied with the Banking (Disclosure) Rules of the Hong Kong Banking Ordinance.

## **FINAL DIVIDEND**

The directors will recommend at the forthcoming annual general meeting of the shareholders to be held on Wednesday, 8 May 2013 the payment of the final cash dividend for 2012 of HK\$0.35 per share. This final cash dividend, if approved, will be paid on Friday, 24 May 2013 to shareholders whose names are listed on the register of members of the Bank on Tuesday, 21 May 2013.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Bank will be closed from Friday, 3 May 2013 to Monday, 6 May 2013 (both days inclusive), for the purpose of ascertaining the Shareholders who are entitled to attend and vote at the 2013 annual general meeting of the shareholders, during which period no transfer of shares can be registered. In order to qualify for attending and voting at the 2013 annual general meeting of the shareholders, all transfer documents, along with the relevant share certificates, must be lodged for registration with the Bank's share registrar and transfer office, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 pm on Thursday, 2 May 2013.

In addition, the register of members of the Bank will be closed from Thursday, 16 May 2013 to Tuesday, 21 May 2013 (both days inclusive), for the purpose of ascertaining the Shareholders who qualify to receive the final cash dividend, during which period no transfer of shares can be registered. In order to qualify for receiving the final cash dividend in question, all transfer documents, along with the relevant share certificates, must be lodged for registration with the Bank's share registrar and transfer office, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 pm on Wednesday, 15 May 2013.

## **PURCHASE, SALE OR REDEMPTION OF THE BANK'S LISTED SECURITIES**

Neither the Bank nor any of its subsidiaries had purchased, sold or redeemed any of the Bank's listed securities during the year.

## CORPORATE GOVERNANCE

The directors confirm that, for the year ended 31 December 2012, the Bank has complied with the former (Code on Corporate Governance Practices) and the revised (Corporate Governance Code) Code Provisions as set forth in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited except:

1. Under the Bank's Articles of Association, one-third (or, if the quotient resulting from the division of the number of directors by three is not a whole number, the number nearest one-third) of the directors for the time being, who have been longest in office since their last election, shall be subject to retirement by rotation and re-election at each annual general meeting. As between persons who became directors on the same day, those to retire shall (unless they otherwise agree between themselves) be determined by drawing lots. And as to those persons additionally appointed as directors or appointed as directors to fill casual vacancies by the board of directors, they shall hold office only until the next following annual general meeting and shall then be eligible for re-election (but not to be taken into account in determining the directors or the number of directors who are to retire by rotation) at that annual general meeting. The directors consider such practices to be appropriate alternatives to those recommended under Code Provisions A.4.1 and A.4.2.
2. As to the nomination of candidates for appointment to the board, instead of having a nomination committee in place under Code Provision A.5.1, any director is entitled to recommend for the consideration and, if thought fit, approval of the board, as well as other relevant supervisory and regulatory bodies, suitable candidates who can contribute to the Bank, and discharge their responsibilities in the interests of the Bank and its shareholders as a whole. The directors consider such a practice to be an appropriate alternative to that recommended under Code Provision A.5.1.
3. As set forth in the Bank's Policy Statement on Corporate Governance, the directors should bear in mind that despite their respective directorial classifications (as the case may be, as executive directors, non-executive directors or independent non-executive directors), each of them shall exercise his own judgement when matters are submitted to the board for the individual directors' collective review, decision and approval. The directors shall guard against any conflict of interest and act in good faith in the interests of the Bank as a whole at all times. They shall exercise due care, diligence and skill when performing their duties and shall use their powers for proper corporate purposes only.

In line with the Bank's Policy Statement on Corporate Governance, the Chairman has encouraged his fellow directors (be they executive directors, non-executive directors or independent non-executive directors) to freely express their views and has allowed sufficient time for discussion of issues at full board meetings. If, for example, the non-executive directors (including the independent non-executive directors) hold views contrary to those of the executive directors in respect of any matter discussed at a full board meeting, the minutes will have this reflected clearly. In the light of such an established practice, the directors are of the view that such open and free discussions at full board meetings among all the directors are more productive and, as such, there is no further need for the non-executive directors (including the independent non-executive directors) to hold meetings, under Code Provision A.2.7, without the presence of the executive directors.

Furthermore, the Bank has adopted a code for securities transactions by directors with terms no less exacting than those set out in the Model Code for Securities Transactions by Directors of Listed Issuers under Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Model Securities Transactions Code"). After specific enquiry by the Bank, all of the directors confirmed that, for the financial year ended 31 December 2012, they had complied with the required standards as set out in both the Model Securities Transactions Code and the Bank's own code in question.

## **PUBLICATION OF RESULTS ON THE WEBSITES OF THE STOCK EXCHANGE OF HONG KONG LIMITED AND THE BANK**

The Bank's Annual Report 2012, containing the relevant information required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, will be published on the websites of The Stock Exchange of Hong Kong Limited and the Bank in due course.

## **CHAIRMAN'S STATEMENT**

### **Economic Review**

2012 was a turbulent year for the global market. Against the background of the sluggish global economic growth, central banks around the world continued to push ahead with further quantitative easing ("QE") measures. The QE3 and QE4 measures launched in the United States in the second half of 2012, monetary stimulus measures in Europe and Japan, and interest rate cuts in China and Australia combined to contribute to a relatively remarkable performance in the global assets markets and stock markets in 2012.

In face of strong external headwinds, the Hong Kong economy grew modestly. Compared with that of the same period last year, gross domestic product in 2012 grew by 1.4% in real terms. The labour market remained broadly stable, the unemployment rate fell slightly to 3.3% in the fourth quarter of 2012 amid the slow economic growth. Nevertheless, the liquidity glut and super-low interest rate environment contributed to a robust local property market. Real estate prices continued to surge. On the stock market front, the Hang Seng Index started low and climbed 23% throughout the year, standing at around 22,600 on the last trading day.

Enterprises in the mainland were facing difficulties in obtaining loans and financing. The monetary policy of China became the focus of concern. In the first half of 2012, the Central Government adopted an approach with an emphasis on regulating deposit interest rate and required reserve ratio as the key monetary policy, and the People's Bank of China cut both deposit interest rate and required reserve ratio twice during the period. It turned to open market operations such as reverse repurchases in the second half of the year. The economic indicators of China in 2012 have shown gradual enhancements. Gross domestic product increased by 7.8% over the year.

The US employment market was slow in recovery and unemployment rate remained high. After its last rate-fixing meeting in 2012, the US Federal Reserve Board announced its decision to keep the target range for the federal funds rate at 0% to 0.25% as long as the unemployment rate remains above 6.5% and inflation is projected to be no more than 2.5%.

## Results Announcement and Profit Analysis

The results for the financial year of 2012 of the Bank, on a consolidated basis, are summarised below:

<b>Key Financial Data</b>	<b>2012</b> <b>HK\$'000</b> <b>(unless otherwise</b> <b>specified)</b>	<b>2011</b> <b>HK\$'000</b> <b>(unless otherwise</b> <b>specified)</b>	<b>Variance</b> <b>%</b>
1. Net operating profit before impairment	<b>534,190</b>	541,247	-1.30
2. Profit attributable to shareholders	<b>543,340</b>	560,716	-3.10
3. Return on equity	<b>7.64%</b>	8.32%	-8.17
4. Earnings per share	<b>HK\$1.25</b>	HK\$1.29	-3.10
5. Net interest income	<b>836,908</b>	815,321	+2.65
6. Net interest margin	<b>1.10%</b>	1.17%	-5.98
7. Net fee and commission income	<b>189,365</b>	217,723	-13.02
8. Net gains (losses) on financial instruments at fair value through profit or loss	<b>57,473</b>	(102,418)	+156.12
9. Operating expenses	<b>788,591</b>	773,555	+1.94
10. Cost-to-income ratio	<b>59.62%</b>	58.83%	+1.34
11. Impairment allowances on loans and advances - Reversal of impairment allowances (net)	<b>(65,228)</b>	(107,188)	-39.15
12. Total loans and advances to customers	<b>39,192,189</b>	41,338,484	-5.19
13. Impaired loan ratio	<b>0.06%</b>	0.19%	-68.42
14. Provision coverage of impaired loans and advances	<b>779.36%</b>	271.87%	+186.67
15. Rescheduled loan ratio	<b>0.54%</b>	0.53%	+1.89
16. Total customer deposits	<b>67,508,748</b>	64,815,713	+4.15
17. Loan-to-deposit ratio	<b>52.53%</b>	57.17%	-8.12
18. Total assets	<b>80,755,365</b>	77,455,912	+4.26
19. Net asset value per share (before final dividend)	<b>HK\$16.95</b>	HK\$15.80	+7.28
20. Capital adequacy ratio	<b>15.34%</b>	15.44%	-0.65
21. Core capital ratio	<b>10.57%</b>	10.58%	-0.09
22. Average liquidity ratio	<b>44.91%</b>	42.41%	+5.89



## Analysis of Key Financial Data

For the financial year of 2012, on a consolidated basis, net operating profit before impairment amounted to HK\$534 million, and showed an improvement of 74% year on year because the previous year's net operating profit was inflated by the effect of the recovery of amounts previously written-off in relation to the Lehman Brothers Minibonds Repurchase Scheme of HK\$235 million. Net interest income at HK\$837 million was 3% higher than that of last year as total assets increased by 4.26% but net interest margin narrowed 7 basis points to 1.10% year on year. Net interest margin improved from 1.06% in the first half of 2012 to 1.13% in the second half of 2012. Net fee and commission income dropped 13.02% to HK\$189 million mainly because of the reduction in commission income from securities dealings. Revaluation of financial instruments at fair value through profit or loss turned from net losses of HK\$102 million in the previous year to net gains of HK\$57 million in 2012 as the financial market sentiments for Hong Kong and mainland China related debt securities had improved. Other operating income, net exchange gains and net gains from foreign currency contracts rose by 100% to HK\$108 million from increases in treasury activities. On the other fronts, operating expenses increased by 1.94% from those of last year as total staff costs increased by 5.64%. New impairment allowances under individual assessment on loans and advances dropped by 79% to HK\$6 million this year, and a total of HK\$71 million of impairment allowances on loans and advances was reversed after recoveries from various customer and a reduction in total loans and advances.

Profit attributable to shareholders amounted to HK\$543 million, a decrease of 3.10% over that for the year before, translating into earnings of HK\$1.25 per share and return on equity of 7.64%. Profit attributable to shareholders would have shown an improvement of 144% after excluding from previous year's profit attributable to shareholders the after taxation effect of the recovery of amounts previously written-off in relation to the Lehman Brothers Minibonds Repurchase Scheme and reversal in impairment allowances on loans and advances from HK\$170 million recovered on a secured loan which was previously written-off. Total loans and advances to customers decreased by 5.19% to HK\$39,192 million, in particular syndication loans dropped by 32% year on year due to repayments, and funds were redeployed to other assets offering higher yield. With careful management of the exposure to credit risk, asset quality of loans and advances continued to improve with impaired loan ratio at 0.06%, provision coverage of impaired loans and advances at 779.36%, and rescheduled loan ratio at 0.54%. Total customer deposits increased by 4.15% to HK\$67,509 million. As deposit growth exceeded loan growth, loan-to-deposit ratio decreased from 57.17% in December 2011 to 52.53% in December 2012. Investments in available-for-sale securities rose by 128.70% to HK\$4,222 million and such investments were mainly in senior debt securities guaranteed or issued by large corporate entities which are listed on The Stock Exchange of Hong Kong Limited. Total assets increased by 4.26% to HK\$80,755 million with net asset value per share (before final dividend) at HK\$16.95. Capital adequacy ratio was maintained at 15.34% and core capital ratio was at 10.57%. All in all, the Bank's core business lines and overall financial health are sound, its non-performing loan ratio low and asset quality good, and its capital adequacy and liquidity ratios are well above the relevant statutory requirements.

Some of the comparative figures mentioned above have been adjusted because of the amendments to Hong Kong Accounting Standard 12 Deferred Tax, in particular profit attributable to shareholders for last year increased by HK\$1,261,000 to HK\$560,716,000 and total assets as of 31 December 2011 increased by HK\$10,140,000 to HK\$77,455,912,000. Full explanation can be found in note 2 to the consolidated financial statements.

## Dividend

Your board has considered that it is prudent to preserve the Bank's capital so as to better satisfy the new requirements under "Basel III". As such, your board has recommended paying the final cash dividend of HK\$0.35 per share for the financial year of 2012 (2011 final cash dividend: HK\$0.35 per share) to shareholders whose names appear in the Register of Members at the close of business on Tuesday, 21 May 2013. Total dividends for the financial year of 2012, including the interim cash dividend of HK\$0.11 per share paid on 27 September 2012 (2011 interim cash dividend: HK\$0.15 per share), amounted to HK\$0.46 per share (2011 total dividends: HK\$0.50 per share).

## **Board and Senior Management Changes**

In order to meet the requirement under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, which stipulates that an issuer must appoint independent non-executive directors representing at least one-third of the board, Mr Tsang Chiu Wing, Mr Wong Har Kar and Mr Andrew Liu (who had additionally indicated that he would opt to step down as a board member because of his other commitments) resigned as directors of the Bank on 31 December 2012. I would like to take this opportunity to thank them for their valuable contributions to the Bank during their respective terms of office as directors of the Bank. Mr Tsang Chiu Wing and Mr Wong Har Kar were both appointed as Deputy Chief Executive Officers of the Bank on 7 March 2013.

Moreover, on 7 March 2013, Mr Liu Lit Chi, having served the Bank for over fifty years, retired as Chief Executive Officer of the Bank (a position held since 25 April 2002), now holding the title of Deputy Chairman and Managing Director. Mr Lau Wai Man succeeded Mr Liu Lit Chi as Chief Executive Officer of the Bank on 7 March 2013, thereby holding the title of Executive Director and Chief Executive Officer.

## **Business Review**

### **Corporate and Retail Banking**

#### *Loan and Deposit Business*

Despite a more prudent sentiment as a result of tightened regulations over the local property market, the Bank managed to attain steady growth in the outstanding value of mortgage loans in 2012 compared with that of the same period last year. On the deposit business front, the Bank continued to consolidate its core client base of deposit and actively recruited small and medium-sized customers through various series of promotion campaigns in the community.

As a result of strategic rate adjustments, both interest income and net interest margin of the Bank's corporate loans achieved satisfactory growth over the year. Syndicated and corporate loans increased moderately in terms of volume, whereas non-interest services income also maintained a steady upward momentum. To further expand its clientele, the Bank actively supported the "SME Financing Guarantee Scheme" launched by the Hong Kong Mortgage Corporation Limited.

With a mission to work with SMEs to attain mutual growth, the Bank is committed to providing quality and customer-oriented one-stop banking services to SMEs. The Bank's SME services are highly recognised by the industry as it entered the nomination for, and received, the "Best SME's Partner Award" from the Hong Kong General Chamber of Small and Medium Business for the fourth time.

The Bank has been a strong supporter of local enterprises. In addition to helping mainland companies establish their businesses in Hong Kong, the Bank also provides trade finance and cross-border Renminbi services to local customers in assisting them to develop their businesses in the mainland.

#### *Card Business*

For 2012, the Bank's credit card business recorded satisfactory increases in the number of credit cards issued, credit card accounts receivable and merchant-billed turnover.

To maintain its strong business growth, the Bank will continue to develop its credit card business and merchant acquiring services.

### ***Wealth Management Business***

Over the last few years, the Bank made substantial investment in upgrading its wealth management system to cater for an enhanced sales flow. The upgraded system was officially launched in mid-2012 to support the further development of our wealth management business.

Launched in August 2011, the wealth management service dedicated to professional investors was gaining recognition and registered growth in bond sales. In November 2012, a specific account service with one-stop investment and asset filing services was launched to assist individuals intending to enter Hong Kong for residence via “Capital Investment Entrant Scheme”. Expanding its income stream with the new service, the Bank aims to attain growth on all fronts of its wealth management business through a well-diversified portfolio of investment products and value-added services.

### ***Treasury Activities***

Income from foreign exchange activities is generated from services provided to customers in the form of foreign exchange trading and forward contracts, and from the Bank’s cash management activities through foreign currency funding swaps. The Bank has been more active in using foreign currency funding swaps this year and as a result other operating income from foreign currency contracts was higher than that of last year.

The Bank’s liquidity ratios have been kept at a relatively high level throughout the year due to precautionary measures with higher liquidity being maintained during the development of the European sovereign debt crisis. The Bank continued to use its certificate of deposit programme this year to diversify funding even though volume has reduced from that of last year. The transaction volume of financing through financial assets sold under repurchase agreements exceeded that of last year.

In managing the net interest margin and maintaining the level of total assets after the reduction in total loans and advances to customers, the Bank has increased its investments in fixed rate corporate debt securities and converted them into floating rate instruments with interest rate swaps to mitigate the stress on net interest income due to the low and flattening money market yield curves.

The Bank offered Renminbi products such as spot foreign exchange trading, non-deliverable forward contracts, interbank funding, foreign currency funding swap and bond investments.

### ***China Business***

The Bank continued to develop its mainland business. Building on the existing cross-border Renminbi clearing services, it further rolled out cross-border trade financing and cross-border syndicated loan services.

Furthermore, the Bank is planning to upgrade its current Guangzhou Representative Office to a branch, so as to better support Hong Kong customers in developing their mainland business.

## **Other Related Businesses**

### ***Securities Business***

Against the backdrop of unresolved European debt crisis and persistently weak economy around the globe, the local stock market was stagnant in 2012. Response to initial public offerings was weak and daily turnover declined sharply. Competition was fierce in the sector. Nevertheless, Chong Hing Securities Limited, a wholly-owned subsidiary of the Bank, managed to acquire an increasing number of customers with enhanced operating efficiency and service quality. The mobile securities trading service was particularly popular, registering over 67% growth in transaction volume.

### ***Insurance Business***

Chong Hing Insurance Company Limited (“Chong Hing Insurance”), a wholly-owned subsidiary of the Bank, recorded double-digit growth in annual turnover and profit compared with those of the same period last year. In line with the Group’s proactive development approach, Chong Hing Insurance will continue to strive for better results by expanding its corporate insurance business on all fronts with enhanced service quality.

## **Corporate Responsibility**

In order to practise the preaching of serving as a “community bank” and provide a comprehensive range of high quality banking services to the local community, the Bank continued to expand its service network and enhance its service environment. In May 2012, the Bank relocated its branch at On Ting Estate in Tuen Mun to Hong Lai Garden of the same district. In October 2012, the Bank’s Homantin Plaza Branch and Mong Kok Branch were merged. Apart from the head office in Central, the Bank now has a total of 51 local branches.

As a caring institution serving the community, the Bank takes part in various social improvement activities. In 2012, the Bank made a further donation to Gracefield East Kowloon Christian Kindergarten, which provides quality education for children from low-income, single-parent or other needy families. In addition, the Bank also actively participated in and supported activities of other charitable organisations. The Bank was awarded the “Caring Company” logo by the Hong Kong Council of Social Service for the sixth year in 2013.

## **Financial Services Award**

In February 2012, the Bank received the “Straight Through Processing (STP) Award” from the Bank of New York Mellon for the fourth consecutive year. The award recognised the Bank’s outstanding performance in payment formatting and a high STP rate of over 95% in fully-automated USD payment processing without manual intervention.

## **Corporate Governance**

The Bank is well aware that complying with the relevant statutory and regulatory requirements and maintaining good corporate governance standards are imperative to the effective and efficient operation of the Bank. The Bank has, therefore, deployed considerable resources, as well as adopted and implemented relevant measures, to ensure that the relevant statutory and regulatory requirements are complied with and that a high standard of corporate governance practices is maintained.

## **Economic Outlook**

Despite the various unconventional monetary policy measures of the US Federal Reserve Board to contain the global financial crisis and further monetary easing in sophisticated economies to reduce systemic risks of financial markets, the economic outlook around the world remains liquid and unpredictable in light of a global liquidity glut with asset market exuberance and increased risks of inflation.

To strengthen protection against fluctuations in the external trading environment, the Hong Kong Government continued its efforts to foster economic ties with the mainland with the aim of enhancing economic and trade co-operation. In June 2012, the Hong Kong Government and the Central Government entered into Supplement IX to the Mainland and Hong Kong Closer Economic Partnership Arrangement. According to the relevant banking provisions, eligible Hong Kong banks are allowed to offer custodian services regarding settlement funds of customers of securities companies and margin deposits on futures transactions.

Looking forward, Hong Kong will benefit from the opportunities brought about by the cross-border financial co-operation. As an international finance centre of China, it is well positioned to help mainland companies establish their presence in Hong Kong and beyond, and assist in channeling overseas funds into China. The Bank will continue to tap into such opportunities and strive to propel its ongoing steady development by offering a comprehensive range of quality products and services.

## **Sincere Acknowledgements**

Last but not least, on behalf of your board, I would like to express my heartfelt gratitude to our many customers and shareholders for their trust and support, to all my fellow directors for their wise stewardship and to the staff members for their commitment and dedication. With a mission to serving the public at large, the Bank is dedicated to providing top-notch and professional services while maximising return for its shareholders.

## **REVIEW OF FINANCIAL REPORT**

This financial report has been reviewed by the Bank's Audit Committee.

By Order of the Board

**Liu Lit Mo**

*Chairman*

7 March 2013

*As of the date of this announcement:*

- *the five Executive Directors of the Bank are Dr Liu Lit Mo (Chairman), Mr Liu Lit Chi (Deputy Chairman & Managing Director), Mr Lau Wai Man (Chief Executive Officer), Mr Don Tit Shing Liu (Deputy Chief Executive Officer) and Mr Wilfred Chun Ning Liu;*
- *the five Non-executive Directors are Mr He Jiale, Mr Hidekazu Horikoshi, Mr Christopher Kwun Shing Liu, Mr Alfred Cheuk Yu Chow and Mr Meng Qinghui; and*
- *the five Independent Non-executive Directors are Dr Robin Yau Hing Chan, Mr Timothy George Freshwater, Mr Wanchai Chiranakhorn, Mr Cheng Yuk Wo and Mr Andrew Chiu Cheung Ma.*