

# **H B Z Finance Limited**

## **Hong Kong**



**Annual Report**  
**2013**



## **H B Z Finance Limited**

Incorporated in Hong Kong under the Companies Ordinance in 1979, and listed as Registered Deposit-taking Company under the Banking Ordinance, 1986

### **Board of Directors**

Mohamedali R. Habib	<i>Chairman</i>
Hilmar R. Hoch	<i>Director</i>
A. R. Wadiwala	<i>Director</i>
Paul Jeremy Brough	<i>Independent Non-Executive Director</i>
Clive Shaun O'Neill Wallis	<i>Director</i>
Ikram Quraishi	<i>Executive Director</i>

### **Management**

Ikram Quraishi	<i>Chief Executive</i>
J. S. Dhillon	<i>SEVP</i>
Masud Abid	<i>EVP</i>
Abid Ali Baig	<i>SVP</i>
Meheryar Mavalvala	<i>CFO</i>

### **Auditors**

KPMG  
*Certified Public Accountants*

### **Parent Company**

Habib Bank AG Zurich  
*Incorporated in Switzerland*

## Report of the directors

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

### Principal place of business

HBZ Finance Limited (the “Company”) is a deposit-taking company incorporated and domiciled in Hong Kong and has its registered office and principal place of business at 17/F, Wing On House, 71 Des Voeux Road, Central, Hong Kong.

### Principal activities

The Company is registered as a deposit-taking company under the Hong Kong Banking Ordinance and its principal activities are the taking of deposits and financing of import/export and local trade.

### Operating results

The Hong Kong economy grew moderately in 2013 in comparison with 2012, the key driver being an improved but still challenging external trading environment and resilient Mainland economy. The growth pace, however, was still slower than the trend during the last decade. Domestic sector saw a steady increase whereas exports of goods rose modestly, mainly reflecting the weak demand conditions in Europe and USA and a slower activity expansion in emerging markets. Inflation was largely in control averaging 4% in 2013.

As at 31 December 2013, our capital adequacy was at 35% (2012: 39%) whilst maintaining our capital base above HK\$500 million. Our customer deposit base, including imprest accounts and margin on letters of credit and trade bills was at HK\$1.70 billion (2012: HK\$1.69 billion).

Based on the above balance sheet strengths, we identified good opportunities to prudently expand our lending portfolio. Lending increased by HK\$161 million to HK\$1.51 billion (2012: HK\$1.35 billion) as at the year end. Due to our proactive strategy and cautious lending in line with our risk management principles, we maintained a good portfolio of assets which is reflected in the low percentage of impaired loans and advances in the context of overall credit portfolio.

We managed liquidity on a prudent basis and invested a portion of surplus liquidity into short and medium term debt securities. During the year, average liquidity was maintained at 135% (2012: 134%) well above the regulatory threshold of 25%.

### **Operating results (continued)**

During the year 2013, we handled export bills totalling HK\$7.38 billion (2012: HK\$8.85 billion) and import bills of HK\$2.61 billion (2012: HK\$2.79 billion). We opened import letters of credit for HK\$2.27 billion (2012: HK\$2.47 billion). Profit after tax was HK\$38.86 million (2012: HK\$42.35 million).

Hong Kong's economic performance should fare better in 2014. Given its sizeable trade exposure to advanced economies and sound economic fundamentals, it is better positioned to benefit from the global recovery. The major risks hinging the economic performance would be in the form of volatility in global financial conditions and slowdown in the Mainland economy.

Building on our strong platform of trusted brand and customer convenience strategy, we are geared up to overcome challenges and strive for quality business growth in 2014.

### **Financial statements**

The profit of the Company for the financial year ended 31 December 2013 and the state of the Company's affairs as at that date are set out in the financial statements on pages 7 to 61.

The directors recommend the payment of dividend of HK\$24.0 million (2012: HK\$11.4 million) in respect of the year ended 31 December 2013.

### **Transfer to reserves**

Profit attributable to shareholders, before dividends, of HK\$38.86 million (2012: HK\$42.35 million) has been transferred to reserves. Other movements in reserves are set out on page 11 and note 23.

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

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

### **Fixed assets**

Movements in fixed assets during the year are set out in note 14 to the financial statements.

### **Share capital**

During the year, Habib Bank AG Zurich increased its shareholding from 8% to 51% and thus became a majority shareholder of the Company.

Details of the share capital of the Company are set out in note 22 to the financial statements.

### **Charitable donations**

Donations made by the Company during the year amounted to HK\$275,112 (2012: HK\$385,320).



## Directors

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

Mr Mohamedali R. Habib	
Mr Shahid Afzal	(resigned on 20 March 2014)
Mr Ikram Quraishi	
Dr Hilmar R. Hoch	
Mr A. R. Wadiwala	
Mr J. S. Dhillon	(resigned on 4 October 2013)
Mr Paul Jeremy Brough	(appointed on 4 October 2013)
Mr Clive Shaun O'Neill Wallis	(appointed on 20 March 2014)

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

At no time during the year was the Company, its holding company or a fellow subsidiary a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

## Auditor

KPMG retire and, being eligible, offer themselves for reappointment. A resolution for the reappointment of KPMG as auditor of the Company is to be proposed at the forthcoming annual general meeting.

By order of the board

Hong Kong, 15 April 2014



# Independent auditor's report to the shareholders of HBZ Finance Limited

(Incorporated in Hong Kong with limited liability)

We have audited the financial statements of HBZ Finance Limited (the "Company") set out on pages 7 to 61, which comprise the balance sheet as at 31 December 2013, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

## **Directors' responsibility for the financial statements**

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

## **Auditor's responsibility**

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

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

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

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

## Independent auditor's report to the shareholders of HBZ Finance Limited (continued)

(Incorporated in Hong Kong with limited liability)

### Opinion

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

KPMG  
Certified Public Accountants

8th Floor, Prince's Building  
10 Chater Road  
Central, Hong Kong  
15 April 2014





## Statement of comprehensive income for the year ended 31 December 2013

(Expressed in Hong Kong dollars)

	Note	2013	2012
Interest income	2(a)	77,648,441	81,833,505
Interest expense	2(b)	(21,601,690)	(25,103,808)
<b>Net interest income</b>		56,046,751	56,729,697
Fee and commission income	3	30,673,749	33,624,836
Fee and commission expense		(549,239)	(459,671)
<b>Net fee and commission income</b>		30,124,510	33,165,165
Other net income	4	26,350,027	27,577,263
<b>Operating income</b>		112,521,288	117,472,125
Operating expenses	5	(61,400,944)	(61,302,975)
		51,120,344	56,169,150
Impairment losses on trade bills and advances to customers	7	(4,400,000)	(5,140,000)
<b>Profit before taxation</b>		<b>46,720,344</b>	<b>51,029,150</b>
Income tax	8(a)	(7,861,857)	(8,677,902)
<b>Profit and total comprehensive income for the year</b>		<b>38,858,487</b>	<b>42,351,248</b>

The notes on pages 14 to 61 form part of these financial statements.



## Balance sheet at 31 December 2013

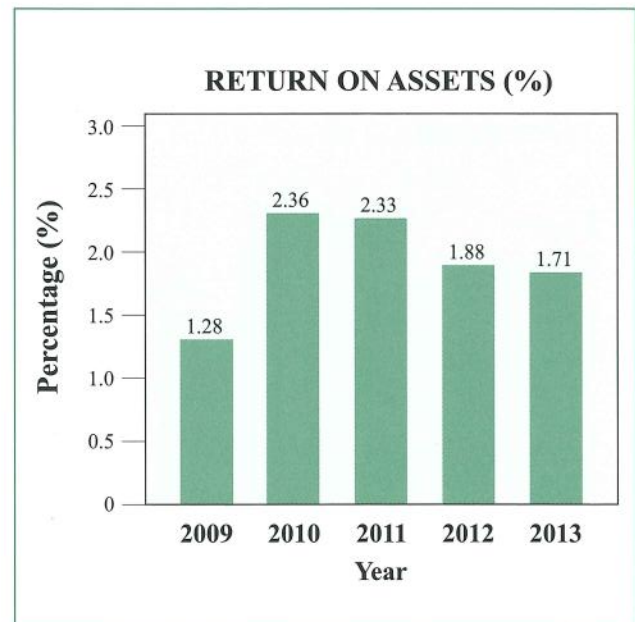
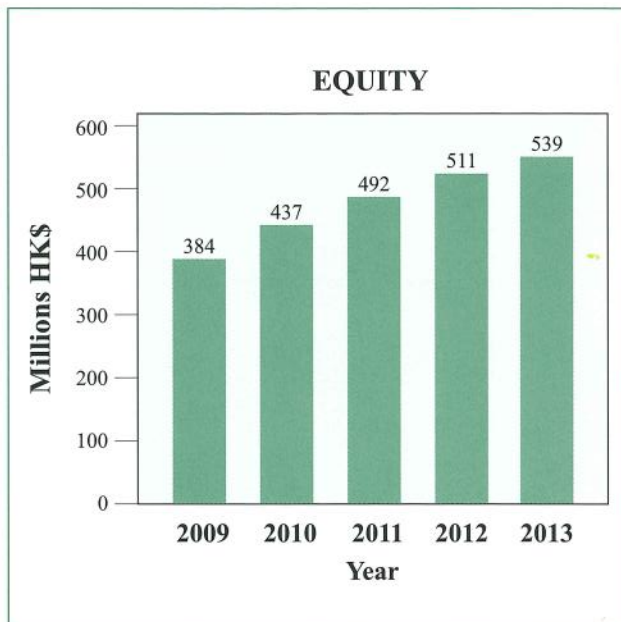
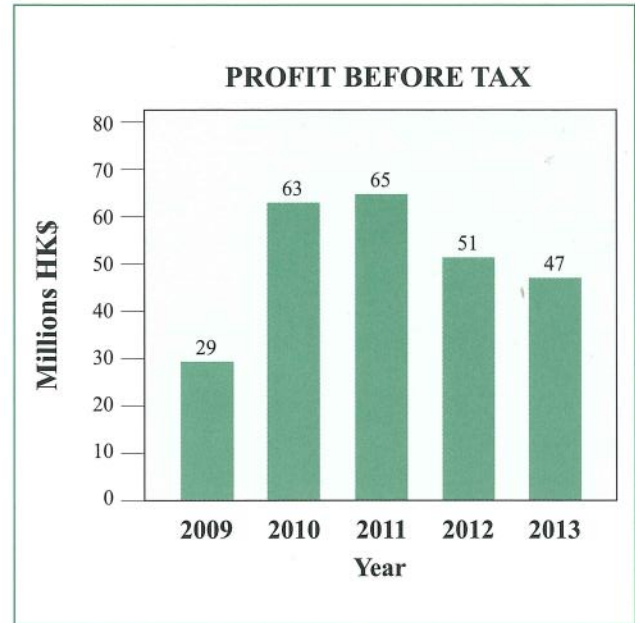
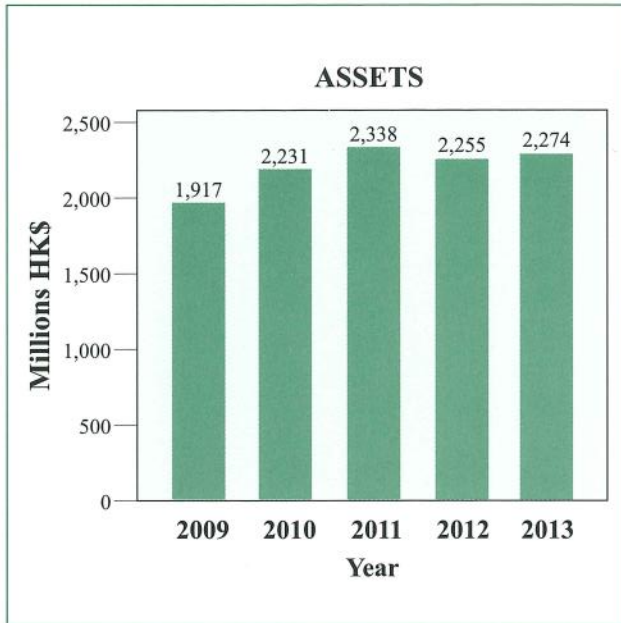
(Expressed in Hong Kong dollars)

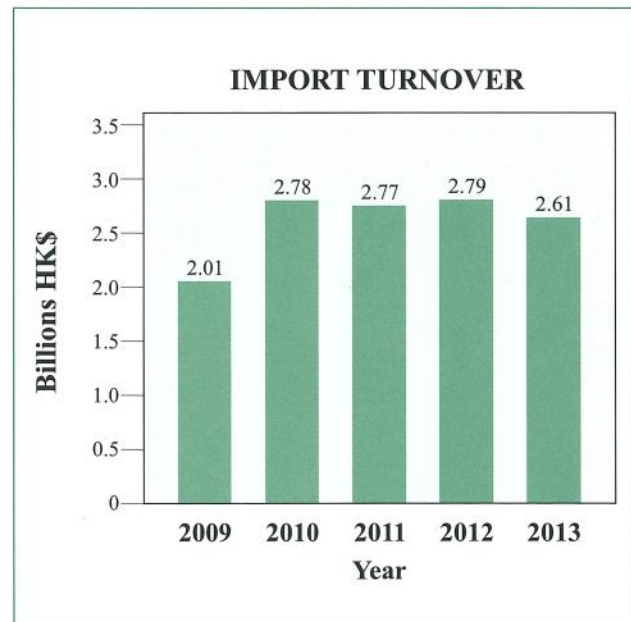
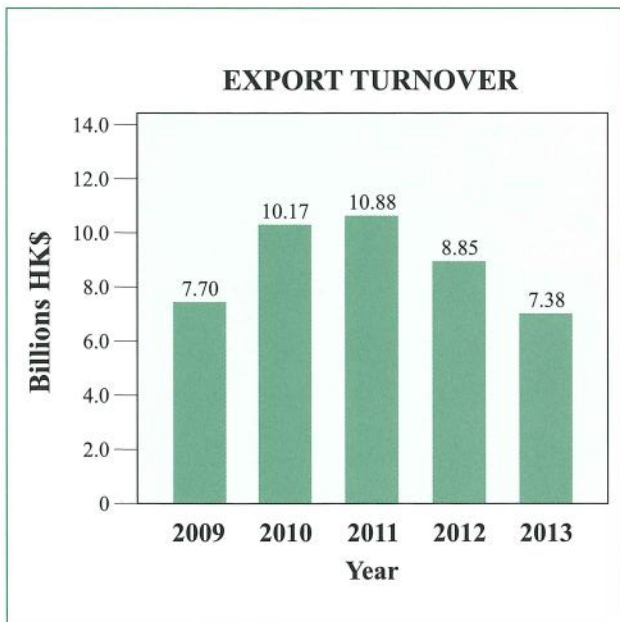
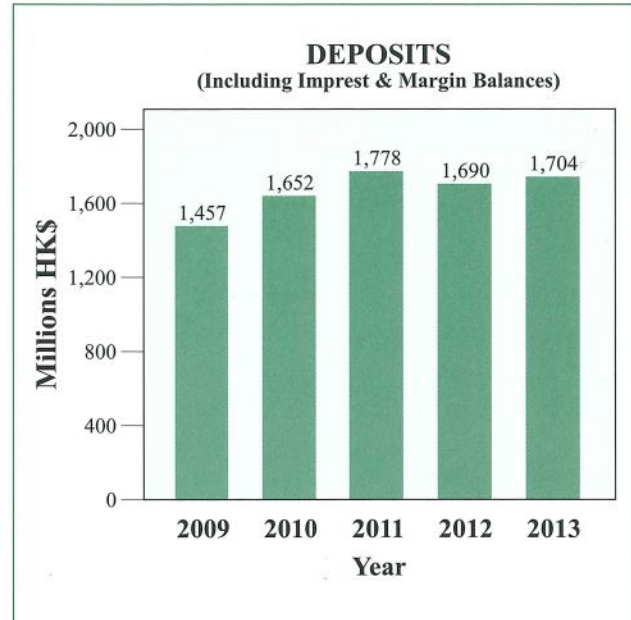
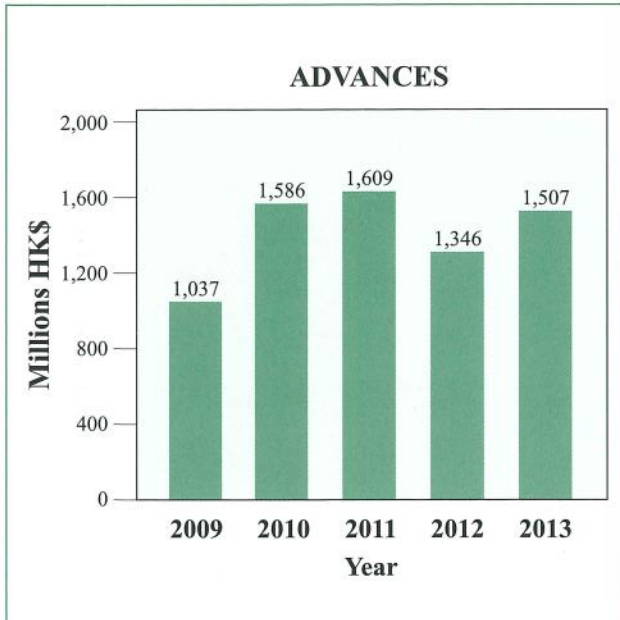
	Note	2013	2012
<b>Assets</b>			
Cash and balances with banks	9	185,084,001	433,463,800
Placements with banks	10	345,028,575	337,223,173
Held-to-maturity investments	11	142,901,979	41,607,718
Trade bills	12(a)	712,214,655	705,719,412
Advances to customers	13(a)	795,179,756	640,444,679
Tax paid in advance	19(a)	20,826	3,177,047
Deferred tax assets	19(b)	1,055,010	834,251
Fixed assets	14	60,853,261	64,500,471
Other assets	15	31,281,624	28,025,470
<b>Total assets</b>		<b>2,273,619,687</b>	<b>2,254,996,021</b>
<b>Liabilities</b>			
Deposits and balances from banks	16	3,286,153	28,981,549
Deposits from customers	17	1,437,582,708	1,324,706,106
Other liabilities	18	293,879,056	389,895,083
<b>Total liabilities</b>		<b>1,734,747,917</b>	<b>1,743,582,738</b>
<b>Equity</b>			
Share capital	22	300,000,000	300,000,000
Reserves		238,871,770	211,413,283
<b>Total equity</b>		<b>538,871,770</b>	<b>511,413,283</b>
<b>Total equity and liabilities</b>		<b>2,273,619,687</b>	<b>2,254,996,021</b>

Approved and authorised for issue by the Board of Directors on 15 April 2014

(	)	
(	)	Directors
(	)	
(	)	

The notes on pages 14 to 61 form part of these financial statements.







## Statement of changes in equity for the year ended 31 December 2013

(Expressed in Hong Kong dollars)

	Share capital	Property revaluation reserve	Regulatory reserve	Retained profits	Total
<b>At 1 January 2013</b>	300,000,000	11,243,741	16,000,000	184,169,542	511,413,283
Dividened approved and paid in respect of prior year	-	-	-	(11,400,000)	(11,400,000)
Total comprehensive income recognised for the year	-	-	-	38,858,487	38,858,487
<b>At 31 December 2013</b>	<b>300,000,000</b>	<b>11,243,741</b>	<b>16,000,000</b>	<b>211,628,029</b>	<b>538,871,770</b>

	Share capital	Property revaluation reserve	Regulatory reserve	Retained profits	Total
<b>At 1 January 2012</b>	300,000,000	11,243,741	16,000,000	164,318,294	491,562,035
Dividened approved and paid in respect of prior year	-	-	-	(22,500,000)	(22,500,000)
Total comprehensive income recognised for the year	-	-	-	42,351,248	42,351,248
<b>At 31 December 2012</b>	<b>300,000,000</b>	<b>11,243,741</b>	<b>16,000,000</b>	<b>184,169,542</b>	<b>511,413,283</b>

The note on page 14 to 61 form part of these financial statements



## Cash flow statement for the year ended 31 December 2013

(Expressed in Hong Kong dollars)

	2013	2012
<b>Operating activities</b>		
Profit before taxation	46,720,344	51,029,150
Adjustments for non-cash items:		
- Depreciation	3,701,045	3,777,467
- Charge for impairment losses	4,400,000	5,140,000
- Advances written off net of recoveries	(2,736,900)	(6,064,500)
- Amortisation of bond premium	1,803,306	781,872
- Exchange revaluation of bonds	(10,740)	69,801
	<b>53,877,055</b>	<b>54,733,790</b>
Decrease/(increase) in placements with banks with original maturity beyond 3 months	50,840,365	(54,324,114)
(Increase)/decrease in trade bills	(5,761,396)	173,999,649
(Increase)/decrease in advances to customers	(157,132,024)	89,656,633
(Decrease)/increase in deposits and placements from banks	(26,905,023)	245,195
Increase/(decrease) in deposits from customers	112,876,602	(80,854,397)
Decrease in other liabilities	(96,016,027)	(22,105,160)
(Increase)/decrease in other assets	(3,256,154)	5,758,918
<b>Cash (used in)/generated from operations</b>	<b>(71,476,602)</b>	<b>167,110,514</b>
Income tax paid		
- Hong Kong profits tax paid	(4,926,395)	(11,656,276)
<b>Net cash (used in)/generated from operating activities</b>	<b>(76,402,997)</b>	<b>155,454,238</b>



## Cash flow statement for the year ended 31 December 2013 (continued)

(Expressed in Hong Kong dollars)

	2013	2012
<b>Investing activities</b>		
Payments for purchase of fixed assets	(53,835)	(516,821)
Payment for purchase of held-to-maturity investments	(118,595,427)	-
Proceeds from redemption of held-to-maturity investments	15,508,600	-
<b>Net cash used in investing activities</b>	<b>(103,140,662)</b>	<b>(516,821)</b>
<b>Financing activity</b>		
Dividends paid	(11,400,000)	(22,500,000)
<b>Net cash used in financing activity</b>	<b>(11,400,000)</b>	<b>(22,500,000)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(190,943,659)</b>	<b>132,437,417</b>
Cash and cash equivalents at 1 January	716,362,859	583,925,442
<b>Cash and cash equivalents at 31 December</b>	<b>525,419,200</b>	<b>716,362,859</b>
<b>Analysis of the balances of cash and cash equivalents</b>		
Cash and balances with banks	185,084,001	433,463,800
Overdraft	(1,209,627)	-
Placements with banks with original maturity of three months or less	341,544,826	282,899,059
	<b>525,419,200</b>	<b>716,362,859</b>
<b>Cash flows from operating activities include:</b>		
Interest received	79,218,922	72,484,138
Interest paid	(22,371,854)	(24,618,311)

The notes on pages 14 to 61 form part of these financial statements.



## Notes to the financial statements

(Expressed in Hong Kong dollars)

### 1 Significant accounting policies

HBZ Finance Limited (the “Company”) is a deposit-taking company incorporated and domiciled in Hong Kong and has its registered office at 17th Floor, Wing On House, 71 Des Voeux Road, Central, Hong Kong.

#### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. A summary of the significant accounting policies adopted by the Company is set out below.

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

- Amendments to HKFRS 7, *Financial instruments: Disclosures – offsetting financial assets and financial liabilities*
- HKFRS 13, *Fair value measurement*

The above developments have had no material impact on the Company's financial statements as they were consistent with policies already adopted by the Company.

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

#### (b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is the historical cost basis modified by the revaluation of a residential apartment and certain financial instruments as explained in the accounting policies set out below.

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 30.

## 1 Significant accounting policies (continued)

### (c) Revenue recognition

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

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

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

Net income from financial instruments designated at fair value through profit or loss and net trading income comprises all gains and losses from changes in fair value (net of accrued coupon) of such financial assets and financial liabilities, together with interest income and expense and dividend income attributable to those financial instruments.

Fee and commission income is recognised in profit or loss on an accrual basis in accordance with terms of the relevant agreements.

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

### (d) Intangible assets

Intangible assets comprise a club membership acquired by the Company which is stated in the balance sheet at cost less impairment losses (see note 1(f)).

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



## 1 Significant accounting policies (continued)

### (e) Financial instruments

#### (i) Initial recognition

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

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

The Company recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets and financial liabilities at fair value through profit and loss is recognised using trade date accounting.

#### (ii) Categorisation

##### *Fair value through profit or loss*

This category comprises derivatives. Derivatives are held at fair value with changes in fair value recognised through profit or loss.

##### *Loans and receivables*

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

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

## 1 Significant accounting policies (continued)

### (e) *Financial instruments (continued)*

#### (ii) Categorisation (continued)

##### *Held-to-maturity investments*

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

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

##### *Other financial liabilities*

Financial liabilities are measured at amortised cost using effective interest method.

#### (iii) Fair value measurement principles

The fair value of financial instruments is based on their quoted market prices at the balance sheet date without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

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

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the balance sheet date applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on market data at the balance sheet date.

#### (iv) Derecognition

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

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



## 1 Significant accounting policies (continued)

### (e) Financial instruments (continued)

#### (v) Offsetting

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

### (f) Impairment of assets

The carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, the carrying amount is reduced to the estimated recoverable amount by means of a charge to profit or loss.

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

#### (i) Loans and receivables

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

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

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

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

## 1 Significant accounting policies (continued)

### (f) Impairment of assets (continued)

#### (i) Loans and receivables (continued)

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

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

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

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

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

#### (ii) Held-to-maturity investments

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

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



## 1 Significant accounting policies (continued)

### (f) Impairment of assets (continued)

#### (ii) Held-to-maturity investments (continued)

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

#### (iii) Other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired:

- Fixed assets (other than properties carried at revalued amounts); and
- intangible assets.

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

#### - Calculation of recoverable amount

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

#### - Recognition of impairment losses

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

#### - Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

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

## 1 Significant accounting policies (continued)

### (g) *Cash and cash equivalents*

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and placements with banks with original maturity of three months or less for the purpose of the cash flow statement.

### (h) *Fixed assets*

Fixed assets are held for own use and are stated at cost or valuation less accumulated depreciation and impairment losses (note 1(f)). The property is held at a revalued amount and was last revalued in 1994. In accordance with paragraph 80A of HKAS 16, "Property, plant and equipment", no further revaluation of the property is required.

Depreciation is calculated to write off the cost or valuation of fixed assets over their anticipated useful lives using the straight line method as follows:

- Residential apartment	40 years
- Office buildings	50 years
- Leasehold improvements	5 to 10 years
- Furniture, fixtures and office equipment	4 to 5 years
- Motor vehicles	5 years

### (i) *Operating leases*

Leases which do not transfer substantially all the risks and rewards of ownership to the lessee are classified as operating leases.

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



## 1 Significant accounting policies (continued)

### (j) *Repossessed assets*

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

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

Impairment losses on initial classification and on subsequent remeasurement are recognised in profit or loss.

### (k) *Income tax*

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income, in which case they are recognised in other comprehensive income.

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

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

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



## 1 Significant accounting policies (continued)

### (k) *Income tax (continued)*

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

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

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

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

### (l) *Provisions and contingent liabilities*

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

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

## 1 Significant accounting policies (continued)

### (m) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

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

### (n) Related parties

- (1) A person, or a close member of that person's family, is related to the Company if that person:
  - (i) has control or joint control over the Company;
  - (ii) has significant influence over the Company; or
  - (iii) is a member of the key management personnel of the Company or the Company's parent.
- (2) An entity is related to the Company if any of the following conditions applies:
  - (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the entity (or an associate or joint venture of a member of a Company of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company.
  - (vi) The entity is controlled or jointly-controlled by a person identified in (1).
  - (vii) A person identified in (1)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

## 1 Significant accounting policies (continued)

### (o) *Employee benefits*

- (i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Company of non- monetary benefits are accrued in the year in which the associated services are rendered by employees of the Company. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- (ii) The Company operates a defined contribution scheme. Contributions to a provident fund under the Occupational Retirement Scheme Ordinance are recognised as an expense in profit or loss as incurred.
- (iii) Termination benefits are recognised when, and only when, the Company demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.



## 2 Interest income and interest expense

	In Hong Kong dollars	
	2013	2012
<b>(a) Interest income arising from :</b>		
Trade bills and advances to customers	71,918,266	77,974,558
Placements with banks	2,956,149	2,628,470
Held-to-maturity investments	2,774,026	1,230,477
	<b>77,648,441</b>	<b>81,833,505</b>
<b>(b) Interest expense arising from :</b>		
Deposits from customers	21,467,660	24,840,131
Deposits and balances from banks	134,030	263,677
	<b>21,601,690</b>	<b>25,103,808</b>

## 3 Fee and commission income

	In Hong Kong dollars	
	2013	2012
Fee and commission income	30,673,749	33,624,836

Fee and commission income in 2013 and 2012 mainly comprised fee and commission income from L/C bills and export bills.

## 4 Other net income

	In Hong Kong dollars	
	2013	2012
Net gains from dealing in foreign currencies	14,426,772	15,028,670
Others	11,923,255	12,548,593
	<b>26,350,027</b>	<b>27,577,263</b>

## 5 Operating expenses

In Hong Kong dollars

	2013	2012
<b>(a) Staff costs:</b>		
Salaries and other benefits	39,889,357	39,258,719
Contribution to defined contribution scheme	2,552,028	2,450,892
	<b>42,441,385</b>	<b>41,709,611</b>
<b>(b) Depreciation</b>	<b>3,701,045</b>	<b>3,777,467</b>
<b>(c) Other operating expenses:</b>		
Premises and equipment expenses, excluding depreciation		
- rent and rates	3,388,959	3,593,667
- repairs and maintenance	1,013,516	1,119,074
Auditor's remuneration		
- audit services	745,750	584,008
- tax services	55,500	46,910
- other services	2,153,375	814,996
Others	7,901,414	9,657,242
	<b>15,258,514</b>	<b>15,815,897</b>
	<b>61,400,944</b>	<b>61,302,975</b>

## 6 Directors' remuneration

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2013	2012
Directors' fees	235,289	183,730
Salaries and allowances	3,931,353	3,798,955
Discretionary bonuses	442,916	419,116
Retirement scheme contributions	265,750	251,470
<b>Total</b>	<b>4,875,308</b>	<b>4,653,271</b>

**7 Impairment charges on trade bills and advances to customers**

	In Hong Kong dollars	
	2013	2012
Impairment losses charged on trade bills and advances to customers (note 13(c))	4,400,000	5,140,000

**8 Income tax in the statement of comprehensive income**

**(a) Taxation in the statement of comprehensive income represents:**

	In Hong Kong dollars	
	2013	2012
<b>Current tax - provision for Hong Kong profits tax</b>		
Tax for the year	8,081,767	8,091,744
Under/(over)-provision in respect of prior years	849	(12,693)
	<b>8,082,616</b>	<b>8,079,051</b>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	(220,759)	598,851
	<b>7,861,857</b>	<b>8,677,902</b>

The provision for Hong Kong Profits Tax for 2013 is calculated at 16.5% (2012: 16.5%) of the estimated assessable profits for the year.



## 8 Income tax in the statement of comprehensive income (continued)

### (b) Reconciliation between tax expense and accounting profit at applicable tax rates:

In Hong Kong dollars

	2013	2012
<b>Profit before tax</b>	<b>46,720,344</b>	<b>51,029,150</b>
Notional tax on profit before taxation, calculated at 16.5%	7,708,857	8,419,810
Tax effect of non-deductible expenses	152,151	270,785
Under/(over)-provision in respect of prior years	849	(12,693)
<b>Actual tax expense</b>	<b>7,861,857</b>	<b>8,677,902</b>

In Hong Kong dollars

<b>9 Cash and balances with banks</b>	<b>2013</b>	<b>2012</b>
Cash in hand	376,622	320,268
Balances with banks	184,707,379	433,143,532
	<b>185,084,001</b>	<b>433,463,800</b>

In Hong Kong dollars

<b>10 Placements with banks</b>	<b>2013</b>	<b>2012</b>
Placements with banks	<b>345,028,575</b>	<b>337,223,173</b>
Remaining maturity		
- within one month	186,483,401	200,431,329
- between one month and three months	156,872,422	113,229,130
- between three months and one year	1,672,752	23,562,714
	<b>345,028,575</b>	<b>337,223,173</b>

## 11 Held-to-maturity investments

	In Hong Kong dollars	
	2013	2012
Debt securities		
- Listed outside Hong Kong	108,915,021	31,468,833
- Listed in Hong Kong	24,052,466	-
- Unlisted	9,934,492	10,138,885
	<b>142,901,979</b>	<b>41,607,718</b>

## 12 Trade bills

### (a) Trade bills less impairment:

	In Hong Kong dollars	
	2013	2012
Gross trade bills	720,927,961	715,166,565
Less: Impairment allowances		
- individually assessed (note 13(c))	(1,400,000)	(1,522,000)
- collectively assessed (note 13(c))	(7,313,306)	(7,925,153)
	<b>712,214,655</b>	<b>705,719,412</b>

### (b) Impaired trade bills:

	In Hong Kong dollars	
	2013	2012
Gross impaired trade bills	2,648,413	3,057,827
Impairment allowance		
- individually assessed	(1,400,000)	(1,522,000)
	<b>1,248,413</b>	<b>1,535,827</b>

Impaired trade bills are individually assessed trade bills with objective evidence of impairment.

Individually assessed impairment allowances are made after taking into account the value of collateral in respect of such trade bills. For individually assessed impaired trade bills, the value of collateral is \$9,739 (2012: \$Nil).

The percentage of impaired trade bills to gross trade bills is 0.37% (2012: 0.43%).

### 13 Advances to customers

**(a) Advances to customers less impairment:**

	<b>2013</b>	<b>2012</b>
		In Hong Kong dollars
Gross advances to customers	812,478,606	655,346,582
Less: Impairment allowances		
- individually assessed (note 13(c))	(9,355,000)	(7,822,000)
- collectively assessed (note 13(c))	(7,943,850)	(7,079,903)
	<b>795,179,756</b>	<b>640,444,679</b>

**(b) Impaired advances to customers:**

	<b>2013</b>	<b>2012</b>
		In Hong Kong dollars
Gross impaired advances to customers	32,270,074	19,187,149
Impairment allowance - individually assessed	(9,355,000)	(7,822,000)
	<b>22,915,074</b>	<b>11,365,149</b>

Impaired advances are individually assessed advances with objective evidence of impairment.

Individually assessed impairment allowances are made after taking into account the value of collateral in respect of such advances to customers. For individually assessed impaired advances to customers, the value of collateral is \$18,966,999 (2012: \$9,448,410).

The percentage of impaired advances to gross advances to customers is 3.97% (2012: 2.93%).



### 13 Advances to customers (continued)

#### (c) Movement in impairment allowance on trade bills and advances to customers

In Hong Kong dollars

2013	Individually assessed	Collectively assessed	Total
At 1 January	9,344,000	15,005,056	24,349,056
Impairment losses charged to statement of comprehensive income (note 7)	4,147,900	252,100	4,400,000
Amounts written off	(2,736,900)	-	(2,736,900)
At 31 December	<b>10,755,000</b>	<b>15,257,156</b>	<b>26,012,156</b>
<i>Deducted from:</i>			
Trade bills (note 12(a))	1,400,000	7,313,306	8,713,306
Advances to customers (note 13(a))	9,355,000	7,943,850	17,298,850
	<b>10,755,000</b>	<b>15,257,156</b>	<b>26,012,156</b>

In Hong Kong dollars

2012	Individually assessed	Collectively assessed	Total
At 1 January	6,501,000	18,772,556	25,273,556
Impairment losses charged /(released) to statement of comprehensive income (note 7)	8,907,500	(3,767,500)	5,140,000
Amounts written off	(6,064,500)	-	(6,064,500)
At 31 December	<b>9,344,000</b>	<b>15,005,056</b>	<b>24,349,056</b>
<i>Deducted from:</i>			
Trade bills (note 12(a))	1,522,000	7,925,153	9,447,153
Advances to customers (note 13(a))	7,822,000	7,079,903	14,901,903
	<b>9,344,000</b>	<b>15,005,056</b>	<b>24,349,056</b>

## 14 Fixed assets

In Hong Kong dollars

	Leasehold improvements	Buildings	Furniture, fixtures, office equipment and motor vehicles	Total
<b>Cost or valuation:</b>				
At 1 January 2013	7,392,449	71,183,079	14,102,072	92,677,600
Additions	-	-	53,835	53,835
At 31 December 2013	7,392,449	71,183,079	14,155,907	92,731,435
<b>Representing:</b>				
Cost	7,392,449	56,683,079	14,155,907	78,231,435
Valuation	-	14,500,000	-	14,500,000
	<b>7,392,449</b>	<b>71,183,079</b>	<b>14,155,907</b>	<b>92,731,435</b>
<b>Aggregate depreciation:</b>				
At 1 January 2013	3,439,647	13,644,653	11,092,829	28,177,129
Charge for the year	1,131,121	1,566,813	1,003,111	3,701,045
At 31 December 2013	<b>4,570,768</b>	<b>15,211,466</b>	<b>12,095,940</b>	<b>31,878,174</b>
<b>Net book value:</b>				
At 31 December 2013	<b>2,821,681</b>	<b>55,971,613</b>	<b>2,059,967</b>	<b>60,853,261</b>

## 14 Fixed assets (continued)

In Hong Kong dollars

	Leasehold improvements	Buildings	Furniture, fixtures, office equipment and motor vehicles	Total
<b>Cost or valuation:</b>				
At 1 January 2012	7,392,449	71,183,079	13,585,251	92,160,779
Additions	-	-	516,821	516,821
At 31 December 2012	7,392,449	71,183,079	14,102,072	92,677,600
<b>Representing:</b>				
Cost	7,392,449	56,683,079	14,102,072	78,177,600
Valuation	-	14,500,000	-	14,500,000
	<b>7,392,449</b>	<b>71,183,079</b>	<b>14,102,072</b>	<b>92,677,600</b>
<b>Aggregate depreciation:</b>				
At 1 January 2012	2,305,526	12,073,683	10,020,453	24,399,662
Charge for the year	1,134,121	1,570,970	1,072,376	3,777,467
At 31 December 2012	<b>3,439,647</b>	<b>13,644,653</b>	<b>11,092,829</b>	<b>28,177,129</b>
<b>Net book value:</b>				
At 31 December 2012	<b>3,952,802</b>	<b>57,538,426</b>	<b>3,009,243</b>	<b>64,500,471</b>

The buildings are held in Hong Kong under a long term lease.

The Company's residential apartment was purchased in 1984 for \$1,362,270. It was revalued at \$14,500,000 in 1994 on an open market value basis by an independent surveyor, Knight Frank Kan & Baillieu.



## 15 Other assets

	<b>2013</b>	In Hong Kong dollars <b>2012</b>
Customer liability under acceptance	18,536,994	18,512,488
Interest receivable	6,644,721	6,231,365
Others	6,099,909	3,281,617
	<b>31,281,624</b>	<b>28,025,470</b>

Included in other assets are intangible assets of \$225,000 (2012: \$225,000) relating to club debentures held by the Company. There has been no impairment of intangible assets in either this or the preceding year.

## 16 Deposits and balances from banks

	<b>2013</b>	In Hong Kong dollars <b>2012</b>
Deposits and balances from banks	<b>3,286,153</b>	<b>28,981,549</b>

## 17 Deposits from customers

	<b>2013</b>	In Hong Kong dollars <b>2012</b>
Staff provident fund	58,377,215	52,199,724
Time deposits	1,379,205,493	1,272,506,382
	<b>1,437,582,708</b>	<b>1,324,706,106</b>

## 18 Other liabilities

	<b>2013</b>	In Hong Kong dollars <b>2012</b>
Acceptances outstanding	18,536,994	18,512,488
Interest payable	3,641,041	4,411,205
Imprest accounts	136,028,005	75,423,621
Margin on L/Cs and trade bills	130,444,645	289,644,601
Interest received in advance	284,800	104,268
Others	4,943,571	1,798,900
	<b>293,879,056</b>	<b>389,895,083</b>

## 19 Income tax in the balance sheet

### (a) Current taxation in the balance sheet represents:

In Hong Kong dollars

	2013	2012
Provision for Hong Kong profits tax for the year	8,081,767	8,091,744
Provisional profits tax paid	(8,102,593)	(11,268,791)
	<b>(20,826)</b>	<b>(3,177,047)</b>

### (b) Deferred tax assets and liabilities recognised

The components of deferred tax (assets)/liabilities recognised in the balance sheet and the movements during the year are as follows:

In Hong Kong dollars

	Difference between depreciation allowances and related depreciation	Revaluation of properties	Collective impairment allowance for bad and doubtful debts	Total
<b>Deferred tax arising from:</b>				
At 1 January 2013	(213,634)	1,855,217	(2,475,834)	(834,251)
Credited to statement of comprehensive income	(179,162)	-	(41,597)	(220,759)
At 31 December 2013	<b>(392,796)</b>	<b>1,855,217</b>	<b>(2,517,431)</b>	<b>(1,055,010)</b>
At 1 January 2012	(190,847)	1,855,217	(3,097,472)	(1,433,102)
(Credited)/charged to statement of comprehensive income	(22,787)	-	621,638	598,851
At 31 December 2012	<b>(213,634)</b>	<b>1,855,217</b>	<b>(2,475,834)</b>	<b>(834,251)</b>

## 20 Material related party transactions

- (a) During the year, the Company entered into transactions with related parties in the ordinary course of business including the taking and placing of inter-bank deposits. These transactions were priced at relevant market rates at the time of each transaction.

The amounts included in the financial statements arising from transactions with related parties are as follows:

	In Hong Kong dollars							
	Parent company		Fellow subsidiaries		Affiliates		Key management personnel	
	2013	2012	2013	2012	2013	2012	2013	2012
Commission rebate	-	-	-	-	1,529,519	2,076,690	-	-
Interest expenses	128,912	95,010	-	59,117	-	101,480	-	-
IT maintenance	697,887	697,653	-	-	-	-	-	-
Other services	600,000	-	-	312,035	-	-	-	-
Staff Provident Fund expense	-	-	-	-	2,552,028	2,450,892	-	-
Cash and balances with banks	7,269,832	4,998,017	602,859	486,037	-	81,889	-	-
Deposits and balances from banks	1,764,321	26,810,197	75,885	199,237	1,215,044	1,882,284	-	-
Time deposits	-	-	-	-	-	-	7,761,245	7,758,643
Imprest accounts	-	-	-	-	-	-	286,082	143,490
Staff Provident Fund deposit	-	-	-	-	58,377,215	52,199,724	-	-

The aggregate unsecured facilities granted to connected parties who are (i) individuals did not exceed \$1,000,000 per person or 5% of the capital base and (ii) firms, partnerships or non-listed companies (as specified in section 83(4) of the Banking Ordinance) did not exceed 10% of the capital base. The maximum aggregate unsecured facilities to all connected parties did not exceed 10% of the capital base. The secured lending to connected parties follows the supervisory policy manual on connected lending (CR-G-9) clause 2.5 issued by the HKMA.

The Company has entered into an agreement with its parent company for the provision of banking software and related IT services.



## 20 Material related party transactions (continued)

### (b) Key management personnel remuneration

	In Hong Kong dollars	
	2013	2012
Short-term employee benefits	7,735,568	7,464,922
Post-employment benefits	418,966	399,655
	<b>8,154,534</b>	<b>7,864,577</b>

Total remuneration is included in staff costs (see note 5(a)).

## 21 Loans to officers

Loans to officers of the Company disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

	In Hong Kong dollars	
	2013	2012
Aggregate amount of relevant loans made by the Company at 31 December	-	386,977
Maximum aggregate amount of relevant loans made by the Company during the year	386,977	519,079

## 22 Share capital

### *Authorised and issued share capital*

	In Hong Kong dollars	
	2013	2012
<b>Authorised:</b>		
5,000,000 shares of \$100 each	500,000,000	500,000,000
<b>Issued and fully paid:</b>		
3,000,000 (2012: 3,000,000) shares of \$100 each	300,000,000	300,000,000

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.



## 23 Reserves and dividends

### (a) Nature and purpose of reserves

#### (i) Property revaluation reserve

The revaluation reserve has been set up in accordance with the accounting policies adopted for land and buildings in note 1(h). The revaluation reserve is not available for distribution to shareholders.

#### (ii) Regulatory reserve

The regulatory reserve is an appropriation from retained earnings and is maintained for the purpose of paragraph 9 of the Seventh Schedule to the Hong Kong Banking Ordinance to set aside amounts in respect of losses which the Company will or may incur on loans and advances in addition to impairment losses recognised under HKAS 39, "Financial Instruments: Recognition and Measurement". Transfer to and from the regulatory reserve are made directly through retained earnings and not the statement of comprehensive income.

### (b) Distributability of reserves

At 31 December 2013, the aggregate amount of reserves available for distribution to equity shareholders of the Company was \$211,628,029 (2012: \$184,169,542).

### (c) Dividends

	In Hong Kong dollars	
	2013	2012
Final dividend in respect of the current financial year proposed after the balance sheet date of \$8.00 per ordinary share (2012: \$3.80 per ordinary share)	24,000,000	11,400,000

The dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

	In Hong Kong dollars	
	2013	2012
Final dividend in respect of the previous financial year, approved and paid during the year, of \$3.80 per ordinary share (2012: \$7.50 per ordinary share)	11,400,000	22,500,000

## 24 Derivatives

### (a) *Notional amount of derivatives*

Derivatives refer to financial contracts whose value depends on the value of one or more underlying assets or indices. The notional amounts of these instruments indicate the volume of outstanding transactions and do not represent amounts at risk.

	In Hong Kong dollars	
	2013	2012
<b>Currency derivatives</b>		
Forwards	62,990,000	-

### (b) *Fair values, credit risk weighted amounts and remaining maturity of derivatives*

The derivative financial instruments have a positive fair value of \$3,000 and negative fair value of \$87,210 and are expected to mature within one year from the balance sheet date. The fair value of financial instruments have been calculated using a Level 2 valuation methodology utilising market observable inputs.

## 25 Assets pledged as security

The following assets have been pledged as collateral at 31 December 2013

	In Hong Kong dollars	
	2013	2012
Balances with banks	3,642,306	-
Held-to-maturity investments	74,416,574	-
	<b>78,058,880</b>	-

These transactions are conducted under terms that are usual and customary to standard lending and securities borrowing and lending activities.



## 26 Contingent assets, liabilities and commitments

### (a) Contingent assets, liabilities and commitments to extend credit

The following is a summary of the contractual amounts of each significant class of contingent liabilities and commitments:

	2013	2012
		In Hong Kong dollars
Trade-related contingencies	578,978,183	597,973,727
Credit risk weighted amounts	84,836,191	88,138,115

Contingent liabilities and commitments are credit-related instruments which include letters of credit, confirmation of letters of credit, guarantees and commitments to extend credit. The risk involved in these credit-related instruments is essentially the same as the credit risk involved in extending loan facilities to customers. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client default. As the facilities may expire without being drawn upon, the contractual amounts do not represent expected future cash flows. The risk weights used in the computation of credit risk weighted amounts range from 0% to 100%.

### (b) Lease commitments

At 31 December 2013, the total future minimum lease payments in respect of IT services and properties under non-cancellable operating leases are payable as follows:

	2013	2012
		In Hong Kong dollars
Within 1 year	1,940,314	2,775,976
After 1 year but within 5 years	174,471	1,509,000
	<b>2,114,785</b>	<b>4,284,976</b>

### (c) Capital commitments

At 31 December 2013, the Company had committed to purchase a commercial property for \$38,403,000. The Company had paid a deposit of \$3,840,300 at 31 December 2013 and the purchase completed subsequent to the year end in February 2014.

## 27 Ultimate and immediate holding company

As at 31 December 2013, the directors consider the Company's immediate parent to be Habib Bank AG Zurich and ultimate holding company to be Gefan Finanz AG. Both the parent and ultimate holding company are incorporated in Switzerland.

## 28 Financial risk management

This section presents information about the Company's exposure to and its management and control of risks, in particular, the primary risks associated with its use of financial instruments:

- credit risk: loss resulting from customer or counterparty default and arises on credit exposure in all forms, including settlement risk.
- market risk: exposure to market variables such as interest rates and exchange rates.
- liquidity and funding risk: the risk that the Company is unable to meet its payment obligations when due, or that it is unable, on an ongoing basis, to borrow funds in the market on an unsecured, or even secured, basis at an acceptable price to fund actual or proposed commitments.
- operational risk: risk arising from matters such as non-adherence to systems and procedures or from frauds resulting in financial or reputation loss.

The Company has established policies and procedures to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and limits continually by means of reliable and up-to-date management and information systems. The Company continually modifies and enhances its risk management policies and systems to reflect changes in markets, products and best practice risk management processes. Introduction of new products and systems is approved by the Board of Directors after proper risk assessment. The internal auditors also perform regular audits to ensure compliance with the policies and procedures.

### (a) Credit risk

Credit risk arises from the possibility that the counterparty in a transaction may default. It arises from lending, trade finance, derivatives and other activities.

The Company has policies in place to ensure that credit risk is properly addressed and managed at the transaction and portfolio levels. The Board of Directors formulates and updates the credit policies. The Company's credit policies define credit extension criteria, credit sanctions, review and monitoring mechanisms, and the loan classification and provisioning policy.



## 28 Financial risk management (continued)

### (a) Credit risk (continued)

To avoid large financial risk, the exposure to a single borrower or group of related borrowers is limited to a percentage of the capital base. Country risk concentration is managed by setting up country exposure limits and emphasising wide geographical spread of export markets.

The Credit Committee, chaired by the Chief Executive, monitors compliance with statutory and internal limits on credit exposures. The internal auditor carries out regular audits to ensure compliance with the stated policies and procedures. To strengthen the independence of the audit function, the internal auditor of the Company reports directly to the Board Audit Committee.

#### (i) Maximum exposure

The maximum exposure to credit risk at the balance sheet date without taking into consideration of any collateral held or other credit enhancements is represented by the carrying amount of each financial asset in the balance sheet after deducting any impairment allowance. A summary of the maximum exposure is as follows:

	<b>2013</b>	In Hong Kong dollars <b>2012</b>
Cash and balances with banks	185,084,001	433,463,800
Placements with banks	345,028,575	337,223,173
Held-to-maturity investments	142,901,979	41,607,718
Trade bills	712,214,655	705,719,412
Advances to customers	795,179,756	640,444,679
Other assets	31,281,624	28,025,470
Financial guarantees and other credit related contingent liabilities	578,978,183	597,973,727
	<b>2,790,668,773</b>	<b>2,784,457,979</b>



## 28 Financial risk management (continued)

### (a) Credit risk (continued)

#### (ii) Credit quality of advances to customers and trade bills

The credit quality of advances to customers and trade bills can be analysed as follows:

	2013		2012	
	Gross amount of advances to customers '000	Gross amount of trade bills '000	Gross amount of advances to customers '000	Gross amount of trade bills '000
Neither past due nor impaired	736,584	650,146	601,481	629,641
Past due but not impaired	43,625	68,134	34,678	82,468
Impaired	32,270	2,648	19,187	3,058
	<b>812,479</b>	<b>720,928</b>	<b>655,346</b>	<b>715,167</b>
Of which:				
Neither past due nor impaired				
- Grade 1: Pass	724,197	645,234	593,896	629,189
- Grade 2: Special Mention	12,387	4,912	7,585	452
	<b>736,584</b>	<b>650,146</b>	<b>601,481</b>	<b>629,641</b>

The Company classifies the advances to customers and trade bills in accordance with the loan classification system required to be adopted for reporting to the HKMA.

## 28 Financial risk management (continued)

### (a) Credit risk (continued)

#### (ii) Credit quality of advances to customers and trade bills (continued)

The ageing analysis of advances to customers and trade bills to customers that are past due but not impaired is as follows:

	2013		2012	
	Gross amount of advances to customers '000	Gross amount of trade bills '000	Gross amount of advances to customers '000	Gross amount of trade bills '000
Less than 1 month	21,322	41,383	22,977	58,980
3 months or less but over 1 month	15,986	20,139	8,786	22,216
6 months or less but over 3 months	4,057	6,612	2,915	1,272
1 year or less but over 6 months	2,260	-	-	-
Over 1 year	-	-	-	-
	<b>43,625</b>	<b>68,134</b>	<b>34,678</b>	<b>82,468</b>

In Hong Kong dollars

Renegotiated advances to customers and trade bills that would otherwise be past due or impaired amounts to \$Nil as at 31 December 2013 (2012: \$Nil).

#### (iii) Collateral and other credit enhancements

The Company holds collateral against advances to customers in the form of mortgages over property and cash deposits. Collateral held as security for financial assets other than advances to customers is determined by the nature of the instrument.

An estimate of the fair value of collateral and other credit enhancements held against financial assets is as follows:

	In Hong Kong dollars	
	2013 '000	2012 '000
Fair value of collateral and other credit enhancements held against financial assets that are:		
- neither past due nor impaired	807,567	571,146
- past due but not impaired	100,464	97,721
	<b>908,031</b>	<b>668,867</b>

## 28 Financial risk management (continued)

### (a) Credit risk (continued)

#### (iii) Collateral and other credit enhancements (continued)

To mitigate credit risks, the Company enters into netting arrangements with counterparties. Netting arrangements provide that, if an event of default occurs, all outstanding transactions with the counterparty will be terminated and all amounts outstanding will be settled on a net basis. Except for the event of default, all outstanding transactions with the counterparty are settled on a gross basis and generally do not result in offsetting the assets and liabilities in the balance sheet.

		2013		
		In Hong Kong dollars		
	Note	Gross amounts of financial instruments in the balance sheet '000	Related financial instruments that have not been offset '000	Net amount '000
<b>Financial assets</b>				
Trade bills	12(a)	720,928	158,656	562,272
Advances to customers	13(a)	812,479	291,169	521,310
		<b>1,533,407</b>	<b>449,825</b>	<b>1,083,582</b>
<b>Financial liabilities</b>				
Deposit from customers	17	1,437,583	362,795	1,074,788
Imprest and margin accounts	18	266,473	87,030	179,443
		<b>1,704,056</b>	<b>449,825</b>	<b>1,254,231</b>



## 28 Financial risk management (continued)

### (a) Credit risk (continued)

		2012		
		In Hong Kong dollars		
	Note	Gross amounts of financial instruments in the balance sheet '000	Related financial instruments that have not been offset '000	Net amount '000
<b>Financial assets</b>				
Trade bills	12(a)	715,167	173,033	542,134
Advances to customers	13(a)	655,347	272,518	382,829
		<b>1,370,514</b>	<b>445,551</b>	<b>924,963</b>
<b>Financial liabilities</b>				
Deposit from customers	17	1,324,706	371,716	952,990
Imprest and margin accounts	18	365,068	73,835	291,233
		<b>1,689,774</b>	<b>445,551</b>	<b>1,244,223</b>

## 28 Financial risk management (continued)

### (b) Market risk management

Market risk is the risk that movements in interest rates or foreign exchange rates will result in losses in on and off balance sheet positions.

The principal derivative instruments used by the Company are foreign exchange rate contracts for hedging positions arising from commercial transactions.

The Company's policy is to take no proprietary trading positions. The Company does not engage in speculative trading activities, and hence it is not exposed to market risk arising from the trading book.

The Company has been exempted under section 22(1) of the Banking (Capital) Rules from the calculation of market risk under section 17.

#### (i) Currency risk

Currency risk is the risk to earnings or capital emanating from the movement of foreign exchange rates. Foreign exchange exposures originate mainly from the trade finance business. The risk thereof has been largely eliminated by consciously devising policies that expressly prohibit speculation in currencies and mandate that trade finance related currency transactions are covered simultaneously and aggregate open positions exceeding amount equivalent to US\$1 million cannot be left overnight in currencies other than US\$. All exposures are managed by the Chief Financial Officer on a daily basis and reviewed periodically by the Chief Executive and Asset and Liability Management Committee.

## 28 Financial risk management (continued)

### (b) Market risk management (continued)

#### (i) Currency risk (continued)

Foreign exchange exposures arising from non-trading and structural positions, with an individual currency constituting 10% or more of the total net position in all foreign currencies, are shown as follows:

	Total '000	2013 In HKD equivalents	
		United States Dollars '000	Other foreign currencies '000
<b>Assets</b>			
Cash and balances with banks	90,674	70,751	19,923
Placements with banks	70,029	-	70,029
Held-to-maturity investments	132,968	132,968	-
Trade bills	718,538	718,176	362
Advances to customers	621,373	588,195	33,178
Other assets	18,537	18,537	-
<b>Spot assets</b>	<b>1,652,119</b>	<b>1,528,627</b>	<b>123,492</b>
<b>Liabilities</b>			
Deposits and balances of banks	(2,599)	(2,599)	-
Deposits from customers	(1,247,132)	(1,168,086)	(79,046)
Other liabilities	(265,729)	(246,105)	(19,624)
<b>Spot liabilities</b>	<b>(1,515,460)</b>	<b>(1,416,790)</b>	<b>(98,670)</b>
Forward purchases	-	-	-
Forward sales	(62,990)	(38,775)	(24,215)
	<b>(62,990)</b>	<b>(38,775)</b>	<b>(24,215)</b>
<b>Net non structural position</b>	<b>73,669</b>	<b>73,062</b>	<b>607</b>



## 28 Financial risk management (continued)

### (b) Market risk management (continued)

#### (i) Currency risk (continued)

	Total '000	2012	
		United States Dollars '000	In HKD equivalents Other foreign currencies '000
<b>Assets</b>			
Cash and balances with banks	194,596	168,923	25,673
Placements with banks	82,223	23,255	58,968
Held-to-maturity investments	31,469	31,469	-
Trade bills	712,156	712,085	71
Advances to customers	474,397	472,770	1,627
Other assets	18,512	18,034	478
<b>Spot assets</b>	<b>1,513,353</b>	<b>1,426,536</b>	<b>86,817</b>
<b>Liabilities</b>			
Deposits and balances of banks	(28,090)	(28,090)	-
Deposits from customers	(1,117,897)	(1,048,740)	(69,157)
Other liabilities	(357,015)	(339,587)	(17,428)
<b>Spot liabilities</b>	<b>(1,503,002)</b>	<b>(1,416,417)</b>	<b>(86,585)</b>
Forward purchases	-	-	-
Forward sales	-	-	-
	-	-	-
<b>Net non structural position</b>	<b>10,351</b>	<b>10,119</b>	<b>232</b>

## 28 Financial risk management (continued)

### (b) Market risk management (continued)

#### (i) Currency risk (continued)

The Company does not trade in foreign currencies, nor takes any other exposures on accounts of its clients. The Company's foreign currency transactions primarily relate to discounting of foreign currency export and import bills. The exchange positions arising from trade bills as well as customers' foreign currency deposits related transactions are covered in the local market. From time to time the Company enters into foreign exchange forward transactions to mitigate currency risk. Details of such transactions appear in the above table.

As the majority (94%) of the Company's financial instruments at 31 December 2013 and 2012 were denominated in either Hong Kong dollars ("HK\$") or United States dollars ("US\$") and the US\$ is pegged to the HK\$, management does not consider there to be any significant currency risk associated with them.

#### (ii) Interest rate risk

The Company's interest rate positions arise from trade finance, lendings and deposit taking activities. Interest rate risk primarily results from the timing difference in the repricing of interest-bearing assets and liabilities. It also relates to positions from non-interest bearing liabilities including shareholders' funds, as well as from certain fixed rate trade finance transactions and liabilities.

The Company monitors interest rate movements by applying a weighting to assets and liabilities on the balance sheet. The management monitors the weighted average rates on the deposits, lending and placements to identify any mismatched exposures and alters the interest rate strategy accordingly. Interest bearing deposits from customers are for a fixed maturity mostly for a three month period and are generally utilised for a similar period. Surplus liquidity is placed in the interbank market and investments. A greater portion of the loans and trade advances is repricable on a per-transaction basis. Hence the risk element is contained swiftly and the magnitude of the risk posed by interest rates movement is low.



## 28 Financial risk management (continued)

### (b) Market risk management (continued)

#### (ii) Interest rate risk (continued)

Interest sensitivity of assets and liabilities	Effective interest rate	2013					Non-interest bearing '000
		Total '000	3 months or less '000	Over 3 months to 1 year '000	Over 1 year to 5 years '000	Over 5 years '000	
In Hong Kong dollars							
<b>Assets</b>							
Cash and balances with banks	-	185,084	-	-	-	-	185,084
Placements with banks	1.02%	345,029	343,356	1,673	-	-	-
Held-to-maturity investments	2.95%	142,902	-	-	142,902	-	-
Trade bills	5.40%	720,928	672,564	48,364	-	-	-
Collective impairment allowance for trade bills	-	(7,313)	-	-	-	-	(7,313)
Individual impairment allowance for trade bills	-	(1,400)	-	-	-	-	(1,400)
Advances to customers	4.94%	812,479	608,398	129,749	74,332	-	-
Collective impairment allowance for advances to customers	-	(7,944)	-	-	-	-	(7,944)
Individual impairment allowance for advances to customers	-	(9,355)	-	-	-	-	(9,355)
Tax paid in advance	-	21	-	-	-	-	21
Deferred tax assets	-	1,055	-	-	-	-	1,055
Fixed assets	-	60,853	-	-	-	-	60,853
Other assets	-	31,281	-	-	-	-	31,281
<b>Total assets</b>		<b>2,273,620</b>	<b>1,624,318</b>	<b>179,786</b>	<b>217,234</b>	-	<b>252,282</b>
<b>Liabilities</b>							
Deposits and balances of banks	-	3,286	-	-	-	-	3,286
Deposits from customers	1.62%	1,437,583	1,305,342	132,241	-	-	-
Other liabilities	-	293,879	-	-	-	-	293,879
<b>Total liabilities</b>		<b>1,734,748</b>	<b>1,305,342</b>	<b>132,241</b>	-	-	<b>297,165</b>
<b>Net Re-Pricing gap</b>		<b>538,872</b>	<b>318,976</b>	<b>47,545</b>	<b>217,234</b>	-	<b>(44,883)</b>

At 31 December 2013, it is estimated that a general increase/decrease of 50 basis points in interest rates (2012: 50 basis points in interest rate), with all other variables held constant, would not significantly impact the Company's profit after taxation (2012: insignificant impact).

The sensitivity analysis above has been determined assuming that the change in interest rate had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The 50 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date.



## 28 Financial risk management (continued)

### (b) Market risk management (continued)

#### (ii) Interest rate risk (continued)

Interest sensitivity of assets and liabilities	Effective interest rate	2012					Non-interest bearing '000
		Total '000	3 months or less '000	Over 3 months to 1 year '000	Over 1 year to 5 years '000	Over 5 years '000	
In Hong Kong dollars							
<b>Assets</b>							
Cash and balances with banks	-	433,464	-	-	-	-	433,464
Placements with banks	1.03%	337,223	313,660	23,563	-	-	-
Held-to-maturity investments	3.04%	41,608	-	15,642	25,966	-	-
Trade bills	5.22%	715,167	645,009	70,158	-	-	-
Collective impairment allowance for trade bills	-	(7,925)	-	-	-	-	(7,925)
Individual impairment allowance for trade bills	-	(1,522)	-	-	-	-	(1,522)
Advances to customers	4.94%	655,347	561,148	55,869	38,330	-	-
Collective impairment allowance for advances to customers	-	(7,080)	-	-	-	-	(7,080)
Individual impairment allowance for advances to customers	-	(7,822)	-	-	-	-	(7,822)
Tax paid in advance	-	3,177	-	-	-	-	3,177
Deferred tax assets	-	834	-	-	-	-	834
Fixed assets	-	64,500	-	-	-	-	64,500
Other assets	-	28,025	-	-	-	-	28,025
<b>Total assets</b>		<b>2,254,996</b>	<b>1,519,817</b>	<b>165,232</b>	<b>64,296</b>	<b>-</b>	<b>505,651</b>
<b>Liabilities</b>							
Deposits and balances of banks	0.00%-1.21%	28,982	-	23,061	-	-	5,921
Deposits from customers	1.92%	1,324,706	1,169,721	154,985	-	-	-
Other liabilities	-	389,895	-	-	-	-	389,895
<b>Total liabilities</b>		<b>1,743,583</b>	<b>1,169,721</b>	<b>178,046</b>	<b>-</b>	<b>-</b>	<b>395,816</b>
<b>Net Re-Pricing gap</b>		<b>511,413</b>	<b>350,096</b>	<b>(12,814)</b>	<b>64,296</b>	<b>-</b>	<b>109,835</b>

## 28 Financial risk management (continued)

### (c) Liquidity risk management

Liquidity relates to the ability of a Company to meet its obligations as they fall due.

The Company manages the liquidity structure of its assets, liabilities and commitments so as to ensure that liquidity sources match funding needs and that the statutory liquidity ratio is complied with. The Company's average liquidity ratio of 134.62% (2012: 133.60%) in 2013 was well above the statutory minimum ratio of 25%.

The finance department reviews the current and prospective funding requirements for all operations through daily monitoring of the liquidity ratio and the maturity mismatch profile. Liquidity risk is managed by holding sufficient liquid assets (e.g. cash and short term funds) of appropriate quality to ensure that short term funding requirements are covered within prudent limits. Customer deposits form a significant part of the Company's overall funding and they have remained relatively diversified and stable. Adequate standby facilities are maintained to provide strategic liquidity to meet unexpected and material cash outflows in the ordinary course of business. The Asset and Liability Management Committee measures the liquidity and adequacy of funds periodically and evaluates the overall risks and mitigation. The Committee also manages the funds and investments within the internal and regulatory framework.

#### *Analysis of non derivatives assets and liabilities by remaining maturity*

The following maturity profile is based on the remaining period at the balance sheet date to the contractual maturity date.

	2013							In Hong Kong dollars
	Total '000	Repayable on demand '000	Within 1 month '000	Over 1 month but within 3 months '000	Over 3 months but within 1 year '000	Over 1 year but within 5 years '000	Over 5 years '000	Indefinite '000
<b>Assets</b>								
Cash and balances with banks	185,084	185,084	-	-	-	-	-	-
Placements with banks	345,029	-	186,484	156,872	1,673	-	-	-
Held-to-maturity investments	142,902	-	-	-	-	142,902	-	-
Trade bills	712,215	78,997	202,888	382,457	47,873	-	-	-
Advances to customers	795,180	72,577	218,400	302,118	128,480	73,605	-	-
Tax paid in advance	21	-	-	-	21	-	-	-
Deferred tax assets	1,055	-	-	-	-	-	-	1,055
Fixed assets	60,853	-	-	-	-	-	-	60,853
Other assets	31,281	6,100	15,071	9,006	1,104	-	-	-
<b>Total assets</b>	<b>2,273,620</b>	<b>342,758</b>	<b>622,843</b>	<b>850,453</b>	<b>179,151</b>	<b>216,507</b>	-	<b>61,908</b>



## 28 Financial risk management (continued)

### (c) Liquidity risk management (continued)

Analysis of non derivatives assets and liabilities by remaining maturity (continued)

	2013							In Hong Kong dollars	
	Total '000	Repayable on demand '000	Within 1 month '000	Over 1 month but within 3 months '000	Over 3 months but within 1 year '000	Over 1 year but within 5 years '000	Over 5 years '000	Indefinite '000	
<b>Liabilities</b>									
Deposits and balances of banks	3,286	3,286	-	-	-	-	-	-	
Deposits from customers	1,437,583	-	444,419	860,923	132,241	-	-	-	
Other liabilities	293,879	271,416	12,353	9,006	1,104	-	-	-	
<b>Total liabilities</b>	<b>1,734,748</b>	<b>274,702</b>	<b>456,772</b>	<b>869,929</b>	<b>133,345</b>	-	-	-	
<b>Net liability gap</b>	<b>538,872</b>	<b>68,056</b>	<b>166,071</b>	<b>(19,476)</b>	<b>45,806</b>	<b>216,507</b>	-	<b>61,908</b>	

The total gross undiscounted cash flows for the above liabilities are the same as shown above except for deposits and balances of banks and deposits from customers which are as follows:

	2013							In Hong Kong dollars	
	Carrying amount '000	Total contractual undiscounted cash flows '000	Repayable on demand '000	Within 1 month '000	Over 1 month but within 3 months '000	Over 3 months but within 1 year '000	Over 1 year but within 5 years '000	Indefinite '000	
Deposits and balances of banks	3,286	3,286	3,286	-	-	-	-	-	
Deposits from customers	1,437,583	1,444,957	-	446,390	864,584	133,983	-	-	
	<b>1,440,869</b>	<b>1,448,243</b>	<b>3,286</b>	<b>446,390</b>	<b>864,584</b>	<b>133,983</b>	-	-	



## 28 Financial risk management (continued)

### (c) Liquidity risk management (continued)

Analysis of non derivatives assets and liabilities by remaining maturity (continued)

	2012							In Hong Kong dollars
	Total '000	Repayable on demand '000	Within 1 month '000	Over 1 month but within 3 months '000	Over 3 months but within 1 year '000	Over 1 year but within 5 years '000	Over 5 years '000	Indefinite '000
<b>Assets</b>								
Cash and balances with banks	433,464	433,464	-	-	-	-	-	-
Placements with banks	337,223	-	200,431	113,229	23,563	-	-	-
Held-to-maturity investments	41,608	-	-	-	15,642	25,966	-	-
Trade bills	705,720	95,026	236,288	305,024	69,382	-	-	-
Advances to customers	640,445	48,513	211,763	286,988	55,265	37,916	-	-
Tax paid in advance	3,177	-	-	-	3,177	-	-	-
Deferred tax assets	834	-	-	-	-	-	-	834
Fixed assets	64,500	-	-	-	-	-	-	64,500
Other assets	28,025	4,689	14,861	7,694	781	-	-	-
<b>Total assets</b>	<b>2,254,996</b>	<b>581,692</b>	<b>663,343</b>	<b>712,935</b>	<b>167,810</b>	<b>63,882</b>	-	<b>65,334</b>

## 28 Financial risk management (continued)

### (c) Liquidity risk management (continued)

Analysis of non derivatives assets and liabilities by remaining maturity (continued)

	2012							In Hong Kong dollars	
	Total '000	Repayable on demand '000	Within 1 month '000	Over 1 month but within 3 months '000	Over 3 months but within 1 year '000	Over 1 year but within 5 years '000	Over 5 years '000	Indefinite '000	
<b>Liabilities</b>									
Deposits and balances of banks	28,982	5,921	-	-	23,061	-	-	-	
Deposits from customers	1,324,706	14,243	449,272	706,206	154,985	-	-	-	
Other liabilities	389,895	368,275	13,145	7,694	781	-	-	-	
<b>Total liabilities</b>	<b>1,743,583</b>	<b>388,439</b>	<b>462,417</b>	<b>713,900</b>	<b>178,827</b>	-	-	-	
<b>Net liability gap</b>	<b>511,413</b>	<b>193,253</b>	<b>200,926</b>	<b>(965)</b>	<b>(11,017)</b>	<b>63,882</b>	-	<b>65,334</b>	

The total gross undiscounted cash flows for the above liabilities are the same as shown above except for deposits and balances of banks and deposits from customers which are as follows:

	2012							In Hong Kong dollars	
	Carrying amount '000	Total contractual undiscounted cash flows '000	Repayable on demand '000	Within 1 month '000	Over 1 month but within 3 months '000	Over 3 months but within 1 year '000	Over 1 year but within 5 years '000	Indefinite '000	
Deposits and balances of banks	28,982	29,113	5,921	-	-	23,192	-	-	
Deposits from customers	1,324,706	1,333,201	14,421	452,034	709,074	157,672	-	-	
	<b>1,353,688</b>	<b>1,362,314</b>	<b>20,342</b>	<b>452,034</b>	<b>709,074</b>	<b>180,864</b>	-	-	

## 28 Financial risk management (continued)

### (d) Operational risk

Operational risk is the risk of potential loss arising from inadequate or failed internal processes, people and systems or from external events.

The Board of Directors and senior management are responsible for approving and reviewing the overall business strategies and the policies for each major area of operations. A Risk Management Committee is in place to manage operational risks.

The Company recognises the importance of managing operational risk in a pro-active manner. Operational risk management tools and mechanisms adopted include operational risk incidents reporting, key risk indicators, operation manuals, accounting controls, business continuity planning, insurance policies etc.

The Company attaches great importance to conducting its business in a safe and sound manner. The order of administration is such that strict control is exercised at every level of operations. Additionally, an internal audit system plays an essential role in ensuring due adherence to policies, various internal and statutory limits, and regulatory requirements thus limiting the operational risk.

### (e) Capital management

The HKMA sets and monitors capital requirements for the Company as a whole. In implementing current capital requirements the HKMA requires the Company to maintain a prescribed ratios of capital to total risk-weighted assets. The Company's operations are categorised as banking book and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

In addition to meeting the regulatory requirements, the Company's primary objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Company actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might otherwise be possible with greater gearing and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions. The Company considers capital to include share capital and reserves.



## **28 Financial risk management (continued)**

### ***(e) Capital management (continued)***

The Company monitors its capital adequacy ratios on a quarterly basis. The capital adequacy ratios are computed as specified by the HKMA for its regulatory purposes and are in accordance with the Banking (Capital) (Amendment) Rules 2012 and 2013 of the Hong Kong Banking Ordinance which came into effect from 1 January 2013 and 30 June 2013 respectively.

The Company has complied with all capital requirements throughout the years ended 31 December 2013 and 2012 and is well above the minimum required ratio set by the HKMA.

## **29 Fair values of financial instruments**

### ***(a) Estimation of fair values***

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. Where available, the most suitable measure for fair value is the quoted market price. In the absence of organised secondary markets for most financial instruments, and in particular for loans, deposits and unlisted derivatives, direct market prices are not available. The fair value of such instruments was therefore calculated on the basis of well-established valuation techniques using current market parameters. In particular, the fair value is a theoretical value applicable at a given reporting date, and hence can only be used as an indicator of the value realisable in a future sale.

### ***(b) Fair value***

All financial instruments are stated at fair value or carried at amounts not materially different from their fair values as at 31 December 2013 and 2012.

### 30 Accounting estimates and judgements

#### *Key sources of estimation uncertainty*

Note 29 contains information about the assumptions and their risk factors relating to fair value of financial instruments. Another key source of estimation uncertainty is as follows:

#### *Impairment losses*

##### **Loans and advances**

Loan portfolios are reviewed periodically to assess whether impairment losses exist. The Company makes judgements as to whether there is any objective evidence that a loan is impaired. Objective evidence for impairment includes observable data that the payment status of borrowers in a group has adversely changed. It may also include observable data that local or economic conditions have worsened which correlate with defaults on the assets in the Company. If management has determined, based on their judgement, that objective evidence for impairment exists, expected future cash flows are estimated based on historical loss experience for assets with credit risk characteristics similar to those of the Company. Historical loss experience is adjusted on the basis of the current observable data.

Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss experience.

### 31 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2013

Up to the date of issue of the financial statements, the HKICPA has issued a few amendments and new standards which are not yet effective for the year ended 31 December 2013 and which have not been adopted in these financial statements. These include the following which may be relevant to the Company.

	<i>Effective for accounting periods beginning on or after</i>
Amendments to HKAS 32, <i>Financial instruments: Presentation- Offsetting financial assets and financial liabilities</i>	1 January 2014
Amendments to HKAS 39, <i>Novation of derivatives and continuation of hedge accounting</i>	1 January 2014
HKFRS 9, <i>Financial instruments</i>	1 January 2018

The Company is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Company's results of operations and financial position.



## Unaudited supplementary financial information

(Expressed in Hong Kong dollars)

### (a) Capital and capital adequacy

The Banking (Capital) (Amendment) Rules 2012 and 2013, effective on 1 January 2013 and 30 June 2013 respectively, signify the Basel III requirements in Hong Kong. The definition of regulatory capital under Basel III is different from that under Basel II which was used at 31 December 2012. For the purposes of comparison, corresponding figures for capital and capital adequacy as at 31 December 2012 have been recalculated under Basel III requirements.

Capital ratio:	2013	2012
Common Equity Tier 1 ("CET1") Capital Ratio	34.08%	37.38%
Tier 1 Capital Ratio	34.08%	37.38%
Total Capital Ratio	35.49%	38.82%

The components of total capital before and after deductions are shown below:

CET1 Capital:	2013 '000	2012 '000
CET1 Capital instruments	300,000	300,000
Retained earnings	211,628	184,169
Disclosed reserves	27,244	27,244
CET1 Capital before deductions	538,872	511,413
<b>Regulatory deductions to CET1 capital:</b>		
Reserves arising from revaluation of land and buildings	(11,244)	(11,244)
Reserve for general banking risk	(16,000)	(16,000)
Net deferred tax assets	(1,055)	(834)
<b>Total CET1 Capital</b>	<b>510,573</b>	<b>483,335</b>
<b>Additional Tier 1 ("AT1") Capital</b>	<b>-</b>	<b>-</b>
<b>Total Tier 1 ("T1") Capital</b>	<b>510,573</b>	<b>483,335</b>



## Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

### (a) Capital and capital adequacy (continued)

The components of total capital before and after deductions are shown below: (continued)

	2013 '000	2012 '000
<b>Tier 2 (“T2”) Capital</b>		
Reserves arising from revaluation of land and buildings	5,060	5,060
Reserve for general banking risk and collective impairment allowances	16,158	13,570
Regulatory deductions to T2 capital	-	-
<b>Total T2 Capital</b>	<b>21,218</b>	<b>18,630</b>
<b>Total Capital</b>	<b>531,791</b>	<b>501,965</b>

The capital adequacy ratios were calculated in accordance with the Banking (Capital) Rules (the “Capital Rules”). In accordance with the Capital Rules, the Bank has adopted the “Basic Approach” for the calculation of the risk-weighted assets for credit risk, and the “Basic Indicator Approach” for the calculation of operational risk. The Company has been exempted under section 22(1) of the Banking (Capital) Rules from the calculation of market risk under section 17.

CET1 capital instruments represents 3,000,000 (2012: 3,000,000) issued and fully paid ordinary shares of \$100 each. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company’s residual assets.

The revaluation reserve has been set up in accordance with the accounting policies adopted for land and buildings. The revaluation reserve is not available for distribution to shareholders.

## Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

### (a) Capital and capital adequacy (continued)

A regulatory reserve of \$16,000,000 (2012: \$16,000,000) is maintained to satisfy the provisions of the Hong Kong Banking Ordinance. Movements in the reserve are made directly through retained earnings.

Collective impairment allowance is maintained to cover potential impairment losses for a group of financial assets with similar credit risk characteristics where the Company determines that no objective evidence of impairment exists for an individually assessed financial asset.

No item benefits from the transitional arrangements set out in Section 4H to the Capital Rules.

To comply with the Banking (Disclosure) Rules, a section “Regulatory Disclosures” is available on the Company’s website at [www.hbzfinancelimited.com](http://www.hbzfinancelimited.com) and includes the following information:

- A detailed breakdown of the CET1 capital, Additional Tier 1 capital, Tier 2 capital and regulatory deductions applied to the capital base of the institution by using the standard capital disclosures template as specified by the HKMA.
- A full reconciliation of the CET1 capital items, Additional Tier 1 capital items, Tier 2 capital items and regulatory deductions applied to the capital base of the institution and the balance sheet in the published financial statements of the institution.
- A description of the main features and the terms and conditions of capital instruments issued by the institution.

### (b) Liquidity ratio

	2013	2012
Average liquidity ratio for the year	134.62%	133.60%

The average liquidity ratio for the year is computed as the simple average of each calendar month’s average ratio and in accordance with the Fourth Schedule to the Hong Kong Banking Ordinance. The ratio includes the liquidity positions of the Company in its calculation as agreed with the Hong Kong Monetary Authority.





## Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

### (c) Segmental information

The Company's total operating income (net of interest expense) and operating assets directly attributable to the following classes of business are set out below:

	2013		
	Trade finance and deposits taking	Treasury and others	Total
Interest income	71,918,266	5,730,175	77,648,441
Interest expense	(21,467,660)	(134,030)	(21,601,690)
<b>Net interest income</b>	<b>50,450,606</b>	<b>5,596,145</b>	<b>56,046,751</b>
Fee and commission income	30,673,749	-	30,673,749
Fee and commission expense	(549,239)	-	(549,239)
<b>Net fee and commission income</b>	<b>30,124,510</b>	<b>-</b>	<b>30,124,510</b>
<b>Other net income</b>	<b>24,638,413</b>	<b>1,711,614</b>	<b>26,350,027</b>
<b>Operating income</b>	<b>105,213,529</b>	<b>7,307,759</b>	<b>112,521,288</b>
Operating expenses	(57,413,225)	(3,987,719)	(61,400,944)
<b>Operating profit before provisions</b>	<b>47,800,304</b>	<b>3,320,040</b>	<b>51,120,344</b>
Impairment losses on trade bills and advances to customers	(4,400,000)	-	(4,400,000)
<b>Operating profit after provisions</b>	<b>43,400,304</b>	<b>3,320,040</b>	<b>46,720,344</b>
<b>Profit before taxation</b>	<b>43,400,304</b>	<b>3,320,040</b>	<b>46,720,344</b>
<b>Capital expenditure</b>	<b>-</b>	<b>53,835</b>	<b>53,835</b>
<b>Depreciation</b>	<b>(3,460,679)</b>	<b>(240,366)</b>	<b>(3,701,045)</b>
Segment assets	1,525,931,405	747,688,282	2,273,619,687
<b>Total assets</b>	<b>1,525,931,405</b>	<b>747,688,282</b>	<b>2,273,619,687</b>
Segment liabilities	1,722,592,352	12,155,565	1,734,747,917
<b>Total liabilities</b>	<b>1,722,592,352</b>	<b>12,155,565</b>	<b>1,734,747,917</b>

## Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

### (c) Segmental information (continued)

	2012		
	Trade finance and deposits taking	Treasury and others	Total
Interest income	77,974,558	3,858,947	81,833,505
Interest expense	(24,840,131)	(263,677)	(25,103,808)
<b>Net interest income</b>	<b>53,134,427</b>	<b>3,595,270</b>	<b>56,729,697</b>
Fee and commission income	33,624,836	-	33,624,836
Fee and commission expense	(459,671)	-	(459,671)
<b>Net fee and commission income</b>	<b>33,165,165</b>	<b>-</b>	<b>33,165,165</b>
<b>Other net income</b>	<b>25,703,150</b>	<b>1,874,113</b>	<b>27,577,263</b>
<b>Operating income</b>	<b>112,002,742</b>	<b>5,469,383</b>	<b>117,472,125</b>
Operating expenses	(58,448,771)	(2,854,204)	(61,302,975)
<b>Operating profit before provisions</b>	<b>53,553,971</b>	<b>2,615,179</b>	<b>56,169,150</b>
Impairment losses on trade bills and advances to customers	(5,140,000)	-	(5,140,000)
<b>Operating profit after provisions</b>	<b>48,413,971</b>	<b>2,615,179</b>	<b>51,029,150</b>
<b>Profit before taxation</b>	<b>48,413,971</b>	<b>2,615,179</b>	<b>51,029,150</b>
<b>Capital expenditure</b>	<b>-</b>	<b>516,821</b>	<b>516,821</b>
<b>Depreciation</b>	<b>(3,601,592)</b>	<b>(175,875)</b>	<b>(3,777,467)</b>
Segment assets	1,364,676,579	890,319,442	2,254,996,021
<b>Total assets</b>	<b>1,364,676,579</b>	<b>890,319,442</b>	<b>2,254,996,021</b>
Segment liabilities	1,708,286,816	35,295,922	1,743,582,738
<b>Total liabilities</b>	<b>1,708,286,816</b>	<b>35,295,922</b>	<b>1,743,582,738</b>





## Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

### (c) Segmental information (continued)

The Company's principal activities are the taking of deposits and financing of import/export and local trade.

Segment information has been presented in two reportable segments as follows:

The major component of business is trade finance extended to customers by way of opening letters of credit and financing import and export bills. Within the trade finance portfolio, the emphasis is on purchasing/discounting of export bills with a wide geographical spread. Such advances are of short term duration, normally not exceeding 120 days. The short term nature of the advances provides a cushion against the pronounced adverse changes in the business and economic cycles, deflation in assets prices and risk transfer. The financing of import/export and local trade is sourced through deposits.

Treasury and others includes interbank and capital market activities.

### (d) Advances to customers

#### (i) By industry sector

Loans and advances to customers analysed by the coverage of collateral, overdue amount and the impairment allowance is as follows:

	2013							
	Gross loans and advances '000	% of gross loans and advances covered by collateral	Overdue loans and advances '000	Impaired loans and advances '000	Individually assessed impairment allowance '000	Collectively assessed impairment allowance '000	Impairment charged to statement of comprehensive income during the year '000	Impaired loans written off during the year '000
Loans for use in Hong Kong individual - other loans	26,058	100%	-	-	-	-	-	-
Trade finance	786,421	39.8%	71,964	32,270	9,355	7,944	5,134	2,737

	2012							
	Gross loans and advances '000	% of gross loans and advances covered by collateral	Overdue loans and advances '000	Impaired loans and advances '000	Individually assessed impairment allowance '000	Collectively assessed impairment allowance '000	Impairment charged to statement of comprehensive income during the year '000	Impaired loans written off during the year '000
Loans for use in Hong Kong individual - other loans	28,985	100.00%	-	-	-	-	-	-
Trade finance	626,362	39.2%	46,175	19,187	7,822	7,080	5,950	6,065





## Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

### (f) Non-bank Mainland exposures

The analysis on non-bank Mainland China exposures is as follows:

	2013	2012
On Balance Sheet Exposure		
– Mainland entities	15,827,154	-

There were no individual impairment allowances made for the above exposures as at 31 December 2013 and 2012.

### (g) Cross-border claims

Cross-border claims are on-balance sheet exposures to counterparties based on the location of the counterparties after taking into account the transfer of risk. For a claim guaranteed by a party situated in a country different from the counterparty, risk will be transferred to the country of the guarantor. For a claim on the branch of a bank or other financial institution, the risk will be transferred to the country where its head office is situated. Claims on individual countries or areas, after risk transfer, amounting to 10% or more of the aggregate cross border claims are shown as follows:

<i>In millions of HK\$ equivalent</i>	Banks and other financial institutions	Public sector entities	Others	Total
<i>As at 31 December 2013</i>				
Asia Pacific excluding Hong Kong	469	8	138	615
of which Bangladesh	149	-	1	150
of which India	239	-	70	309
Africa, Caribbean, Latin America and North America	30	-	218	248
Middle East	70	-	57	127
Europe	23	-	87	110
<i>As at 31 December 2012</i>				
Asia Pacific excluding Hong Kong	459	-	86	545
of which Bangladesh	195	-	3	198
of which India	237	-	44	281
Africa, Caribbean, Latin America and North America	67	-	239	306
Middle East	34	-	48	82
Europe	33	-	66	99



## Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

### (h) Corporate governance

The Company is committed to high standards of corporate governance, and has complied with the guideline in the supervisory policy manual module CG-1 "Corporate Governance of Locally Incorporated Authorised Institutions" issued by the Hong Kong Monetary Authority ("HKMA").

#### (1) Board level Committees

The Board of Directors has established two board level committees, namely the Board Risk and Compliance Management Committee and the Board Audit Committee.

##### (i) Board Risk and Compliance Management Committee

The Board Risk and Compliance Management Committee is responsible for, among other things, the Company's risk profile, risk appetite and tolerance, effectiveness of the risk management framework and systems of internal control and compliance. The Committee comprises two non-executive directors and one executive director.

##### (ii) Board Audit Committee

The main purpose of the Board Audit Committee is to represent and assist the Board of Directors in providing independent review and monitoring of financial reporting process, internal control system, internal and external audit process and compliance with regulatory requirements. The Committee comprises of one independent non-executive director and two non-executive directors.

#### (2) Specialised Management Committees

The Board of Directors has established several specialised management committees, namely the Risk Management Committee, Credit Committee, Asset & Liability Committee and IT Steering Committee.

##### (i) Risk Management Committee

The Risk Management Committee is entrusted with the task of putting in place systems and procedures that work on the prevention of risks likely to emerge. The Committee identifies all quantifiable and material risk factors and evaluate the adequacy of organisational policies and procedures to manage the risks effectively. The Committee comprises the Chief Executive, Alternate Chief Executive, Chief Risk Officer, Chief Financial Officer, Chief Compliance Officer and Executive.



## Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

### (h) Corporate governance (continued)

#### (2) *Specialised Management Committees (continued)*

##### (ii) *Credit Committee*

The Credit Committee is responsible for building and maintaining an infrastructure that promotes growth of a quality loan portfolio and minimises losses within the constraints of established policies and relevant regulations. The Committee approves credit limits up to a defined threshold. It also determines and maintains adequate loan loss allowances. The Committee comprises the Chief Executive, the Alternate Chief Executive, Chief Risk Officer, Credit Risk Manager and Executives.

##### (iii) *Asset and Liability Committee*

The Asset and Liability Committee's prime focus is to maintain an effective risk control framework relating to balance sheet structure, liquidity and capital management and market risks while achieving an optimal return. The Committee recommends policy directives to the Board of Directors and provides analytical services relating to funding and investment strategies. The Committee comprises the Chief Executive, Alternate Chief Executive, Chief Risk Officer, Chief Financial Officer and Executives.

##### (iv) *IT Steering Committee*

The IT Steering Committee is responsible for authorisation of system changes, review of computer hardware/software security and performance, overview of data integrity of transactions and information. The committee comprises the Chief Executive, Head of IT, Chief Risk Officer, Chief Financial Officer, Chief Compliance Officer and Executive.

##### (i) **Remuneration system**

HBZ recognises that achievement of its mission, vision and strategic objectives depends on the quality and commitment of its staff. The principles of the HBZ Remuneration Policy reflect its goal to attract, retain, motivate and reward quality staff.

The guiding principles used to determine the institution-wide remuneration policy are based on sound governance, internal equality, competitiveness, sustainability and conservative approach to risk-taking.

To establish the relative merit and worth of each position and ensure equity in remuneration, a performance appraisal system is in place and is consistently applied across all areas of work and responsibilities. Promotions and increments are linked to performance appraisals.

The parameters used for allocating cash versus other forms of remuneration depend on the national or international status of the employee. A provident fund under the Occupational Retirement Scheme Ordinance is also in place.

The Company has complied with the guideline in Part 3 of the Supervisory Policy Manual Module CG-5 "Guideline on a Sound Remuneration System" issued by the HKMA.

## Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

The capital requirements on each class of exposures calculated under the basic (credit risk) approach at the balance sheet date can be analysed as follows:

### *Classes of exposure*

	2013 '000	2012 '000
Sovereign	651	-
Bank	15,507	17,655
Corporate	74,729	56,236
Other exposure which are not past due	5,440	5,610
Past due	4,694	1,865
Total capital requirements for on-balance sheet exposures	<b>101,021</b>	<b>81,366</b>
Trade-related contingencies	7,084	7,347
Exchange rate contracts	4	-
Total capital requirements for off-balance sheet exposures	<b>7,088</b>	<b>7,347</b>
	<b>108,109</b>	<b>88,713</b>

### *Capital charge*

The capital charge for operational risk calculated in accordance with the basic indicator approach at the balance sheet date is:

	2013 '000	2012 '000
Capital charge for operational risk	<b>18,154</b>	<b>18,479</b>



## List of Branches

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### Head Office and Main Branch

17/F, Wing On House, 71 Des Voeux Road, Central, Hong Kong

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## Services We Offer

We offer a wide range of financial services for Foreign Trade related activities. Our growth and successful operations are singularly fueled by our commitment to provide fast service and a rapid response to our customers' needs. Flexibility and capability to tailor make products to meet and anticipate emerging needs are the trade marks our customers have come to appreciate.

### **Our products include:**

#### *Corporate Financial Services*

- Multi-currency Deposits
- Foreign Exchange
- Letters of Credit & Guarantees
- Post Import Finance
- Pre-shipment Finance
- Export Documents Purchase and Discounting
- Accounts Receivable Financing
- Revolving and Term Loans
- Documentary Collection
- International Payments
- Customised Trade Solutions
- Trade Information and Access to International Network of Correspondent Banks

#### *Financial Institutional Services*

- Letters of Credit Advising and Confirmation
- Negotiation and discounting of Documents under Letters of Credit
- Rediscounting of Bankers Acceptances / Forfaiting
- Buyers Credit