H B Z Finance Limited
Hong Kong

(INCORPORATED IN HONG KONG)

Annual Report
2014

H B Z Finance Limited

Board of Directors

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

Management

Ikram Quraishi	*Chief Executive*
J. S. Dhillon	*SEVP*
Masud Abid	*EVP*
Alan Yeung	*EVP*
Meheryar Mavalvala	*CFO*

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 2014.

Principal place of business and principal activities

HBZ Finance Limited (the "Company") is 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.

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

During the reporting period, the Company operated as a deposit taking company under the Hong Kong Banking Ordinance. Subsequent to the reporting period, on 27 February 2015, the Hong Kong Monetary Authority approved the upgrading of the Company to a Restricted Licence Bank. The Company will be operating as a Restricted Licence Bank during the current financial year.

Change of name

Pursuant to the Company's new status as a Restricted Licence Bank, the Company changed its name on 11 March 2015 to Habib Bank Zurich (Hong Kong) Limited.

Operating results

The Hong Kong economy remained on a modest expansion path in 2014 with GDP growing by 2.3%, down from 2.9% in 2013. This was mainly due to weak domestic demand, reduced tourist spending and slow global economic recovery. Exports of goods grew by 1%, confined by subdued global demand. The labour market remained in a state of full employment. Underlying inflation eased in 2014, averaging 3.5%, down from 4% in 2013.

As at 31 December 2014, the Company's capital adequacy ratio stood at 36% (2013: 35%) whilst maintaining a capital base above HK$500 million. The Company's customer deposit base, including imprest accounts and margins on letters of credit and trade bills stood at HK$1.72 billion (2013: HK$1.70 billion).

Based on the above balance sheet strength, the Company prudently managed its lending portfolio. As at year end, total advances to customers including trade bills were HK$1.40 billion (2013: HK$1.51 billion). Due to a proactive strategy and cautious lending in line with the Company's risk management principles, a strong portfolio of assets was maintained which is reflected in the low percentage of impaired loans and advances in the context of the overall credit portfolio.

Operating results (continued)

Liquidity was managed on a prudent basis. A portion of surplus liquidity was invested in short and medium term debt securities. During the year, average liquidity was maintained at 114% (2013: 135%) well above the regulatory threshold of 25%.

During the year 2014, export bills totalling HK$7.81 billion (2013: HK$7.38 billion) and import bills of HK$2.74 billion (2013: HK$2.61 billion) were processed. Import letters of credit for HK$2.32 billion (2013: HK$2.27 billion) were opened. Profit after tax was HK$37.20 million (2013: HK$38.86 million).

Global economic growth is likely to remain moderate in 2015. Among the advanced economies, the US is expected to gather further traction. In contrast, the Mainland economy will still outpace other major economies, presenting Hong Kong with growth opportunities. The near-term outlook for the Hong Kong economy in 2015 will depend much on the external environment, which is expected to be challenging.

Financial statements

The profit of the Company for the financial year ended 31 December 2014 and the state of the Company's affairs as at that date are set out in the financial statements on pages 7 to 59.

The directors recommend the payment of dividend of HK$24.0 million (2013: HK$24.0 million) in respect of the year ended 31 December 2014.

Transfer to reserves

Profit attributable to shareholders, before dividends, of HK$37.2 million (2013: HK$38.9 million) has been transferred to reserves. Other movements in reserves are set out on page 9 and note 24.

Compliance with the Banking (Disclosure) Rules

The financial statements for the financial year ended 31 December 2014 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 15 to the financial statements.

Share capital

Details of the share capital of the Company are set out in note 23 to the financial statements.

Charitable donations

Donations made by the Company during the year amounted to HK$155,278 (2013: HK$275,112).

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 Paul Jeremy Brough	
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 financial year or at any time during the financial year.

At no time during the financial 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, 10 April 2015

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 59, which comprise the balance sheet as at 31 December 2014, 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 80 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), 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 2014 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
10 April 2015

Statement of comprehensive income for the year ended 31 December 2014

(Expressed in Hong Kong dollars)

	Note	2014	2013
Interest income	2(a)	85,138,975	77,648,441
Interest expense	2(b)	(23,761,910)	(21,601,690)
Net interest income		61,377,065	56,046,751
Fee and commission income	3	33,050,980	30,673,749
Fee and commission expense		(544,470)	(549,239)
Net fee and commission income		32,506,510	30,124,510
Other net income	4	26,461,581	26,350,027
Operating income		120,345,156	112,521,288
Operating expenses	5	(65,701,244)	(61,400,944)
		54,643,912	51,120,344
Impairment losses on trade bills and advances to customers	7	(8,478,870)	(4,400,000)
Profit before taxation		**46,165,042**	**46,720,344**
Income tax	8(a)	(8,961,480)	(7,861,857)
Profit for the year		**37,203,562**	**38,858,487**
Other comprehensive income	9		
Item that may be reclassified subsequently to profit or loss:			
Available-for-sale financial assets - net movement in the available-for-sale financial assets revaluation reserve		(68,668)	-
Total comprehensive income for the year		**37,134,894**	**38,858,487**

The notes on pages 12 to 59 form part of these financial statements.

Balance sheet at 31 December 2014

(Expressed in Hong Kong dollars)

	Note	2014	2013
Assets			
Cash and balances with banks	10	224,733,230	185,084,001
Placements with banks	11	360,323,159	345,028,575
Investments	12	171,015,464	142,901,979
Trade bills	13(a)	702,653,557	712,214,655
Advances to customers	14(a)	696,490,670	795,179,756
Tax paid in advance	20(a)	387,575	20,826
Deferred tax assets	20(b)	1,132,151	1,055,010
Fixed assets	15	118,110,230	60,853,261
Other assets	16	101,177,372	31,281,624
Total assets		**2,376,023,408**	**2,273,619,687**
Liabilities			
Deposits and balances from banks	17	6,744,500	3,286,153
Deposits from customers	18	1,459,506,207	1,437,582,708
Other liabilities	19	357,766,037	293,879,056
Total liabilities		**1,824,016,744**	**1,734,747,917**
Equity			
Share capital	23	300,000,000	300,000,000
Reserves		252,006,664	238,871,770
Total equity		**552,006,664**	**538,871,770**
Total equity and liabilities		**2,376,023,408**	**2,273,619,687**

Approved and authorised for issue by the Board of Directors on 10 April 2015

( )
( ) Directors
( )
( )

The notes on pages 12 to 59 form part of these financial statements.

Statement of changes in equity for the year ended 31 December 2014

(Expressed in Hong Kong dollars)

	Share capital	Property revaluation reserve	Regulatory reserve	Available-for-sale financial assets revaluation reserve	Retained profits	Total
At 1 January 2014	300,000,000	11,243,741	16,000,000	-	211,628,029	538,871,770
Dividened approved and paid in respect of prior year	-	-	-	-	(24,000,000)	(24,000,000)
Profit for the year	-	-	-	-	37,203,562	37,203,562
Other comprehensive income for the year	-	-	-	(68,668)	-	(68,668)
At 31 December 2014	**300,000,000**	**11,243,741**	**16,000,000**	**(68,668)**	**224,831,591**	**552,006,664**

	Share capital	Property revaluation reserve	Regulatory reserve	Available-for-sale financial assets revaluation reserve	Retained profits	Total
At 1 January 2013	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
At 31 December 2013	**300,000,000**	**11,243,741**	**16,000,000**	-	**211,628,029**	**538,871,770**

The notes on pages 12 to 59 form part of these financial statements.

Cash flow statement for the year ended 31 December 2014

(Expressed in Hong Kong dollars)

	2014	2013
Operating activities		
Profit before taxation	46,165,042	46,720,344
Adjustments for non-cash items:		
- Depreciation	4,665,353	3,701,045
- Charge for impairment losses	8,478,870	4,400,000
- Advances written off net of recoveries	(9,803,817)	(2,736,900)
- Gain on disposal of fixed assets	(10,419)	-
- Amortisation of bond premium	2,814,305	1,803,306
- Exchange revaluation of bonds	(47,363)	(10,740)
	52,261,971	**53,877,055**
(Increase)/decrease in placements with banks with original maturity beyond 3 months	(20,265,403)	50,840,365
Decrease/(increase) in trade bills	10,002,175	(5,761,396)
Decrease/(increase) in advances to customers	99,572,956	(157,132,024)
Decrease in deposits and placements from banks	(317,979)	(26,905,023)
Increase in deposits from customers	21,923,499	112,876,602
Increase/(decrease) in other liabilities	63,886,981	(96,016,027)
Increase in other assets	(69,895,748)	(3,256,154)
Cash generated from/(used in) operations	**157,168,452**	**(71,476,602)**
Income tax paid		
- Hong Kong profits tax paid	(9,391,801)	(4,926,395)
Net cash generated from/(used in) operating activities	**147,776,651**	**(76,402,997)**

Cash flow statement for the year ended 31 December 2014 (continued)

(Expressed in Hong Kong dollars)

	2014	2013
Investing activities		
Payments for purchase of fixed assets	(61,936,903)	(53,835)
Proceeds from sales of fixed assets	25,000	-
Payment for purchase of investments	(30,962,664)	(118,595,427)
Proceeds from redemption of investments	-	15,508,600
Net cash used in investing activities	**(92,874,567)**	**(103,140,662)**
Financing activity		
Dividends paid	(24,000,000)	(11,400,000)
Net cash used in financing activity	**(24,000,000)**	**(11,400,000)**
Net increase/(decrease) in cash and cash equivalents	**30,902,084**	**(190,943,659)**
Cash and cash equivalents at 1 January	525,419,200	716,362,859
Cash and cash equivalents at 31 December	**556,321,284**	**525,419,200**
Analysis of the balances of cash and cash equivalents		
Cash and balances with banks	224,733,230	185,084,001
Overdraft	(4,985,953)	(1,209,627)
Placements with banks with original maturity of three months or less	336,574,007	341,544,826
	556,321,284	**525,419,200**
Cash flows from operating activities include:		
Interest received	86,988,899	79,218,922
Interest paid	(22,689,168)	(22,371,854)

The notes on pages 12 to 59 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 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.

During the reporting period, the Company operated as a deposit taking company under the Hong Kong Banking Ordinance. Subsequent to the reporting period, on 27 February 2015, the Hong Kong Monetary Authority approved the upgrading of the Company to a Restricted Licence Bank. The Company will be operating as a Restricted Licence Bank during the current financial year.

Pursuant to the Company's new status as a Restricted Licence Bank, the Company changed its name on 11 March 2015 to Habib Bank Zurich (Hong Kong) Limited.

(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) and accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable requirements of the Hong Kong Companies Ordinance, which for this financial year and the comparative period continue to be those of the predecessor Hong Kong Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the new Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that 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 HKAS 32, Offsetting financial assets and financial liabilities

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.

1 Significant accounting policies (continued)

(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 31.

(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.

1 Significant accounting policies (continued)

(c) Revenue recognition (continued)

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.

(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, available-for-sales 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.

1 Significant accounting policies (continued)

(e) Financial instruments (continued)

(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)).

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)).

Available-for-sale investments

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve.

Interest income from debt securities calculated using the effective interest method is recognised in profit or loss in accordance with the policy set out in note 1(c).

When the investments are derecognised or impaired (see note 1(f)), the cumulative gain or loss recognised in equity is reclassified to profit or loss.

1 Significant accounting policies (continued)

(e) Financial instruments (continued)

(ii) Categorisation (continued)

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.

(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.

1 Significant accounting policies (continued)

(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) Available-for-sale investments

For available-for-sale securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

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

(iv) 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).

1 Significant accounting policies (continued)

(iv) Other assets (continued)

- 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.

(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)). A 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 vehicle	5 years

1 Significant accounting policies (continued)

(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.

(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.

1 Significant accounting policies (continued)

(k) Income tax (continued)

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.

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.

1 Significant accounting policies (continued)

(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.

(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.

1 **Significant accounting policies (continued)**

(n) Related parties (continued)

(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.

(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

	2014	2013
(a) Interest income arising from :		
Trade bills and advances to customers	78,026,815	71,918,266
Placements with banks	2,550,253	2,956,149
Investments	4,561,907	2,774,026
	85,138,975	**77,648,441**
(b) Interest expense arising from :		
Deposits from customers	23,314,952	21,467,660
Deposits and balances from banks	446,958	134,030
	23,761,910	**21,601,690**

3 Fee and commission income

In Hong Kong dollars

	2014	2013
Fee and commission income	33,050,980	30,673,749

Fee and commission income in 2014 and 2013 mainly comprised fee and commission income from L/C bills and export bills.

4 Other net income

In Hong Kong dollars

	2014	2013
Net gains from dealing in foreign currencies	14,808,555	14,426,772
Others	11,653,026	11,923,255
	26,461,581	**26,350,027**

5 Operating expenses

	2014	2013
		In Hong Kong dollars
(a) Staff costs:		
Salaries and other benefits	42,178,284	40,727,495
Contribution to defined contribution scheme	2,612,076	2,552,028
	44,790,360	**43,279,523**
(b) Depreciation	**4,665,353**	**3,701,045**
(c) Other operating expenses:		
Premises and equipment expenses, excluding depreciation		
- rent and rates	2,631,542	3,388,959
- repairs and maintenance	529,751	315,629
Auditor's remuneration		
- audit services	724,950	745,750
- tax services	50,300	55,500
- other services	329,950	1,553,375
Others	11,979,038	8,361,163
	16,245,531	**14,420,376**
	65,701,244	**61,400,944**

6 Directors' remuneration

Directors' remuneration disclosed pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), is as follows:

	2014	2013
		In Hong Kong dollars
Directors' fees	385,554	235,289
Salaries and allowances	1,927,428	3,931,353
Discretionary bonuses	254,066	442,916
Retirement scheme contributions	152,440	265,750
Total	**2,719,488**	**4,875,308**

7 Impairment charges on trade bills and advances to customers

In Hong Kong dollars

	2014	2013
Impairment losses charged on trade bills and advances to customers (note 14(c))	**8,478,870**	**4,400,000**

8 Income tax in the statement of comprehensive income

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

In Hong Kong dollars

	2014	2013
Current tax - provision for Hong Kong profits tax		
Tax for the year	8,261,497	8,081,767
Under-provision in respect of prior years	763,555	849
	9,025,052	**8,082,616**
Deferred tax		
Origination and reversal of temporary differences	(63,572)	(220,759)
	8,961,480	**7,861,857**

The provision for Hong Kong Profits Tax for 2014 is calculated at 16.5% (2013: 16.5%) of the estimated assessable profits for the year.

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

In Hong Kong dollars

	2014	2013
Profit before tax	**46,165,042**	**46,720,344**
Notional tax on profit before taxation, calculated at 16.5%	7,617,232	7,708,857
Tax effect of non-deductible expenses	580,693	152,151
Under-provision in respect of prior years	763,555	849
Actual tax expense	**8,961,480**	**7,861,857**

9 Other comprehensive income

Tax effects relating to each component of other comprehensive income

In Hong Kong dollars

2014	Before-tax amount	Tax (charge)/ credit (note 20(b))	Net-of-tax amount
Available-for-sale financial assets: net movement in available-for-sale financial assets revaluation reserve	(82,237)	13,569	(68,668)

In Hong Kong dollars

2013	Before-tax amount	Tax (charge)/ credit	Net-of-tax amount
Available-for-sale financial assets: net movement in available-for-sale financial assets revaluation reserve	-	-	-

In Hong Kong dollars

10 Cash and balances with banks	2014	2013
Cash in hand	108,328	376,622
Balances with banks	224,624,902	184,707,379
	224,733,230	**185,084,001**

In Hong Kong dollars

11 Placements with banks	2014	2013
Placements with banks	**360,323,159**	**345,028,575**
Remaining maturity		
- within one month	181,472,033	186,483,401
- between one month and three months	178,851,126	156,872,422
- between three months and one year	-	1,672,752
	360,323,159	**345,028,575**

12 Investments

	2014	2013
		In Hong Kong dollars
Held-to-maturity debt securities		
- Listed outside Hong Kong	106,729,692	108,915,021
- Listed in Hong Kong	31,455,999	24,052,466
- Unlisted	9,725,255	9,934,492
	147,910,946	**142,901,979**
Available-for-sale debt securities - at fair value		
- Listed outside Hong Kong	11,403,534	-
- Listed in Hong Kong	11,700,984	-
Market value of listed debt securities	**23,104,518**	-
	171,015,464	**142,901,979**

13 Trade bills

(a) Trade bills less impairment:

	2014	2013
		In Hong Kong dollars
Gross trade bills	710,925,786	720,927,961
Less: Impairment allowances		
- individually assessed (note 14(c))	(795,000)	(1,400,000)
- collectively assessed (note 14(c))	(7,477,229)	(7,313,306)
	702,653,557	**712,214,655**

(b) Impaired trade bills:

	2014	2013
		In Hong Kong dollars
Gross impaired trade bills	7,318,467	2,648,413
Impairment allowance		
- individually assessed	(795,000)	(1,400,000)
	6,523,467	**1,248,413**

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 $1,496,461 (2013: $9,739).

The percentage of impaired trade bills to gross trade bills is 1.03% (2013: 0.37%).

14 Advances to customers

(a) Advances to customers less impairment:

In Hong Kong dollars

	2014	2013
Gross advances to customers	712,905,650	812,478,606
Less: Impairment allowances		
- individually assessed (note 14(c))	(9,030,000)	(9,355,000)
- collectively assessed (note 14(c))	(7,384,980)	(7,943,850)
	696,490,670	**795,179,756**

(b) Impaired advances to customers:

In Hong Kong dollars

	2014	2013
Gross impaired advances to customers	17,979,236	32,270,074
Impairment allowance - individually assessed	(9,030,000)	(9,355,000)
	8,949,236	**22,915,074**

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 $7,277,356 (2013: $18,966,999).

The percentage of impaired advances to gross advances to customers is 2.52% (2013: 3.97%).

14 Advances to customers (continued)

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

In Hong Kong dollars

2014	Individually assessed	Collectively assessed	Total
At 1 January	10,755,000	15,257,156	26,012,156
Impairment losses charged/(released) to statement of comprehensive income (note 7)	8,873,817	(394,947)	8,478,870
Amounts written off	(9,803,817)	-	(9,803,817)
At 31 December	**9,825,000**	**14,862,209**	**24,687,209**
Deducted from:			
Trade bills (note 13(a))	795,000	7,477,229	8,272,229
Advances to customers (note 14(a))	9,030,000	7,384,980	16,414,980
	9,825,000	**14,862,209**	**24,687,209**

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	**10,755,000**	**15,257,156**	**26,012,156**
Deducted from:			
Trade bills (note 13(a))	1,400,000	7,313,306	8,713,306
Advances to customers (note 14(a))	9,355,000	7,943,850	17,298,850
	10,755,000	**15,257,156**	**26,012,156**

15 Fixed assets

In Hong Kong dollars

	Leasehold improvements	Buildings	Furniture, fixtures, office equipment and motor vehicles	Total
Cost or valuation:				
At 1 January 2014	7,392,449	71,183,079	14,155,907	92,731,435
Additions	3,011,806	58,026,332	898,765	61,936,903
Disposals/written off	(148,600)	-	(812,481)	(961,081)
At 31 December 2014	10,255,655	129,209,411	14,242,191	153,707,257
Representing:				
Cost	10,255,655	114,709,411	14,242,191	139,207,257
Valuation	-	14,500,000	-	14,500,000
	10,255,655	**129,209,411**	**14,242,191**	**153,707,257**
Aggregate depreciation:				
At 1 January 2014	4,570,768	15,211,466	12,095,940	31,878,174
Charge for the year	1,456,257	2,200,492	1,008,604	4,665,353
Written back on disposals	(136,688)	-	(809,812)	(946,500)
At 31 December 2014	**5,890,337**	**17,411,958**	**12,294,732**	**35,597,027**
Net book value:				
At 31 December 2014	**4,365,318**	**111,797,453**	**1,947,459**	**118,110,230**

15 Fixed assets (continued)

In Hong Kong dollars

	Leasehold improvements	Buildings	Furniture, fixtures, office equipment and motor vehicles	Total
Cost or valuation:				
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
Representing:				
Cost	7,392,449	56,683,079	14,155,907	78,231,435
Valuation	-	14,500,000	-	14,500,000
	7,392,449	**71,183,079**	**14,155,907**	**92,731,435**
Aggregate depreciation:				
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	**4,570,768**	**15,211,466**	**12,095,940**	**31,878,174**
Net book value:				
At 31 December 2013	**2,821,681**	**55,971,613**	**2,059,967**	**60,853,261**

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.

16 Other assets

	2014	2013
		In Hong Kong dollars
Customer liability under acceptance	92,182,722	18,536,994
Interest receivable	7,435,108	6,644,721
Others	1,559,542	6,099,909
	101,177,372	**31,281,624**

Included in other assets are intangible assets of $225,000 (2013: $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.

17 Deposits and balances from banks

	2014	2013
		In Hong Kong dollars
Deposits and balances from banks	**6,744,500**	**3,286,153**

18 Deposits from customers

	2014	2013
		In Hong Kong dollars
Staff provident fund	63,140,449	58,377,215
Time deposits	1,396,365,758	1,379,205,493
	1,459,506,207	**1,437,582,708**

19 Other liabilities

	2014	2013
		In Hong Kong dollars
Acceptances outstanding	92,182,722	18,536,994
Interest payable	4,713,783	3,641,041
Imprest accounts	108,580,332	136,028,005
Margin on L/Cs and trade bills	147,577,150	130,444,645
Interest received in advance	65,955	284,800
Others	4,646,095	4,943,571
	357,766,037	**293,879,056**

20 Income tax in the balance sheet

(a) Current taxation in the balance sheet represents:

In Hong Kong dollars

	2014	2013
Provision for Hong Kong profits tax for the year	8,261,497	8,081,767
Provisional profits tax paid	(8,649,072)	(8,102,593)
	(387,575)	**(20,826)**

(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	Fair value adjustment for available-for-sale financial assets	Total
Deferred tax arising from:					
At 1 January 2014	(392,796)	1,855,217	(2,517,431)	-	(1,055,010)
(Credited)/charged to statement of comprehensive income	(128,739)	-	65,167	-	(63,572)
Credited to available-for-sale financial assets revaluation reserve (note 9)	-	-	-	(13,569)	(13,569)
At 31 December 2014	**(521,535)**	**1,855,217**	**(2,452,264)**	**(13,569)**	**(1,132,151)**
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	**(392,796)**	**1,855,217**	**(2,517,431)**	**-**	**(1,055,010)**

21 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	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Commission rebate	-	-	-	-	1,511,232	1,529,519	-	-
Interest expenses	388,837	128,912	-	-	-	-	-	-
IT maintenance	700,000	697,887	-	-	-	-	-	-
Other services	426,428	600,000	-	-	-	-	-	-
Head office expenses	1,100,000	-	-	-	-	-	-	-
Staff Provident Fund expense	-	-	-	-	2,612,076	2,552,028	-	-
Cash and balances with banks	3,243,899	7,269,832	615,006	602,859	-	-	-	-
Deposits and balances from banks	1,430,983	1,764,321	268,656	75,885	4,992,047	1,215,044	-	-
Time deposits	-	-	-	-	-	-	8,151,903	7,761,245
Imprest accounts	-	-	-	-	-	-	193,807	286,082
Staff Provident Fund deposit	-	-	-	-	63,140,449	58,377,215	-	-

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.

21 Material related party transactions (continued)

(b) Key management personnel remuneration

In Hong Kong dollars

	2014	2013
Short-term employee benefits	8,568,803	7,735,568
Post-employment benefits	440,457	418,966
	9,009,260	**8,154,534**

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

22 Loans to officers

Loans to officers of the company disclosed pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), with reference to section 161B of the predecessor Hong Kong Companies Ordinance (Cap. 32) are as follows:

In Hong Kong dollars

	2014	2013
Aggregate amount of relevant loans made by the Company at 31 December	-	-
Maximum aggregate amount of relevant loans made by the Company during the year	-	**386,977**

23 Share capital

Authorised and issued share capital

	2014		2013	
	No. of shares (000)	**HK$'000**	**No. of shares (000)**	**HK$'000**
Authorised:				
Ordinary shares of $100 each (note 2)	-	-	5,000	500,000
Ordinary shares issued and fully paid:				
At 1 January and 31 December	3,000	300,000	3,000	300,000

Note 1: Under the new Hong Kong Companies Ordinance (Cap. 622), which commenced operation on 3 March 2014, the concept of authorised share capital no longer exists.

Note 2: In accordance with section 135 of the new Hong Kong Companies Ordinance (Cap. 622), the company's shares no longer have a par or nominal value with effect from 3 March 2014. There is no impact on the number of shares in issue or the relative entitlement of any of the members as a result of this transition.

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.

24 Reserves and dividends

(a) Nature and purpose of reserves

(i) Available-for-sale financial assets revaluation reserve

The available-for-sale financial assets revaluation reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the financial assets are derecognised and is dealt with in accordance with the accounting policies in notes 1(e) and 1(f).

(ii) 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.

(iii) 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 2014, the aggregate amount of reserves available for distribution to equity shareholders of the Company was $224,831,591 (2013: $211,628,029).

(c) Dividends

In Hong Kong dollars

	2014	2013
Final dividend in respect of the current financial year proposed after the balance sheet date of $8.00 per ordinary share (2013: $8.00 per ordinary share)	**24,000,000**	**24,000,000**

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

In Hong Kong dollars

	2014	2013
Final dividend in respect of the previous financial year, approved and paid during the year, of $8.00 per ordinary share (2013: $3.80 per ordinary share)	**24,000,000**	**11,400,000**

25 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.

	Non-trading book	In Hong Kong dollars
	2014	**2013**
Currency derivatives		
Forwards	**67,099,831**	**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 $38,817 (2013: $3,000) and negative fair value of $35,292 (2013: $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.

26 Assets pledged as security

The following assets have been pledged as collateral at 31 December 2014

		In Hong Kong dollars
	2014	**2013**
Balances with banks	3,059,934	3,642,306
Investments	88,366,212	74,416,574
	91,426,146	**78,058,880**

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

27 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:

In Hong Kong dollars

	2014	2013
Trade-related contingencies	**414,780,378**	**578,978,183**
Credit risk weighted amounts	**54,562,710**	**84,836,191**

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 2014, the total future minimum lease payments in respect of IT services and properties under non-cancellable operating leases are payable as follows:

In Hong Kong dollars

	2014	2013
Within 1 year	192,534	1,940,314
After 1 year but within 5 years	-	174,471
	192,534	**2,114,785**

28 Ultimate and immediate holding company

As at 31 December 2014, 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.

29 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.

29 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 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:

In Hong Kong dollars

	2014	**2013**
Cash and balances with banks	224,733,230	185,084,001
Placements with banks	360,323,159	345,028,575
Investments	171,015,464	142,901,979
Trade bills	702,653,557	712,214,655
Advances to customers	696,490,670	795,179,756
Other assets	101,177,372	31,281,624
Financial guarantees and other credit related contingent liabilities	414,780,378	578,978,183
	2,671,173,830	**2,790,668,773**

29 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:

	2014		2013	
				In Hong Kong dollars
	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	603,074	615,016	736,584	650,146
Past due but not impaired	91,852	88,591	43,625	68,134
Impaired	17,979	7,319	32,270	2,648
	712,905	**710,926**	**812,479**	**720,928**
Of which:				
Neither past due nor impaired				
- Grade 1: Pass	584,894	611,243	724,197	645,234
- Grade 2: Special Mention	18,180	3,773	12,387	4,912
	603,074	**615,016**	**736,584**	**650,146**

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.

29 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:

In Hong Kong dollars

	2014		2013	
	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	39,395	58,912	21,322	41,383
3 months or less but over 1 month	30,908	21,183	15,986	20,139
6 months or less but over 3 months	19,769	7,734	4,057	6,612
1 year or less but over 6 months	1,780	762	2,260	-
Over 1 year	-	-	-	-
	91,852	**88,591**	**43,625**	**68,134**

Renegotiated advances to customers and trade bills that would otherwise be past due or impaired amounts to $Nil as at 31 December 2014 (2013: $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

	2014 '000	**2013 '000**
Fair value of collateral and other credit enhancements held against financial assets that are:		
- neither past due nor impaired	708,206	807,567
- past due but not impaired	145,464	100,464
	853,670	**908,031**

29 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.

2014

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**
Financial assets				
Trade bills	13(a)	710,926	132,223	578,703
Advances to customers	14(a)	712,906	232,330	480,576
		1,423,832	**364,553**	**1,059,279**
Financial liabilities				
Deposit from customers	18	1,459,506	307,910	1,151,596
Imprest and margin accounts	19	256,157	56,643	199,514
		1,715,663	**364,553**	**1,351,110**

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**
Financial assets				
Trade bills	13(a)	720,928	158,656	562,272
Advances to customers	14(a)	812,479	291,169	521,310
		1,533,407	**449,825**	**1,083,582**
Financial liabilities				
Deposit from customers	18	1,437,583	362,795	1,074,788
Imprest and margin accounts	19	266,473	87,030	179,443
		1,704,056	**449,825**	**1,254,231**

29 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.

29 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:

2014

In HKD equivalents

	Total '000	**United States Dollars '000**	**Other foreign currencies '000**
Assets			
Cash and balances with banks	132,603	79,508	53,095
Placements with banks	85,323	38,785	46,538
Investments	161,279	161,279	-
Trade bills	710,926	703,271	7,655
Advances to customers	543,028	540,267	2,761
Other assets	92,252	90,792	1,460
Spot assets	**1,725,411**	**1,613,902**	**111,509**
Liabilities			
Deposits and balances of banks	(5,650)	(5,650)	-
Deposits from customers	(1,279,205)	(1,187,901)	(91,304)
Other liabilities	(333,496)	(318,075)	(15,421)
Spot liabilities	**(1,618,351)**	**(1,511,626)**	**(106,725)**
Forward purchases	4,301	4,301	-
Forward sales	(67,100)	(62,799)	(4,301)
	(62,799)	**(58,498)**	**(4,301)**
Net non structural position	**44,261**	**43,778**	**483**

29 **Financial risk management (continued)**

(b) Market risk management (continued)

(i) Currency risk (continued)

2013

In HKD equivalents

	Total '000	**United States Dollars '000**	**Other foreign currencies '000**
Assets			
Cash and balances with banks	90,674	70,751	19,923
Placements with banks	70,029	-	70,029
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	-
Spot assets	**1,652,119**	**1,528,627**	**123,492**
Liabilities			
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)
Spot liabilities	**(1,515,460)**	**(1,416,790)**	**(98,670)**
Forward purchases	-	-	-
Forward sales	(62,990)	(38,775)	(24,215)
	(62,990)	**(38,775)**	**(24,215)**
Net non structural position	**73,669**	**73,062**	**607**

29 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 (95%) of the Company's financial instruments at 31 December 2014 and 2013 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 repriceable 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.

29 Financial risk management (continued)

(b) Market risk management (continued)

(ii) Interest rate risk (continued)

2014

In Hong Kong dollars

Interest sensitivity of assets and liabilities	Effective interest rate	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	Non-interest bearing '000
Assets							
Cash and balances with banks	-	224,733	-	-	-	-	224,733
Placements with banks	1.03%	360,323	360,323	-	-	-	-
Investments	2.87%	171,015	-	31,432	139,583	-	-
Trade bills	4.95%	710,926	637,051	73,875	-	-	-
Collective impairment allowance for trade bills	-	(7,477)	-	-	-	-	(7,477)
Individual impairment allowance for trade bills	-	(795)	-	-	-	-	(795)
Advances to customers	4.97%	712,906	583,316	52,846	76,744	-	-
Collective impairment allowance for advances to customers	-	(7,385)	-	-	-	-	(7,385)
Individual impairment allowance for advances to customers	-	(9,030)	-	-	-	-	(9,030)
Tax paid in advance	-	388	-	-	-	-	388
Deferred tax assets	-	1,132	-	-	-	-	1,132
Fixed assets	-	118,110	-	-	-	-	118,110
Other assets	-	101,177	-	-	-	-	101,177
Total assets		**2,376,023**	**1,580,690**	**158,153**	**216,327**	**-**	**420,853**
Liabilities							
Deposits and balances of banks	-	6,745	-	-	-	-	6,745
Deposits from customers	1.66%	1,459,506	1,249,470	210,036	-	-	-
Other liabilities	-	357,766	-	-	-	-	357,766
Total liabilities		**1,824,017**	**1,249,470**	**210,036**	**-**	**-**	**364,511**
Net Re-Pricing gap		**552,006**	**331,220**	**(51,883)**	**216,327**	**-**	**56,342**

At 31 December 2014, it is estimated that a general increase/decrease of 50 basis points in interest rates (2013: 50 basis points in interest rate), with all other variables held constant, would not significantly impact the Company's profit after taxation (2013: 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.

29 Financial risk management (continued)

(b) Market risk management (continued)

(ii) Interest rate risk (continued)

2013

In Hong Kong dollars

Interest sensitivity of assets and liabilities	**Effective interest rate**	**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**	**Non-interest bearing '000**
Assets							
Cash and balances with banks	-	185,084	-	-	-	-	185,084
Placements with banks	1.02%	345,029	343,356	1,673	-	-	-
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
Total assets		**2,273,620**	**1,624,318**	**179,786**	**217,234**	**-**	**252,282**
Liabilities							
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
Total liabilities		**1,734,748**	**1,305,342**	**132,241**	**-**	**-**	**297,165**
Net Re-Pricing gap		**538,872**	**318,976**	**47,545**	**217,234**	**-**	**(44,883)**

29 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 114.27% (2013: 134.62%) in 2014 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.

In Hong Kong dollars

2014	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
Assets								
Cash and balances with banks	224,733	224,733	-	-	-	-	-	-
Placements with banks	360,323	-	181,472	178,851	-	-	-	-
Investments	171,015	-	-	-	31,432	139,583	-	-
Trade bills	702,654	99,908	195,554	334,094	73,098	-	-	-
Advances to customers	696,491	112,838	184,381	271,024	52,299	75,949	-	-
Tax paid in advance	388	-	-	-	388	-	-	-
Deferred tax assets	1,132	-	-	-	-	-	-	1,132
Fixed assets	118,110	-	-	-	-	-	-	118,110
Other assets	101,177	1,604	28,240	60,916	10,417	-	-	-
Total assets	**2,376,023**	**439,083**	**589,647**	**844,885**	**167,634**	**215,532**	**-**	**119,242**

29 Financial risk management (continued)

(c) *Liquidity risk management (continued)*

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

2014 — 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
Liabilities								
Deposits and balances of banks	6,745	6,745	-	-	-	-	-	-
Deposits from customers	1,459,506	-	448,942	800,528	210,036	-	-	-
Other liabilities	357,766	260,803	25,630	60,916	10,417	-	-	-
Total liabilities	**1,824,017**	**267,548**	**474,572**	**861,444**	**220,453**	**-**	**-**	**-**
Net liability gap	**552,006**	**171,535**	**115,075**	**(16,559)**	**(52,819)**	**215,532**	**-**	**119,242**

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:

2014 — 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	6,745	6,745	6,745	-	-	-	-	-
Deposits from customers	1,459,506	1,468,679	-	451,218	804,631	212,830	-	-
	1,466,251	**1,475,424**	**6,745**	**451,218**	**804,631**	**212,830**	**-**	**-**

29 Financial risk management (continued)

(c) *Liquidity risk management (continued)*

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

In Hong Kong dollars

2013

	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
Assets								
Cash and balances with banks	185,084	185,084	-	-	-	-	-	-
Placements with banks	345,029	-	186,484	156,872	1,673	-	-	-
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	-	-	-
Total assets	**2,273,620**	**342,758**	**622,843**	**850,453**	**179,151**	**216,507**	**-**	**61,908**

29 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
Liabilities								
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	-	-	-
Total liabilities	**1,734,748**	**274,702**	**456,772**	**869,929**	**133,345**	**-**	**-**	**-**
Net liability gap	**538,872**	**68,056**	**166,071**	**(19,476)**	**45,806**	**216,507**	**-**	**61,908**

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	-	-
	1,440,869	**1,448,243**	**3,286**	**446,390**	**864,584**	**133,983**	**-**	**-**

29 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.

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 2014 and 2013 and is well above the minimum required ratio set by the HKMA.

30 Fair values of financial instruments

(a) Financial instruments carried at fair value

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.

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1 - Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2 - Observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 - Fair value measured using significant unobservable inputs.

(b) Fair value

The table below analyses financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value treatment is categorised:

	2014			In Hong Kong dollars
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Available-for-sale financial assets:				
– Debt securities	-	23,104,518	-	23,104,518
Derivative financial instruments:				
– Forward exchange contracts	-	38,817	-	38,817
	-	**23,143,335**	**-**	**23,143,335**
Liabilities				
Derivative financial instruments:				
– Forward exchange contracts	-	35,292	-	35,292

30 Fair values of financial instruments (continued)

(b) Fair value (continued)

In Hong Kong dollars

	2013			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Available-for-sale financial assets:				
– Debt securities	-	-	-	-
Derivative financial instruments:				
– Forward exchange contracts	-	3,000	-	3,000
	-	**3,000**	**-**	**3,000**
Liabilities				
Derivative financial instruments:				
– Forward exchange contracts	-	87,210	-	87,210

During the year there were no significant transfers of financial instruments between Level 1 and Level 2 of the fair value hierarchy.

31 Accounting estimates and judgements

Key sources of estimation uncertainty

Note 30 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.

32 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2014

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 2014 and which have not been adopted in these financial statements. These include the following which may be relevant to the Company.

	Effective for accounting periods beginning on or after
HKFRS 9, *Financial instruments*	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

Capital ratio:	**2014**	**2013**
Common Equity Tier 1 ("CET1") Capital Ratio	34.22%	34.08%
Tier 1 Capital Ratio	34.22%	34.08%
Total Capital Ratio	35.64%	35.49%

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

CET1 Capital:	**2014 '000**	**2013 '000**
CET1 Capital instruments	300,000	300,000
Retained earnings	224,832	211,628
Disclosed reserves	27,175	27,244
CET1 Capital before deductions	552,007	538,872
Regulatory deductions to CET1 capital:		
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	(1,132)	(1,055)
Total CET1 Capital	**523,631**	**510,573**
Additional Tier 1 ("AT1") Capital	-	-
Total Tier 1 ("T1") Capital	**523,631**	**510,573**

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)

Tier 2 ("T2") Capital	**2014 '000**	**2013 '000**
Reserves arising from revaluation of land and buildings	5,060	5,060
Reserve for general banking risk and collective impairment allowances	16,632	16,158
Regulatory deductions to T2 capital	-	-
Total T2 Capital	**21,692**	**21,218**
Total Capital	**545,323**	**531,791**

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 HK$300,000,000 (2013: HK$300,000,000) of issued and fully paid ordinary shares. 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 (2013: $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 and includes the following information:

- A detailed breakdown of the CETl 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 CETl 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

	2014	2013
Average liquidity ratio for the year	114.27%	134.62%

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:

	2014		
	Trade finance and deposits taking	**Treasury and others**	**Total**
Interest income	78,026,815	7,112,160	85,138,975
Interest expense	(23,314,952)	(446,958)	(23,761,910)
Net interest income	**54,711,863**	**6,665,202**	**61,377,065**
Fee and commission income	33,050,980	-	33,050,980
Fee and commission expense	(544,470)	-	(544,470)
Net fee and commission income	**32,506,510**	**-**	**32,506,510**
Other net income	**25,068,334**	**1,393,247**	**26,461,581**
Operating income	**112,286,707**	**8,058,449**	**120,345,156**
Operating expenses	(61,301,814)	(4,399,430)	(65,701,244)
Operating profit before provisions	**50,984,893**	**3,659,019**	**54,643,912**
Impairment losses on trade bills and advances to customers	(8,478,870)	-	(8,478,870)
Operating profit after provisions	**42,506,023**	**3,659,019**	**46,165,042**
Profit before taxation	**42,506,023**	**3,659,019**	**46,165,042**
Capital expenditure	**-**	**61,936,903**	**61,936,903**
Depreciation	**(4,352,956)**	**(312,397)**	**(4,665,353)**
Segment assets	1,491,326,949	884,696,459	2,376,023,408
Total assets	**1,491,326,949**	**884,696,459**	**2,376,023,408**
Segment liabilities	1,807,846,411	16,170,333	1,824,016,744
Total liabilities	**1,807,846,411**	**16,170,333**	**1,824,016,744**

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

(c) Segmental information (continued)

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

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:

2014

	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	26,682	100.00%	-	-	-	-	-	-
Trade finance	686,224	39.4%	107,163	17,979	9,030	7,385	6,312	7,196

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

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

(d) Advances to customers (continued)

(ii) By geographical area

Advances to customers by geographical area are classified according to the location of the counterparties after taking into account the transfer of risk. In general, risk transfer applies when an advance is guaranteed by a party in an area which is different from that of the counterparty.

	2014	2013
Gross advances to customers		
Hong Kong	705,917,329	764,998,212
Asia Pacific excluding Hong Kong	3,928,250	1,855,530
Africa, Caribbean, Latin America and North America	3,060,071	44,479,576
Europe	-	1,145,288
	712,905,650	**812,478,606**

All impaired advances to customers at 31 December 2014 and 2013 are located in Hong Kong.

(e) Overdue and rescheduled assets

The gross amount of overdue assets are as follows:

2014

	Advances to customers				Trade bills			
Overdue for:	**Amount**	**Collateral value**	**% of gross advances**	**Impairment allowance**	**Amount**	**Collateral value**	**% of gross trade bills**	**Impairment allowance**
- 6 months or less but over 3 months	21,791,701	21,132,298	3.06%	-	11,444,818	6,399,596	1.61%	-
- 1 year or less but over 6 months	3,112,374	1,829,221	0.44%	-	3,016,250	2,257,906	0.42%	395,000
- Over 1 year	6,743,643	2,749,618	0.94%	3,766,794	615,002	-	0.09%	400,000
	31,647,718	**25,711,137**	**4.44%**	**3,766,794**	**15,076,070**	**8,657,502**	**2.12%**	**795,000**

2013

	Advances to customers				Trade bills			
Overdue for:	**Amount**	**Collateral value**	**% of gross advances**	**Impairment allowance**	**Amount**	**Collateral value**	**% of gross trade bills**	**Impairment allowance**
- 6 months or less but over 3 months	9,075,821	5,440,857	1.11%	3,378,677	7,196,062	6,612,310	1.00%	400,000
- 1 year or less but over 6 months	11,617,484	11,593,235	1.43%	-	-	-	-	-
- Over 1 year	9,401,785	4,244,966	1.16%	5,062,000	1,828,513	9,739	0.25%	1,000,000
	30,095,090	**21,279,058**	**3.70%**	**8,440,677**	**9,024,575**	**6,622,049**	**1.25%**	**1,400,000**

Collateral held with respect to overdue advances to customers and trade bills are cash deposits and mortgage property with the Company.

There were no rescheduled advances or repossessed assets at 31 December 2014 and 2013.

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

(f) Non-bank Mainland exposures

The analysis of non-bank Mainland exposures is based on the categories of non-bank counterparties and the type of direct exposures defined by the Hong Kong Monetary Authority under the Banking (Disclosure) (Amendment) Rules 2014 with reference to the Hong Kong Monetary Authority return of non-bank Mainland exposures.

No restatement for 2013 comparative figures is necessary as the analysis of non-bank Mainland exposures is based on the categories of nonbank counterparties under the prevailing Banking (Disclosure) Rules, which includes the Mainland exposures extended by the Company.

	2014		
	On-balance sheet exposure '000	**Off-balance sheet exposure '000**	**Total '000**
1. Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	19,428	-	19,428
2. Local governments, local government-owned entities and their subsidiaries and JVs	11,468	-	11,468
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	-	-	-
4. Other entities of central government not reported in item 1 above	-	-	-
5. Other entities of local governments not reported in item 2 above	-	-	-
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	190,055	168,270	358,325
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	9,264	-	9,264
	230,215	**168,270**	**398,485**
Total assets after provision	2,283,841		
On-balance sheet exposures as percentage of total assets	10.08%		

	2013		
	On-balance sheet exposure '000	**Off-balance sheet exposure '000**	**Total '000**
Mainland entities	15,827	-	15,827
Companies and individuals outside Mainland where the credit is granted for use in Mainland	-	-	-
Other counterparties where the exposure is considered by the Bank to be non-bank Mainland exposure	-	-	-
	15,827	-	**15,827**

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

(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:

In millions of HK$ equivalent	**Banks and other financial institutions**	**Public sector entities**	**Others**	**Total**
As at 31 December 2014				
Asia Pacific excluding Hong Kong	442	8	147	597
of which Bangladesh	160	-	-	160
of which India	239	-	68	307
Africa, Caribbean, Latin America and North America	72	-	203	275
Middle East	51	-	67	118
Europe	21	-	78	99
As at 31 December 2013				
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

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

	2014	2013
	'000	'000
Sovereign	646	651
Bank	15,395	15,507
Corporate	74,860	74,729
Other exposure which are not past due	9,693	5,440
Past due	5,607	4,694
Total capital requirements for on-balance sheet exposures	**106,201**	**101,021**
Trade-related contingencies	5,840	7,084
Exchange rate contracts	11	4
Total capital requirements for off-balance sheet exposures	**5,851**	**7,088**
	112,052	**108,109**

Capital charge

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

	2014	2013
	'000	'000
Capital charge for operational risk	**17,596**	**18,154**

List of Branches

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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