

**Approach to Balance Sheet Reconciliation in accordance with the requirements issued by Hong Kong Monetary Authority on 19 August 2013**
**Step 1**
**Condensed Consolidated Statement Of Financial Position As At 30 June 2013**

	Balance sheet as in published financial statements	Under regulatory scope of consolidation
HK\$'000	As at 30 June 2013	As at 30 June 2013
<b>Assets</b>		
Cash and short-term funds	11,960,197	11,935,904
Placements with banks and other financial institutions maturing between one and twelve months	8,423,633	8,423,633
Derivative financial instruments	107,669	107,669
Financial assets at fair value through profit or loss	91,350	91,150
Available-for-sale securities	4,567,204	4,470,706
Held-to-maturity securities	11,556,974	11,556,974
Advances and other accounts	43,665,018	43,614,515
Interests in associates	186,888	21,500
Investment properties	136,162	136,162
Property and equipment	913,939	898,034
Prepaid lease payments for land	2,417	2,417
Deferred tax assets	1,475	1,475
Goodwill	50,606	-
<b>Total assets</b>	<b>81,663,532</b>	<b>81,260,139</b>
<b>Liabilities</b>		
Deposits and balances of banks and other financial institutions	2,080,049	2,080,049
Financial assets sold under repurchase agreements	437,349	437,349
Deposits from customers	68,755,915	68,755,915
Certificates of deposit	177,511	177,511
Derivative financial instruments	194,445	194,445
Other accounts and accruals	707,528	1,067,687
Current tax liabilities	57,449	52,448
Loan capital	1,794,150	1,794,150
Deferred tax liabilities	11,832	8,065
<b>Total liabilities</b>	<b>74,216,228</b>	<b>74,567,619</b>
<b>Equity attributable to owners of the Bank</b>		
Share capital	217,500	217,500
Reserves	7,229,804	6,475,020
<b>Total equity</b>	<b>7,447,304</b>	<b>6,692,520</b>
<b>Total liabilities and equity</b>	<b>81,663,532</b>	<b>81,260,139</b>

**Approach to Balance Sheet Reconciliation**
**Step 2**
**Condensed Consolidated Statement Of Financial Position As At 30 June 2013**

	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Cross reference to Definition of Capital Components
HK\$'000	As at 30 June 2013	As at 30 June 2013	
<b>Assets</b>			
Cash and short-term funds	11,960,197	11,935,904	
Placements with banks and other financial institutions maturing between one and twelve months	8,423,633	8,423,633	
Derivative financial instruments	107,669	107,669	
Financial assets at fair value through profit or loss	91,350	91,150	
Available-for-sale securities	4,567,204	4,470,706	
Held-to-maturity securities	11,556,974	11,556,974	
Advances and other accounts	43,665,018	43,614,515	
of which: Collective impairment allowances reflected in regulatory capital		(178,888)	(1)
Interests in associates	186,888	21,500	
Investment properties	136,162	136,162	
Property and equipment	913,939	898,034	
Prepaid lease payments for land	2,417	2,417	
Deferred tax assets	1,475	1,475	(2)
Goodwill	50,606	-	
<b>Total assets</b>	<b>81,663,532</b>	<b>81,260,139</b>	
<b>Liabilities</b>			
Deposits and balances of banks and other financial institutions	2,080,049	2,080,049	
Financial assets sold under repurchase agreements	437,349	437,349	
Deposits from customers	68,755,915	68,755,915	
Certificates of deposit	177,511	177,511	
Derivative financial instruments	194,445	194,445	
Other accounts and accruals	707,528	1,067,687	
Current tax liabilities	57,449	52,448	
Loan capital	1,794,150	1,794,150	
of which: Portion of subordinated notes eligible for inclusion in regulatory capital		1,557,634	(3)
Deferred tax liabilities	11,832	8,065	
<b>Total liabilities</b>	<b>74,216,228</b>	<b>74,567,619</b>	
<b>Equity attributable to owners of the Bank</b>			
Share capital	217,500	217,500	(4)
Reserves	7,229,804	6,475,020	
of which: Share premium		1,542,817	(5)
Retained earnings		2,994,010	(6)
of which: Cumulative gains on fair value adjustments on investment properties		83,239	(7)
General reserves		1,388,500	(8)
Investment revaluation reserve		92,189	(9)
Regulatory reserve		423,000	(10)
Translation reserve		34,504	(11)
of which: Cumulative valuation surplus on investment properties credited to the reserve		4,243	(12)
<b>Total equity</b>	<b>7,447,304</b>	<b>6,692,520</b>	
<b>Total liabilities and equity</b>	<b>81,663,532</b>	<b>81,260,139</b>	

**Extract of Transition Capital Disclosures (with added column)**

		Component of regulatory capital reported by bank	Amounts subject to pre- Basel III treatment*	Cross-referenced * to
<b>CET1 capital: instruments and reserves</b>				
1	Directly issued qualifying CET1 capital instruments plus any related share premium	1,760,317		(4)+(5)
2	Retained earnings	2,994,010		(6)
3	Disclosed reserves	1,938,193		(8)+(9)+(10)+(11)
4	<i>Directly issued capital subject to phase out from CET1 capital (only applicable to non-joint stock companies)</i>	Not applicable		
	<i>Public sector capital injections grandfathered until 1 January 2018</i>	Not applicable		
5	Minority interests arising from CET1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in CET1 capital of the consolidation group)	0		
6	<b>CET1 capital before regulatory deductions</b>	6,692,520		
<b>CET1 capital: regulatory deductions</b>				
7	Valuation adjustments	0		
8	Goodwill (net of associated deferred tax liability)	0		
9	Other intangible assets (net of associated deferred tax liability)	0	0	
10	Deferred tax assets net of deferred tax liabilities	1,475		(2)
11	Cash flow hedge reserve	0		
12	Excess of total EL amount over total eligible provisions under the IRB approach	0	0	
13	Gain-on-sale arising from securitization transactions	0		
14	Gains and losses due to changes in own credit risk on fair valued liabilities	0	0	
15	Defined benefit pension fund net assets (net of associated deferred tax liabilities)	0	0	
16	Investments in own CET1 capital instruments (if not already netted off paid-in capital on reported balance sheet)	0	0	
17	Reciprocal cross-holdings in CET1 capital instruments	0	0	
18	Insignificant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	0	0	
19	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	0	0	
20	Mortgage servicing rights (amount above 10% threshold)	Not applicable		
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	Not applicable		
22	Amount exceeding the 15% threshold	Not applicable		
23	of which: significant investments in the common stock of financial sector entities	Not applicable		
24	of which: mortgage servicing rights	Not applicable		
25	of which: deferred tax assets arising from temporary differences	Not applicable		
26	National specific regulatory adjustments applied to CET1 capital	510,482		
26a	Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	87,482		(7)+(12)
26b	Regulatory reserve for general banking risks	423,000		(10)
26c	Securitization exposures specified in a notice given by the Monetary Authority	0		
26d	Cumulative losses below depreciated cost arising from the institution's holdings of land and buildings	0		
26e	Capital shortfall of regulated non-bank subsidiaries	0	0	
26f	Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	0	0	
27	Regulatory deductions applied to CET1 capital due to insufficient AT1 capital and Tier 2 capital to cover deductions	0		
28	<b>Total regulatory deductions to CET1 capital</b>	511,957		
29	<b>CET1 capital</b>	6,180,563		
<b>AT1 capital: instruments</b>				
30	Qualifying AT1 capital instruments plus any related share premium	0		
31	of which: classified as equity under applicable accounting standards	0		
32	of which: classified as liabilities under applicable accounting standards	0		
33	<i>Capital instruments subject to phase out arrangements from AT1 capital</i>	0		
34	AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidation group)	0		
35	<i>of which: AT1 capital instruments issued by subsidiaries subject to phase out arrangements</i>	0		
36	<b>AT1 capital before regulatory deductions</b>	0		
<b>AT1 capital: regulatory deductions</b>				
37	Investments in own AT1 capital instruments	0	0	
38	Reciprocal cross-holdings in AT1 capital instruments	0	0	

AT1 capital: regulatory deductions				
39	Insignificant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	0	0	
40	Significant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	0	0	
41	National specific regulatory adjustments applied to AT1 capital	0		
41	Portion of deductions applied 50:50 to core capital and supplementary capital based on pre-BaseI III treatment a which, during transitional period, remain subject to deduction from Tier 1 capital	0		
i	of which: Excess of total EL amount over total eligible provisions under the IRB approach	0		
ii	of which: Capital shortfall of regulated non-bank subsidiaries	0		
iii	of which: Investments in own CET1 capital instruments	0		
iv	of which: Reciprocal cross holdings in CET1 capital instruments issued by financial sector entities	0		
v	of which: Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	0		
vi	of which: Insignificant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	0		
vii	of which: Significant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	0		
42	Regulatory deductions applied to AT1 capital due to insufficient Tier 2 capital to cover deductions	0		
43	<b>Total regulatory deductions to AT1 capital</b>	0		
44	<b>AT1 capital</b>	0		
45	<b>Tier 1 capital (Tier 1 = CET1 + AT1)</b>	6,180,563		
Tier 2 capital: instruments and provisions				
46	Qualifying Tier 2 capital instruments plus any related share premium	0		
47	<i>Capital instruments subject to phase out arrangements from Tier 2 capital</i>	1,557,634		(3)
48	Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group)	0		
49	<i>of which: capital instruments issued by subsidiaries subject to phase out arrangements</i>	0		
50	Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	601,888		-(1)+(10)
51	<b>Tier 2 capital before regulatory deductions</b>	2,159,522		
Tier 2 capital: regulatory deductions				
52	Investments in own Tier 2 capital instruments	0	0	
53	Reciprocal cross-holdings in Tier 2 capital instruments	0	0	
54	Insignificant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	0	0	
55	Significant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	0	0	
56	National specific regulatory adjustments applied to Tier 2 capital	(39,367)		
56a	Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital	(39,367)		- [(7)+(12)] x 45%
56	Portion of deductions applied 50:50 to core capital and supplementary capital based on pre-BaseI III treatment b which, during transitional period, remain subject to deduction from Tier 2 capital	0		
i	of which: Excess of total EL amount over total eligible provisions under the IRB approach	0		
ii	of which: Capital shortfall of regulated non-bank subsidiaries	0		
iii	of which: Investments in own CET1 capital instruments	0		
iv	of which: Reciprocal cross holdings in CET1 capital instruments issued by financial sector entities	0		
v	of which: Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	0		
vi	of which: Insignificant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	0		
vii	of which: Significant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	0		
57	<b>Total regulatory deductions to Tier 2 capital</b>	(39,367)		
58	<b>Tier 2 capital</b>	2,198,889		
59	<b>Total capital (Total capital = Tier 1 + Tier 2)</b>	8,379,452		

**Abbreviations:**

CET1: Common Equity Tier 1

AT1: Additional Tier 1

**Footnote:**

\* Cross-referenced to Consolidated Balance Sheet in Step 2