

**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 31 December 2013**

HK\$'000	Balance sheet as in published financial statements	Under regulatory scope of consolidation
	As at 31 December 2013	As at 31 December 2013
<b>Assets</b>		
Cash and short-term funds	16,145,437	16,121,019
Placements with banks and other financial institutions maturing between one and twelve months	7,920,502	7,920,502
Derivative financial instruments	170,135	170,135
Financial assets at fair value through profit or loss	92,179	91,968
Available-for-sale securities	5,433,241	5,326,882
Held-to-maturity securities	8,326,722	8,326,722
Advances and other accounts	45,803,583	45,773,017
Tax recoverable	796	-
Assets held for sale	269,268	269,268
Interests in associates	199,437	21,500
Investment properties	136,575	136,575
Property and equipment	635,702	620,601
Prepaid lease payments for land	2,403	2,403
Deferred tax assets	1,501	1,501
Goodwill	50,606	-
<b>Total assets</b>	<b>85,188,087</b>	<b>84,782,093</b>
<b>Liabilities</b>		
Deposits and balances of banks and other financial institutions	1,674,231	1,674,231
Financial assets sold under repurchase agreements	1,256,657	1,256,657
Deposits from customers	71,164,904	71,164,904
Certificates of deposit	563,003	563,003
Derivative financial instruments	100,653	100,653
Other accounts and accruals	852,430	1,217,411
Current tax liabilities	52,146	49,116
Loan capital	1,766,436	1,766,436
Deferred tax liabilities	25,661	20,470
<b>Total liabilities</b>	<b>77,456,121</b>	<b>77,812,881</b>
<b>Equity attributable to owners of the Bank</b>		
Share capital	217,500	217,500
Reserves	7,514,466	6,751,712
<b>Total equity</b>	<b>7,731,966</b>	<b>6,969,212</b>
<b>Total liabilities and equity</b>	<b>85,188,087</b>	<b>84,782,093</b>

**Approach to Balance Sheet Reconciliation in accordance with the requirements issued by Hong Kong Monetary Authority on 19 August 2013**
**Step 2**
**Condensed Consolidated Statement Of Financial Position As At 31 December 2013**

HK\$'000	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Cross reference to Definition of Capital Components
	As at 31 December 2013	As at 31 December 2013	
<b>Assets</b>			
Cash and short-term funds	16,145,437	16,121,019	
Placements with banks and other financial institutions maturing between one and twelve months	7,920,502	7,920,502	
Derivative financial instruments	170,135	170,135	
Financial assets at fair value through profit or loss	92,179	91,968	
Available-for-sale securities	5,433,241	5,326,882	
Held-to-maturity securities	8,326,722	8,326,722	
Advances and other accounts	45,803,583	45,773,017	
of which: Collective impairment allowances reflected in regulatory capital		(189,427)	(1)
Tax recoverable	796	0	
Assets held for sale	269,268	269,268	
Interests in associates	199,437	21,500	
Investment properties	136,575	136,575	
Property and equipment	635,702	620,601	
Prepaid lease payments for land	2,403	2,403	
Deferred tax assets	1,501	1,501	(2)
Goodwill	50,606	0	
<b>Total assets</b>	<b>85,188,087</b>	<b>84,782,093</b>	
<b>Liabilities</b>			
Deposits and balances of banks and other financial institutions	1,674,231	1,674,231	
Financial assets sold under repurchase agreements	1,256,657	1,256,657	
Deposits from customers	71,164,904	71,164,904	
Certificates of deposit	563,003	563,003	
Derivative financial instruments	100,653	100,653	
Other accounts and accruals	852,430	1,217,411	
Current tax liabilities	52,146	49,116	
Loan capital	1,766,436	1,766,436	
of which: Portion of subordinated notes eligible for inclusion in regulatory capital		1,559,723	(3)
Deferred tax liabilities	25,661	20,470	
<b>Total liabilities</b>	<b>77,456,121</b>	<b>77,812,881</b>	
<b>Equity attributable to owners of the Bank</b>			
Share capital	217,500	217,500	(4)
Reserves	7,514,466	6,751,712	
of which: Share premium		1,542,817	(5)
Retained earnings		3,196,987	(6)
of which: Cumulative gains on fair value adjustments on investment properties		80,212	(7)
General reserves		1,388,500	(8)
Investment revaluation reserve		138,150	(9)
Regulatory reserve		441,000	(10)
Translation reserve		44,258	(11)
of which: Cumulative valuation surplus on investment properties credited to the reserve		7,682	(12)
<b>Total equity</b>	<b>7,731,966</b>	<b>6,969,212</b>	
<b>Total liabilities and equity</b>	<b>85,188,087</b>	<b>84,782,093</b>	

**Approach to Balance Sheet Reconciliation in accordance with the requirements issued by Hong Kong Monetary Authority on 19 August 2013**
**Step 3**
**As At 31 December 2013**

HK\$'000

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

	Component of regulatory capital reported by bank	Amounts subject to pre-Base 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	3,196,987	(6)
3	Disclosed reserves	2,011,908	(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>	6,969,212	
<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	1,501	(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	<i>Mortgage servicing rights (amount above 10% threshold)</i>	Not applicable	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	Not applicable	
22	<i>Amount exceeding the 15% threshold</i>	Not applicable	
23	<i>of which: significant investments in the common stock of financial sector entities</i>	Not applicable	
24	<i>of which: mortgage servicing rights</i>	Not applicable	
25	<i>of which: deferred tax assets arising from temporary differences</i>	Not applicable	
26	National specific regulatory adjustments applied to CET1 capital	528,894	
26a	Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	87,894	(7)+(12)
26b	Regulatory reserve for general banking risks	441,000	(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>	530,395	
29	<b>CET1 capital</b>	6,438,817	
<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
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	
41a	Portion of deductions applied 50:50 to core capital and supplementary capital based on pre-Base III treatment 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>	6,438,817	
<b>Tier 2 capital: instruments and provisions</b>			
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>	1,559,723	(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	630,427	-(1)+(10)
51	<b>Tier 2 capital before regulatory deductions</b>	2,190,150	

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>Tier 2 capital: regulatory deductions</b>				
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	(39,552)		
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	(39,552)		- [(7)+(12)] x 45%
56b	Portion of deductions applied 50:50 to core capital and supplementary capital based on pre-Basel III treatment 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>	<b>(39,552)</b>		
58	<b>Tier 2 capital</b>	<b>2,229,702</b>		
59	<b>Total capital (Total capital = Tier 1 + Tier 2)</b>	<b>8,668,519</b>		

**Abbreviations:**

CET1: Common Equity Tier 1  
AT1: Additional Tier 1

**Footnote:**

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