BPI INTERNATIONAL FINANCE LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31ST DECEMBER 2012

BPI INTERNATIONAL FINANCE LIMITED

REPORT OF THE DIRECTORS

The directors submit their report together with the audited consolidated financial statements of BPI International Finance Limited (the "Company") and its subsidiaries (together, the "Group") for the year ended 31st December 2012.

Principal activities

The Company is a deposit-taking company registered under the Hong Kong Banking Ordinance. The Company is licensed under the Hong Kong Securities and Futures Ordinance for dealing in securities, advising on securities and asset management activities. Its principal activities are the provision of financial services and dealing in securities on behalf of customers. The principal activities of its associate and subsidiaries are set out in notes 16 and 17 to the consolidated financial statements respectively.

Results and appropriations

The results of the Group for the year ended 31st December 2012 are set out in the consolidated statement of comprehensive income on page 5.

The directors do not recommend the payment of a dividend (2011: Nil).

Reserves

Movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 8 and statement of changes in equity on page 9 respectively.

Fixed assets

Details of the movements in fixed assets of the Group and the Company are shown in note 18 to the consolidated financial statements.

Directors

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

Gil A. Buenaventura	(resigned on 1 October, 2012)
Mario Antonio V. Paner	
Natividad N. Alejo	(appointed on 25 April, 2012)
Alfonso L. Salcedo	(appointed on 29 November, 2012)
Estelito C. Biacora	
Marie Christine O. Lopez	
Susana M. Manalo	

In accordance with Article 85(a) of the Company's Articles of Association, all directors retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Directors' interests

No contracts of significance in relation to the Company's business to which the Company, any of its subsidiaries, fellow subsidiaries or its holding company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

At no time during the year was the Company, its subsidiaries, its associated company, its fellow subsidiaries or its holding company a party to any arrangement to enable the directors of the Company (including their spouse and children under 18 years of age) to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporations.

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Compliance with the Banking (Disclosure) Rules

The Company is required to comply with the Banking (Disclosure) Rules. The Banking (Disclosure) Rules set out the minimum standards for public disclosure which authorized institutions must make in respect of the statement of comprehensive income, its state of affairs and capital adequacy. The financial statements for the financial year ended 31st December 2012 comply fully with the applicable disclosure provisions of the Banking (Disclosure) Rules.

Auditor

The consolidated financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Chairman

Hong Kong, 26 April 2013

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF BPI INTERNATIONAL FINANCE LIMITED
(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of BPI International Finance Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 5 to 50, which comprise the consolidated and company statements of financial position as at 31st December 2012, and the consolidated statements of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated 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 consolidated 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 consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 BPI INTERNATIONAL FINANCE LIMITED
(CONTINUED)
(Incorporated in Hong Kong with limited liability)

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's 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.

PricewaterhouseCoopers

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26 April 2013

BPI INTERNATIONAL FINANCE LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31ST DECEMBER 2012

	Note	2012 HK$'000	2011 HK$'000
Interest income	5	9,860	10,129
Interest expense		(4,159)	(4,975)
Net interest income		5,701	5,154
Other operating income	6	18,628	17,071
Operating income		24,329	22,225
Operating expenses	7	(15,544)	(15,216)
Profit before taxation		8,785	7,009
Income tax expense	9	(1,453)	(1,106)
Profit for the year		7,332	5,903
Other comprehensive income:			
Change in fair value of available-for-sale securities, net of tax		171	(173)
Total comprehensive income for the year		7,503	5,730

The notes on pages 11 to 50 form part of these financial statements.

BPI INTERNATIONAL FINANCE LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31ST DECEMBER 2012

	Note	2012 HK$'000	2011 HK$'000
Assets			
Cash and short-term funds	11	146,352	199,090
Placements with banks and other financial institutions maturing between one and twelve months	12	142,616	175,155
Held-to-maturity securities	13	166,285	166,320
Advances and other accounts	14	68,353	57,057
Available-for-sale securities	15	9,198	8,586
Investment in associate	16	-	-
Fixed assets	18	98	96
Deferred tax assets	20	44	87
Total assets		532,946	606,391
Liabilities			
Deposits from customers	19	317,324	390,664
Balances with the ultimate holding company	26	50,067	59,776
Other payables		4,558	2,456
Tax payable		268	269
Total liabilities		372,217	453,165
Equity			
Share capital	21	75,000	75,000
Retained earnings	22	85,641	78,309
Investment revaluation reserve	22	88	(83)
		160,729	153,226
Total equity and liabilities		532,946	606,391

Approved by the Board of Directors on 26 April 2013 and signed on behalf of the Board by

MARIE CHRISTINE LOPEZ

Director Director

The notes on pages 11 to 50 form part of these financial statements.

BPI INTERNATIONAL FINANCE LIMITED

STATEMENT OF FINANCIAL POSITION
AS AT 31ST DECEMBER 2012

	Note	2012 HK$'000	2011 HK$'000
Assets			
Cash and short-term funds	11	131,806	193,050
Placements with banks and other financial institutions maturing between one and twelve months	12	142,616	175,155
Held-to-maturity securities	13	166,285	166,320
Advances and other accounts	14	67,488	56,280
Available-for-sale securities	15	9,198	8,586
Investment in associate	16	-	-
Investment in subsidiaries	17	500	500
Fixed assets	18	44	44
Deferred tax assets	20	44	87
Total assets		517,981	600,022
Liabilities			
Deposits from customers	19	320,677	400,016
Balances with the ultimate holding company	26	50,067	59,776
Other payables		2,024	1,210
Tax payable		199	170
Total liabilities		372,967	461,172
Equity			
Share capital	21	75,000	75,000
Retained earnings	22	69,926	63,933
Investment revaluation reserve	22	88	(83)
		145,014	138,850
Total equity and liabilities		517,981	600,022

Approved by the Board of Directors on 26 April 2013 and signed on behalf of the Board by

MARIE CHRISTINE LOPEZ

Director   Director

The notes on pages 11 to 50 form part of these financial statements.

BPI INTERNATIONAL FINANCE LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31ST DECEMBER 2012

	Share capital HK$'000	Investment revaluation reserve HK$'000	Retained earnings[1] HK$'000	Total HK$'000
At 1st January 2011	75,000	90	72,406	147,496
Total comprehensive income for the year	-	(173)	5,903	5,730
At 31st December 2011	75,000	(83)	78,309	153,226
At 1st January 2012	75,000	(83)	78,309	153,226
Total comprehensive income for the year	-	171	7,332	7,503
At 31st December 2012	75,000	88	85,641	160,729

[1] As at 31st December 2012, an amount of HK$1,691,649 (2011: HK$1,691,649) was earmarked from retained earnings as a regulatory reserve. The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes. Movements in the reserve, if any, are made directly through retained earnings following consultation with the Hong Kong Monetary Authority.

The notes on pages 11 to 50 form part of these financial statements.

BPI INTERNATIONAL FINANCE LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31ST DECEMBER 2012

	Share capital HK$'000	Investment revaluation reserve HK$'000	Retained earnings[1] HK$'000	Total HK$'000
At 1st January 2011	75,000	90	58,878	133,968
Total comprehensive income for the year	-	(173)	5,055	4,882
At 31st December 2011	75,000	(83)	63,933	138,850
At 1st January 2012	75,000	(83)	63,933	138,850
Total comprehensive income for the year	-	171	5,993	6,164
At 31st December 2012	75,000	88	69,926	145,014

[1] As at 31st December 2012, an amount of HK$1,691,649 (2011: HK$1,691,649) was earmarked from retained earnings as a regulatory reserve. The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes. Movements in the reserve, if any, are made directly through retained earnings following consultation with the Hong Kong Monetary Authority.

The notes on pages 11 to 50 form part of these financial statements.

BPI INTERNATIONAL FINANCE LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31ST DECEMBER 2012

	Note	2012 HK$'000	2011 HK$'000
Net cash outflow from operating activities before taxation	27	(109,261)	(17,597)
Net Hong Kong profits tax paid		(1,444)	(1,233)
Net cash outflow from operating activities after taxation		(110,705)	(18,830)
Investing activities			
Purchase of fixed assets		(114)	(43)
Purchase of held-to-maturity securities		(373,177)	(143,063)
Purchase of available-for-sale securities		(776)	(8,473)
Proceeds from redemption of available-for-sale securities		-	61,805
Proceeds from redemption of held-to-maturity securities		369,656	77,830
Net cash outflow from investing activities		(4,411)	(11,944)
Decrease in cash and cash equivalents		(115,116)	(30,774)
Cash and cash equivalents at 1st January		249,731	280,505
Cash and cash equivalents at 31st December		134,615	249,731
Analysis of cash and cash equivalents			
Cash in hand		216	318
Balances with banks and other financial institutions		59,633	37,400
Placement with banks and other financial institutions with original maturity within three months		74,766	212,013
		134,615	249,731

The notes on pages 11 to 50 form part of these financial statements.

BPI INTERNATIONAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 General information

The principal activities of BPI International Finance Limited (the "Company") and its subsidiaries (together the "Group") are the provision of financial services and dealing in securities on behalf of customers. The Company is a deposit-taking company registered under the Hong Kong Banking Ordinance and licensed under the Hong Kong Securities and Futures Ordinance for dealing in securities, advising on securities and asset management activities.

The Company is incorporated in Hong Kong and its registered office is Unit 1202, 12/F Tower One, Lippo Centre, 89 Queensway, Hong Kong.

These consolidated financial statements are presented in thousands of Hong Kong dollars (HK$'000), unless otherwise stated.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs" is a collective term which includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by Hong Kong Institute of Certified Public Accountants ("HKICPA"), and the requirements of the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale securities and financial assets at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRSs requires management to exercise judgement, use estimates and make assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from these estimates. Critical accounting estimates and assumptions used that are significant to the financial statements, and areas involving a higher degree of judgement and complexity are disclosed in Note 4 to the consolidated financial statements.

(i) <u>Standards, amendments and interpretations effective for accounting periods beginning on 1 January 2012</u>

HKFRS 7 (Amendment), 'Financial Instruments: Disclosures – Transfer of Financial Assets'. The amendment introduces new quantitative disclosure requirements for transfers of financial assets that are either fully derecognised or derecognised not in their entirety. The adoption of this amendment affects the disclosures of the Group's financial statements when the Group undertakes transfers of financial assets that fall within its scope. The Group considers that the adoption of this amendment has no impact on the disclosures for the current year.

In addition to the above standard, the HKICPA has issued a number of new and revised standards which are effective for accounting period beginning on 1 January 2012 but they are not relevant to the Group's operations.

2 Summary of significant accounting policies (Continued)

(a) Basis of preparation (Continued)

(ii) Standards, amendments and interpretations issued that are not yet mandatorily effective and have not been early adopted by the Group in 2012

The following new/revised HKFRS/HKAS have been issued but not yet effective for the financial period ended 31st December 2012. They are expected to be relevant to the Group's operations.

- HKAS1 (Revised) require companies preparing financial statements in accordance with HKFRSs to group together items within other comprehensive income (OCI) that may be reclassified to the profit or loss section of the income statement. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements. The adoption of this revised standard will affect the presentation of the Group's statement of comprehensive income.

- HKAS 27 (2011), 'Separate Financial Statements'. Please refer to HKFRS 10, 'Consolidated Financial Statements' on page 14.

- HKAS 28 (2011), 'Investments in Associates and Joint Ventures'. Please refer to HKFRS 11, 'Joint Arrangements' on page 14.

- HKAS 32 (Amendment), 'Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities'. The amendment addresses inconsistencies in current practice when applying the offsetting criteria and clarifies the meaning of 'currently has a legally enforceable right of set-off'; and the application of offsetting criteria to some gross settlement systems (such as central clearing house systems) that may be considered equivalent to net settlement. The Group is considering the financial impact of the amendment.

- HKFRS 7 (Amendment), 'Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities'. The amendments require new disclosures to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. The adoption of this amended standard will affect the disclosure of the Group's financial statements.

- HKFRS 7 (Amendment), 'Financial Instruments: Disclosures – Transition to HKFRS 9'. The amendments provide relief from the requirement to restate comparative financial statements which was originally available only to entities that chose to apply HKFRS 9 prior to 2012. Instead, additional transition disclosures will be required to help users to better understand the effect of initial application of the standard.

- HKFRS 9, 'Financial Instruments'. The first part of HKFRS 9 was issued in November 2009 and will replace those parts of HKAS 39 relating to the classification and measurement of financial assets. In November 2010, a further pronouncement was published to address financial liabilities and derecognition. Key features are as follows:

2 Summary of significant accounting policies (Continued)

(a) Basis of preparation (Continued)

(ii) Standards, amendments and interpretations issued that are not yet mandatorily effective and have not been early adopted by the Group in 2012 (Continued)

(i) Classification and Measurement

Financial assets are required to be classified into one of the following measurement categories: (1) those to be measured subsequently at fair value or (2) those to be measured subsequently at amortised cost. Classification is to be made on transition, and subsequently on initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

A financial instrument is subsequently measured at amortised cost only if it is a debt instrument, and the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only unleveraged payments of principal and interest. All other debt instruments are to be measured at fair value through profit or loss.

All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than income statement. Once elected to be recognised through other comprehensive income, there will be no reclassification of fair value gains and losses to income statement. Dividends are to be presented in income statement as long as they represent a return on investment.

(ii) Financial Liabilities and Derecognition

Except for the two substantial changes described below, the classification and measurement requirements of financial liabilities have been basically carried forward with minimal amendments from HKAS 39. For the derecognition principles, they are consistent with that of HKAS 39.

The requirements related to the fair value option for financial liabilities were changed to address own credit risk. It requires the amount of change in fair value attributable to changes in the credit risk of the financial liabilities be presented in other comprehensive income. The remaining amount of the total gain or loss is included in income statement. If this requirement creates or enlarges an accounting mismatch in profit or loss, then the whole fair value change is presented in income statement. The determination of whether there will be a mismatch will need to be made at initial recognition of individual liabilities and will not be re-assessed. Amounts presented in other comprehensive income are not subsequently reclassified to income statement but may be transferred within equity.

The standard eliminates the exception from fair value measurement contained in HKAS 39 for derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument.

The mandatory effective date of HKFRS 9 is 1 January 2015 with earlier adoption permitted. New transitional disclosures are required instead of comparative restatement. The Group is considering the financial impact of the standard and the timing of its application.

2 Summary of significant accounting policies (Continued)

(a) Basis of preparation (Continued)

(ii) Standards, amendments and interpretations issued that are not yet mandatorily effective and have not been early adopted by the Group in 2012 (Continued)

- HKFRS 10, 'Consolidated Financial Statements'. HKFRS 10 builds on existing principles by identifying the concept of control as the determining factor when considering whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. It also replaces all of the guidance on control and consolidation stipulated in HKAS 27 (Revised), 'Consolidated and Separate Financial Statements' and HK(SIC)-Int 12, 'Consolidation – Special Purpose Entities'. The remainder of HKAS 27 (Revised) is renamed HKAS 27 (2011), 'Separate Financial Statements' as a standard dealing solely with separate financial statements without changing the existing guidance for separate financial statements.

- HKFRS 11, 'Joint Arrangements'. Changes in the definitions stipulated in HKFRS 11 have reduced the 'types' of joint arrangements to two: joint operations and joint ventures. A joint operation is a joint arrangement that gives parties to the arrangement direct rights to the assets and obligations for the liabilities. The 'jointly controlled assets' classification in HKAS 31, 'Interests in Joint Ventures', has been merged into joint operations, as both types of arrangements generally result in the same accounting outcome. A joint venture, in contrast, gives the parties rights to the net assets or outcome of the arrangement. Joint ventures are accounted for using the equity method in accordance with HKAS 28, 'Investments in Associates' which is renamed as HKAS 28 (2011), 'Investments in Associates and Joint Ventures'. The standard is amended to include the requirements of joint ventures accounting and to merge with the requirements of HK(SIC)-Int 13, 'Jointly Controlled Entities – Non-Monetary Contributions by Venturers'. After the application of HKAS 28 (2011), entities can no longer account for an interest in a joint venture using the proportionate consolidation method.

- HKFRS 12, 'Disclosure of Interests in Other Entities'. The standard sets out the required disclosures for entities reporting under the two new standards, HKFRS 10 and HKFRS 11, and the revised standard HKAS 28 (2011). The existing guidance and disclosure requirements for separate financial statements stipulated in HKAS 27 (Revised) are unchanged. HKFRS 12 requires entities to disclose information that helps financial statements readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities.

The above HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (2011) and HKAS 28 (2011) issued in June 2011 are a group of five new standards that address the scope of reporting entity and will supersede HKAS 27 (Revised), HKAS 28, HKAS 31, HK(SIC)-Int 12 and HK(SIC)-Int 13. Earlier application of these standards are permitted but only when they are applied at the same time. The Group is assessing the impact on the financial statements of the Group as a result of the adoption of these new standards.

2 Summary of significant accounting policies (Continued)

(a) Basis of preparation (Continued)

(ii) Standards, amendments and interpretations issued that are not yet mandatorily effective and have not been early adopted by the Group in 2012 (Continued)

- HKFRS 13, 'Fair Value Measurement'. The new standard which was issued in June 2011 replaces the fair value measurement guidance contained in individual HKFRSs by providing a revised definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements do not extend the use of fair value accounting, but provide guidance on how it should be applied when its use is already required or permitted by other standards within HKFRSs. The Group is assessing the impact on the financial statements of the Group as a result of the adoption of this new standard.

(b) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31st December.

Subsidiaries are those entities in which the Company, directly or indirectly, controls the composition of the Board of Directors, controls more than half of the voting rights or holds more than half of the issued share capital, and has the power to govern the financial and operating policies.

Subsidiaries are consolidated into the financial statements from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investment in subsidiaries is stated at cost less allowance for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

2 Summary of significant accounting policies (Continued)

(c) Associate

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

The investment in the associate is accounted for using the equity method of accounting and are initially recognised at cost.

The Group's share of its associate's post-acquisition profits or losses is recognised in the statement of comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

In the Company's balance sheet, the investment in the associate is stated at cost less allowance for impairment losses. The result of the associate is accounted for by the Company on the basis of dividend received and receivable.

(d) Interest income and expense

Interest income and expense are recognised in the statement of comprehensive income using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that 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 or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points 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.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(e) Fee and commission income and expense

Fee and commission income and expense are generally recognised on an accrual basis when the service has been provided.

Service fees are recognized based on the applicable service contracts, usually on a time-apportionate basis.

Commission income is recognized on completion of the underlying transactions.

2 Summary of significant accounting policies (Continued)

(f) Financial assets

The Group classifies its financial assets in the following categories: loans and receivables, held-to-maturity securities, available-for-sale securities and financial assets designated at fair value through profit or loss. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Loans and receivables

Loans and receivables include cash and short-term funds, placements with banks and other financial institutions and advances to customers. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable.

Loans and receivables are initially recognized at fair value and subsequently measured at amortised cost using the effective interest method less impairment losses.

(ii) Held-to-maturity securities

Held-to-maturity securities are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

(iii) Available-for-sale securities

Available-for-sale securities are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, or not classified in any of the other categories.

Available-for-sale securities are stated at fair value. Unrealised gains and losses arising from changes in the fair value are recognised directly in the investment revaluation reserve until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in the investment revaluation reserve is recognised in the statement of comprehensive income.

(iv) Financial assets at fair value through profit or loss

This category represents financial assets held for trading. A financial asset is classified as held for trading if it is acquired principally for the purpose of selling in the short term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of recent actual pattern of short term profit-making.

Financial instruments included in this category are recognised initially at fair value and transaction costs taken directly to the statement of comprehensive income. Changes in fair value are recognised as "Net gain/loss arising from financial assets at fair value through profit or loss" as part of the "other operating income" in the statement of comprehensive income in the period in which they arise.

Purchases and sales of financial assets are recognised on the trade-date - the date on which the Group commits to purchase or sell the asset. Loans are recognised when cash is advanced to the borrowers.

2 Summary of significant accounting policies (Continued)

(f) Financial assets (Continued)

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

(g) Impairment of financial assets

(i) Financial assets carried at amortised cost

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

(i) significant financial difficulty of the issuer or obligor;
(ii) a breach of contract, such as a default or delinquency in interest or principal payments;
(iii) the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
(iv) it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
(v) the disappearance of an active market for that financial asset because of financial difficulties; or
(vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - adverse changes in the payment status of borrowers in the group; or
  - national or local economic conditions that correlate with defaults on the assets in the group.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes that 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.

2 Summary of significant accounting policies (Continued)

(g) Impairment of financial assets (Continued)

(i) Financial assets carried at amortised cost (Continued)

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. If the financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, overdue status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtor's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowances for loan impairment. Such loans are written off affer all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income.

2 Summary of significant accounting policies (Continued)

(g) Impairment of financial assets (Continued)

(ii) Financial assets classified as available-for-sale investments

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists for available-for-sale securities, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in statement of comprehensive income - is removed from equity and recognised in the statement of comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in statement of comprehensive income, the impairment loss is reversed through the statement of comprehensive income.

(h) Financial liabilities

Financial liabilities are initially recognised at fair value net of transaction costs incurred, and subsequently, carried at amortised cost. Any difference between proceeds net of transaction costs and the redemption value is recognised in the statement of comprehensive income over the period of the financial liabilities using the effective interest method.

(i) Impairment of investment in subsidiaries and associates and non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, but are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(j) Fixed assets

Fixed assets are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged in the statement of comprehensive income during the financial period in which they are incurred.

Depreciation of fixed assets is calculated using the straight-line method to allocate cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Leasehold improvements	over the remaining period of lease
Furniture, fixtures and equipment	20% - 33.33%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

2 Summary of significant accounting policies (Continued)

(k) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised directly in equity. In this case the tax is also recognised in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and associate operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Income tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which profits arise. The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred taxation is charged or credited in the statement of comprehensive income except when it relates to items charged or credited directly to equity, in which case the deferred taxation is also dealt with in equity, such as the revaluation of premises.

(l) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long-service leave are recognised when they accrue to employees. An accrual is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are recognised when the absences occur.

(ii) Pension obligations

The Group contributes to defined contribution retirement schemes under either recognised ORSO schemes or MPF schemes that are available to the Group's employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries for the ORSO schemes and in accordance with the MPF rules for MPF schemes. The retirement benefit scheme costs are charged to the statement of comprehensive income as incurred and represent contributions payable by the Group to the schemes. Contributions made by the Group that are forfeited by those employees who leave the ORSO scheme prior to the full vesting of their entitlement to the contributions are used by the Group to reduce the existing level of contributions or to meet its expenses under the trust deed of the ORSO schemes.

2 Summary of significant accounting policies (Continued)

(l) Employee benefits (Continued)

(ii) Pension obligations (Continued)

The assets of the schemes are held in independently-administered funds separate from those of the Group.

(m) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(n) Translation of foreign currencies

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions are recognised directly in the statement of comprehensive income. Assets and liabilities denominated in foreign currencies are translated at the closing rate at the balance sheet date. The differences arising from translation are recognised in the statement of comprehensive income except for translation differences on non-monetary items such as equity classified as available for-sale securities are included in the investment revaluation reserve in equity.

(o) Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the statement of comprehensive income on a straight-line basis over the period of the lease.

(p) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised as a provision but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

2 Summary of significant accounting policies (Continued)

(p) Contingent liabilities and contingent assets (Continued)

A contingent asset is not recognised but is disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When the inflow is virtually certain, it will be recognised as an asset.

(q) Cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise balances with original maturity less than three months from the date of acquisition, including cash and balances with banks and other financial institutions.

(r) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if that party controls, jointly controls or has significant influence over the Group; is a member of the same financial reporting group, such as parents, subsidiaries and fellow subsidiaries; is an associate or a joint venture of the Group or parent reporting group; is a key management personnel of the Group or parents, or where the Group and the party are subject to common control. Related parties may be individuals or entities.

(s) Fiduciary activities

The Group commonly acts in a fiduciary capacity that results in the holding or placing of assets on behalf of individuals and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group.

3 Financial and operational risk management

The Group's activities are principally related to the use of financial instruments. It accepts deposits from customers, seeks to earn interest margins by investing these funds in high-quality assets and obtaining above-average margins through lending to commercial borrowers.

The Group's activities expose it to a variety of financial risks: credit risk, market risk, (including currency risk and interest rate risk) and liquidity risk. Information related to the risk the Group is exposed to and its management and control of the primary risk associated with the use of financial instruments are set out below:

3.1 Credit risk

The Group takes on exposure to credit risk, which is the risk arising from the possibility that borrowing customers or counterparties in a transaction may default on their payment obligations. It arises from the lending, trade finance, other activities undertaken by the Group.

The Group has no significant concentrations of credit risk on individual customer. Due to nature of the business of the Group, the Group has concentration on the location of its counterparties (note 3.1(b)(ii)). Nonetheless, policies and procedures for credit evaluation, approval, documentation, implementation, safekeeping, servicing, administration, collection, and impairment allowances are formalized. The task of maintaining/updating these policies and procedures is handled by a unit in the Group's parent bank. Monthly reports on non-interbank loans/receivables are rendered to the parent bank's credit administration unit. Compliance with these policies/procedures is independently reviewed by internal auditors with formal reporting on the results of examinations to board of directors of the Company.

3 Financial and operational risk management (Continued)

3.1 Credit risk (Continued)

(a) Maximum exposures to credit risk before collateral held or other enhancements are summarized as follows:

	Group		Company	
	2012	2011	2012	2011
	HK$'000	HK$'000	HK$'000	HK$'000
On-balance sheet assets				
Short-term funds	146,136	198,772	131,806	193,050
Placements with banks and other financial institutions maturing between one and twelve months	142,616	175,155	142,616	175,155
Held-to-maturity securities	166,285	166,320	166,285	166,320
Advances and other accounts	68,353	57,057	67,488	56,280
Available-for-sale securities	9,198	8,586	9,198	8,586
Off-balance sheet items				
Loan commitment and contingent liabilities	5,721	19,713	5,721	19,713
	538,309	625,603	523,114	619,104

The maximum exposure is a worst case scenario of credit risk exposure to the Group without taking account of any collateral held or other credit enhancements. For on-balance sheet assets, the maximum exposure to credit risk equals their carrying amount. For loan commitment and other credit related liabilities, the maximum exposure to credit risk is the full amount of the committed facilities.

The nature of the collateral held and other credit enhancements and their financial effect to the different classes of the Group's financial assets are as follows.

Short term funds and placements with banks and other financial institutions maturing between one and twelve months
These exposures are generally considered to be low risk due to the nature of the counterparties. Collateral is generally not sought on these assets.

Held-to-maturity securities and available-for-sale securities
Collateral is generally not sought on debt securities.

Advances and other accounts, loan commitments and contingent liabilities
The general types of collateral are investment securities and deposits. Advances and other accounts, loan commitments are collateralised to the extent considered appropriate by the Group taking account of the risk assessment of individual exposures. The advances to customers are fully collateralised. The components and nature of contingent liabilities and commitments are disclosed in Note 24. Regarding the commitments that are unconditionally cancellable without prior notice, the Group would assess the necessity to withdraw the credit line in case where the credit quality of a borrower deteriorates. Accordingly, these commitments do not expose the Group to significant credit risk.

3 Financial and operational risk management (Continued)

3.1 Credit risk (Continued)

(b) Gross advances to customers

(i) Gross advances by customer type

The Group and the Company

	2012 HK$'000	2011 HK$'000
Personal	64,002	52,998

As at balance sheet date, there are no loans and advances to customers which are past due or impaired. There are no rescheduled advances as at 31st December 2012 and 2011.

(ii) Geographical concentration of gross advances to customers

The following geographical analysis of gross advances to customers and overdue advances is based on the location of the counterparties, after taking into account the transfer of risk in respect of such advances where appropriate.

	2012 HK$'000	2011 HK$'000
The Philippines	64,002	52,998

3 Financial and operational risk management (Continued)

3.1 Credit risk (Continued)

(c) Debt securities that are neither past due nor impaired

The table below presents an analysis of debt securities by rating agency designation at 31st December, based on the Moody's ratings or their equivalent that the Group has used in relation to credit risk exposures.

The Group and the Company

2012	Financial assets through profit or loss HK$'000	Available-for-sale securities HK$'000	Held-to-maturity securities HK$'000	Total HK$'000
Aaa	-	-	-	-
Aa1 to Aa3	-	-	36,883	36,883
A1 to A3	-	8,360	9,201	17,561
Below A3 and above C	-	838	49,619	50,457
Unrated	-	-	70,582	70,582
	-	9,198	166,285	175,483

2011	Financial assets through profit or loss HK$'000	Available-for-sale securities HK$'000	Held-to-maturity securities HK$'000	Total HK$'000
Aaa	-	-	8,142	8,142
Aa1 to Aa3	-	-	29,099	29,099
A1 to A3	-	8,586	-	8,586
Below A3 and above C	-	-	50,685	50,685
Unrated	-	-	78,394	78,394
	-	8,586	166,320	174,906

There are no overdue debt securities as at 31 December 2012 (2011: nil).

3.2 Market risk

The Group takes on exposure to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

The Group's exposures to market risk for the non-trading portfolios primarily arise from the interest rate management of the Group's assets and liabilities. Non-trading portfolios also consist of foreign exchange and equity risks arising from the Group's held-to-maturity and available-for-sale investments. Analysis of the Group's currency risk and interest rate risk are stated in note 3.2(a) and 3(b) below.

3 Financial and operational risk management (Continued)

3.2 Market risk (Continued)

(a) Currency risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Except to cover transactional requirements, the Group does not hold positions for trading purposes. The Group's chief executive reviews the daily position report which is also submitted to internal and external regulatory bodies of the Group's parent bank. Violations of relevant policies/regulations are subject to sanctions.

The tables below summarise the Group's exposure to foreign currency exchange rate risk as at 31st December. Included in the tables are the Group's assets and liabilities at carrying amounts in Hong Kong dollar equivalent, categorised by the original currency.

The Group

	2012			
	HKD HK$'000	USD HK$'000	Other HK$'000	Total HK$'000
Assets				
Cash and short-term funds	39,288	66,957	40,107	146,352
Placements with banks and other financial institutions maturing between one and twelve months	33,018	77,580	32,018	142,616
Held-to-maturity securities	83,522	82,763	-	166,285
Advances and other accounts	1,427	66,727	199	68,353
Available-for-sale securities	-	9,198	-	9,198
Investment in associate	-	-	-	-
Fixed assets	98	-	-	98
Deferred tax assets	44	-	-	44
Total assets	157,397	303,225	72,324	532,946
Liabilities				
Deposits from customers	677	245,405	71,242	317,324
Balances with the ultimate holding company	50,067	-	-	50,067
Other payables	3,789	764	5	4,558
Tax payable	268	-	-	268
Total liabilities	54,801	246,169	71,247	372,217
Net on-balance sheet position	102,596	57,056	1,077	160,729
Credit commitments	-	5,721	-	5,721

3 Financial and operational risk management (Continued)

3.2 Market risk (Continued)

(a) Currency risk (Continued)

The Group

	2011			
	HKD HK$'000	USD HK$'000	Other HK$'000	Total HK$'000
Assets				
Cash and short-term funds	42,447	126,596	30,047	199,090
Placements with banks and other financial institutions maturing between one and twelve months	11,004	107,333	56,818	175,155
Held-to-maturity securities	99,480	66,840	-	166,320
Advances and other accounts	1,352	55,534	171	57,057
Available-for-sale securities	-	8,586	-	8,586
Investment in associate	-	-	-	-
Fixed assets	96	-	-	96
Deferred tax assets	87	-	-	87
Total assets	154,466	364,889	87,036	606,391
Liabilities				
Deposits from customers	423	304,826	85,415	390,664
Balances with the ultimate holding company	44,667	17,109	-	59,776
Other payables	2,387	69	-	2,456
Tax payable	269	-	-	269
Total liabilities	45,746	322,004	85,415	453,165
Net on-balance sheet position	108,720	42,885	1,621	153,226
Credit commitments	-	19,713	-	19,713

3 Financial and operational risk management (Continued)

3.2 Market risk (Continued)

(b) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of change in market interest rates.

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movement arise. The Assets and Liabilities Committee ("ALCO") regularly meets to review historical information and make forecasts. Once a month, a formal report of average rates of interest income and expenses are presented to the senior management of the Group.

The tables below summarise the Group's exposure to interest rate risk as at 31st December. Included in the tables are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates (other than non-interest bearing balances).

3 Financial and operational risk management (Continued)

3.2 Market risk (Continued)

(b) Interest rate risk (Continued)

The Group

	2012						
	Up to 1 month HK$'000	1 - 3 months HK$'000	3 - 12 months HK$'000	1- 5 years HK$'000	Over 5 years HK$'000	Non - interest bearing HK$'000	Total HK$'000
Assets							
Cash and short-term funds	146,136	-	-	-	-	216	146,352
Placements with banks and other financial institutions maturing between one and twelve months	-	43,527	99,089	-	-	-	142,616
Held-to-maturity securities	66,210	37,340	41,362	21,373	-	-	166,285
Advances and other accounts	14,007	49,995	-	-	-	4,351	68,353
Available-for-sale securities	-	-	-	9,198	-	-	9,198
Investment in associate	-	-	-	-	-	-	-
Fixed assets	-	-	-	-	-	98	98
Deferred tax assets	-	-	-	-	-	44	44
Total assets	226,353	130,862	140,451	30,571	-	4,709	532,946
Liabilities							
Deposits from customers	156,972	125,854	34,498	-	-	-	317,324
Balances with the ultimate holding company	-	-	-	-	-	50,067	50,067
Other payables	-	-	-	-	-	4,558	4,558
Tax payable	-	-	-	-	-	268	268
Total liabilities	156,972	125,854	34,498	-	-	54,893	372,217
Interest sensitivity gap	69,381	5,008	105,953	30,571	-		

3 Financial and operational risk management (Continued)

3.2 Market risk (Continued)

(b) Interest rate risk (Continued)

The Group

	2011						
	Up to 1 month HK$'000	1 - 3 months HK$'000	3 - 12 months HK$'000	1- 5 years HK$'000	Over 5 years HK$'000	Non - interest bearing HK$'000	Total HK$'000
Assets							
Cash and short-term funds	198,739	-	-	-	-	351	199,090
Placements with banks and other financial institutions maturing between one and twelve months	-	95,605	79,550	-	-	-	175,155
Held-to-maturity securities	53,430	29,099	34,711	49,080	-	-	166,320
Advances and other accounts	10,180	42,830	34	46	-	3,967	57,057
Available-for-sale securities	-	-	-	8,586	-	-	8,586
Investment in associate	-	-	-	-	-	-	-
Fixed assets	-	-	-	-	-	96	96
Deferred tax assets	-	-	-	-	-	87	87
Total assets	262,349	167,534	114,295	57,712	-	4,501	606,391
Liabilities							
Deposits from customers	158,940	125,113	106,611	-	-	-	390,664
Balances with the ultimate holding company	-	-	-	-	-	59,776	59,776
Other payables	-	-	-	-	-	2,456	2,456
Tax payable	-	-	-	-	-	269	269
Total liabilities	158,940	125,113	106,611	-	-	62,501	453,165
Interest sensitivity gap	103,409	42,421	7,684	57,712	-		

3 Financial and operational risk management (Continued)

3.2 Market risk (Continued)

(b) Market risk sensitivity analysis

(i) Currency risk

As at 31st December 2012 and 2011, the Group's foreign currency exposure is mainly to USD. As the HKD is pegged to the USD, the Group does not expect a large fluctuation caused by variations in the exchange rate.

(ii) Interest rate risk

The Group's interest rate risk mainly arises from the timing differences in the repricing of interest bearing assets, liabilities and off balance sheet positions.

The Group is principally exposed to HK dollar, US dollar, and Australian dollar in terms of interest rate risk. At 31 December 2012, if HK dollar, US dollar, and Australia dollar market interest rates had been 200 basis point lower/higher with other variables held constant, earnings of the Group over the next 12 months would be reduced/increased by HK$1,294,000 (2011: HK$1,877,000).

3.3 Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and other creditors and fulfil commitments to lend.

(a) Liquidity risk management process

The liquidity condition of the Group is monitored on a daily basis by the Company's chief executive. The balance between liquidity and profitability is carefully considered but the former is given higher priority in case of conflicts in meeting targets or regulatory requirements.

BPI INTERNATIONAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3 Financial and operational risk management (Continued)

3.3 Liquidity risk (Continued)

(b) Maturity analysis

The tables below analyse assets and liabilities of the Group as at 31st December into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

	2012							
	Repayable on demand HK$'000	Up to 1 month HK$'000	1 - 3 months HK$'000	3 - 12 months HK$'000	1 - 5 years HK$'000	Over 5 years HK$'000	Undated HK$'000	Total HK$'000
Assets								
Cash and short-term funds	59,849	86,503	-	-	-	-	-	146,352
Placements with banks and other financial institutions maturing between one and twelve months	-	-	43,527	99,089	-	-	-	142,616
Held-to-maturity securities	-	66,210	37,340	41,362	21,373	-	-	166,285
Advances and other accounts	-	15,616	51,195	353	972	-	217	68,353
Available-for-sale securities	-	-	-	-	9,198	-	-	9,198
Investment in associate	-	-	-	-	-	-	-	-
Fixed assets	-	-	-	-	-	-	98	98
Deferred tax assets	-	-	-	-	-	-	44	44
Total assets	59,849	168,329	132,062	140,804	31,543	-	359	532,946
Liabilities								
Deposits from customers	-	156,710	80,034	80,580	-	-	-	317,324
Balances with the ultimate holding company	-	-	-	50,067	-	-	-	50,067
Other payables	1,988	1,199	60	1,279	-	-	32	4,558
Tax payable	-	-	-	-	-	-	268	268
Total liabilities	1,988	157,909	80,094	131,926	-	-	300	372,217
Net liquidity gap	57,861	10,420	51,968	8,878	31,543	-	59	160,729

3 Financial and operational risk management (Continued)

3.3 Liquidity risk (Continued)

(b) Maturity analysis (Continued)

	2011							
	Repayable on demand HK$'000	Up to 1 month HK$'000	1 - 3 months HK$'000	3 - 12 months HK$'000	1 - 5 years HK$'000	Over 5 years HK$'000	Undated HK$'000	Total HK$'000
Assets								
Cash and short-term funds	37,718	161,372	-	-	-	-	-	199,090
Placements with banks and other financial institutions maturing between one and twelve months	-	-	95,605	79,550	-	-	-	175,155
Held-to-maturity securities	-	53,430	29,099	34,711	49,080	-	-	166,320
Advances and other accounts	-	12,873	42,879	151	11	-	1,143	57,057
Available-for-sale securities	–	-	-	-	8,586	-	-	8,586
Investment in associate	-	-	-	-	-	-	-	-
Fixed assets	-	-	-	-	-	-	96	96
Deferred tax assets	-	-	-	-	-	-	87	87
Total assets	37,718	227,675	167,583	114,412	57,677	-	1,326	606,391
Liabilities								
Deposits from customers	-	158,940	125,113	106,611	-	-	-	390,664
Balances with the ultimate holding company	59,776	-	-	-	-	-	-	59,776
Other payables	914	141	-	1,312	33	-	56	2,456
Tax payable	-	-	-	-	-	-	269	269
Total liabilities	60,690	159,081	125,113	107,923	33	-	325	453,165
Net liquidity gap	(22,972)	68,594	42,470	6,489	57,644	-	1,001	153,226

BPI INTERNATIONAL FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3 Financial and operational risk management (Continued)

3.3 Liquidity risk (Continued)

(c) Undiscounted cash flows by contractual maturities

The tables below presents the cash flows payable by the Group in respect of non-derivative financial liabilities by remaining contractual maturities at balance sheet date. The amounts disclosed in the tables below are the approximation of the contractual undiscounted cash flows, whereas the Group manages the inherent liquidity risk based on expected undiscounted cash flows.

The Group

	As at 31st December 2012					
	Repayable on demand HK$000	Up to 1 month HK$000	1 - 3 months HK$000	3 - 12 months HK$000	1 - 5 years HK$000	Total HK$000
Deposits from customers	-	156,710	80,034	80,580	-	317,324
Balance with ultimate holding company	-	-	-	50,067	-	50,067
Other financial liabilities	1,988	1,199	60	1,279	-	4,526
	1,988	157,909	80,094	131,926	-	371,917

	As at 31st December 2011					
	Repayable on demand HK$000	Up to 1 month HK$000	1 - 3 months HK$000	3 - 12 months HK$000	1 - 5 years HK$000	Total HK$000
Deposits from customers	-	158,940	125,113	106,611	-	390,664
Balance with ultimate holding company	59,776	-	-	-	-	59,776
Other financial liabilities	914	141	-	1,312	33	2,400
	60,690	159,081	125,113	107,923	33	452,840

(d) Off-balance sheet items

Loan commitments

The contractual amounts of the Group's off-balance sheet financial instruments as at 31st December 2012 that commit it to extend credit to customers and other facilities amounted to HK$5,721,174 (2011: HK$19,713,384) and mature within 1 year.

3 Financial and operational risk management (Continued)

3.4 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external sources. Operational risk management (ORM) involves the management of all business processes, employees and manual and automated systems to minimise the adverse effects of these risks.

The Group has put in place an internal control process that requires the establishment of policies and procedures for key business activities. Proper segregation of duties and authorisation are the fundamental principles followed by the Group. It is the duty of every employee to manage the risks inherent to his functions. The supervisors have the primary responsibility to monitor compliance with existing ORM policies, standards, guidelines and procedures.

Business continuity plans are in place to support business operations in the event of emergency or disaster.

3.5 Fair value of financial assets and liabilities

(a) Financial Instrument not measured at fair value

The financial assets and liabilities not presented at fair value in the Group's balance sheet are estimated as follows:

(i) Balances and placements with banks

The maturities of these financial assets are within one year and the carrying value approximates fair value.

(ii) Advances and other accounts

The maturities of most of the advances and other accounts are within one year and their carrying value approximates fair value.

(iii) Deposits from customers

All the deposits from customers mature within one year from balance sheet date and their carrying value approximates fair value.

(iv) Other payables and balances with the ultimate holding company

The carrying amount of other payables and balances with the ultimate holding company, which are normally repayable within one year, approximate to their fair value.

The following table summarises the carrying amounts and fair values of the financial assets and liabilities not presented on the Group's balance sheet at their fair value.

3 Financial and operational risk management (Continued)

3.5 Fair value of financial assets and liabilities (Continued)

(a) Financial Instrument not measured at fair value (Continued)

The Group

	Carrying value		Fair value	
	2012	2011	2012	2011
	HK$'000	HK$'000	HK$'000	HK$'000
Financial assets				
Held-to-maturity securities	166,285	166,320	166,934	164,283

Fair value for held-for-maturity securities is based on market prices or broker/dealer price quotations. Where this information is not available, fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

(b) Financial instruments measured at fair value

Financial instruments measured at fair value are classified into following three levels:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Valuation technique using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: Valuation technique using inputs for the asset or liability that is not based on observable market data (unobservable inputs).

The fair value of financial instruments is based on quoted prices at the balance sheet date. The quoted price used for financial assets held by the Group is the current bid price.

(i) Fair value hierarchy

	2012			
	Level 1	Level 2	Level 3	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Financial assets				
Available-for sale securities				
- Debt securities	-	9,198	-	9,198
Total	-	9,198	-	9,198

3 Financial and operational risk management (Continued)

3.5 Fair value of financial assets and liabilities (Continued)

(b) Financial instruments measured at fair value (Continued)

(i) Fair value bierarchy (Continued)

	2011			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Financial assets				
Available-for sale securities				
- Debt securities	-	8,586	-	8,586
Total	-	8,586	-	8,586

3.6 Capital management

The Group's objectives when managing capital, which is a broader concept than the "equity" on the face of balance sheets, are:

- To comply with the capital requirements under the Banking (Capital) Rule of the Hong Kong Banking Ordinance;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- To support the Group's stability and growth;
- To allocate capital in an efficient and risk based approach to optimise risk adjusted return to the shareholders; and
- To maintain a strong capital base to support the development of its business.

For the Company's funding requirements, it relies principally on time deposits from customers and parent bank as well as internally generated capital. The Company adopts a prudent policy on capital management and the funding position is monitored and reviewed regularly to ensure it is at a reasonable cost.

The Hong Kong Banking Ordinance requires each authorized institution to maintain a ratio of total regulatory capital to the risk-weighted assets (the capital adequacy ratio) at or above the minimum of 8%.

During the year ended 31st December 2011 and 2012, the Company complied with the capital requirements under the Hong Kong Banking Ordinance.

4 Critical accounting estimates and assumptions

The Group makes certain assumptions and estimates in the process of applying the Group's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Held-to-maturity securities

The Group follows the guidance of HKAS 39 on classifying on-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire class as available-for-sale. The investments would then be measured at fair value instead of amortized cost.

(b) Impairment assessment on investments in debt securities included in the available-for-sale and held-to-maturity

The Group has conducted assessment of its investments in debt securities included in the available-for-sale ("AFS"), and held-to-maturity ("HTM") categories as of the end of the year and up to the date of the approval of the financial statements of the Group. Assessment for any impairment, on individual basis, is determined based on judgement and judgement is made with reference to the financial strength and credit rating of each issuer, and industry development and market conditions. The Group has concluded that there are no objective or specific indications that any of its other AFS, and HTM securities is impaired.

(c) Income taxes

When applying the relevant tax rules, there are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. In these circumstances, judgement is involved in determining the group-wide provision for income taxes. The Group recognizes liabilities for expected tax issues based on reasonable estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognized, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

5 Interest income

	Group	
	2012 HK$'000	2011 HK$'000
Interest income on investments	4,437	3,613
Interest income on placement with banks	4,289	5,576
Other interest income	1,134	940
	9,860	10,129

6 Other operating income

	Group	
	2012	2011
	HK$'000	HK$'000
Service fees and commission income	10,928	10,038
Exchange gains	5,787	5,125
Net gain on financial assets at fair value through profit or loss	1,695	2,095
Net loss on redemption of available-for-sale securities	-	(194)
Other income	218	7
	18,628	17,071

7 Operating expenses

	Group	
	2012	2011
	HK$'000	HK$'000
Staff costs:		
- Wages and salaries	6,189	6,602
- Pension costs - defined contribution plans	202	238
- Other benefits and allowance	1,795	1,661
Rental of premises	3,776	3,423
Depreciation (Note 18)	112	106
Auditor's remuneration	885	778
Telecommunication and postage	864	824
Other operating expenses	1,721	1,584
	15,544	15,216

Staff costs include directors' emoluments (Note 8).

8 Directors' emoluments

	2012	2011
	HK$'000	HK$'000
Directors' fee	-	-
Other emoluments	869	867
	869	867

9 Income tax expense

Hong Kong profits tax has been calculated at the rate of 16.5% (2011: 16.5%) on the estimated assessable profit for the year.

The amount of taxation charged to profit of loss represents:

	Group	
	2012 HK$'000	2011 HK$'000
Current income tax		
- Hong Kong profits tax	1,420	1,116
- Under / (Over)-provision in prior years	23	(11)
Deferred taxation relating to the origination and reversal of temporary differences	10	1
Net charge to profit or loss	1,453	1,106

The taxation on the Group's profits before taxation differs from the theoretical amount that would arise using the taxation rate in Hong Kong as follows:

	Group	
	2012 HK$'000	2011 HK$'000
Profit before taxation	8,785	7,009
Calculated at a taxation rate of 16.5% (2011: 16.5%)	1,449	1,156
Income not subject to taxation	(4)	(4)
Expenses not deductible for taxation purpose	-	8
Under / (Over)-provision in prior years	23	(11)
Others	(15)	(43)
	1,453	1,106

10 Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the financial statements of the Company to the extent of HK$5,993,000 (2011: HK$5,055,000).

11 Cash and short-term funds

	Group	
	2012	2011
	HK$'000	HK$'000
Cash in hand	216	318
Cash and balances with banks and other financial institutions	59,633	37,400
Placements with banks and other financial institutions maturing within one month	86,503	161,372
	146,352	199,090

	Company	
	2012	2011
	HK$'000	HK$'000
Cash and balances with banks and other financial institutions	45,303	31,678
Placements with banks and other financial institutions maturing within one month	86,503	161,372
	131,806	193,050

12 Placements with banks and other financial institutions maturing between one and twelve months

	Group and Company	
	2012	2011
	HK$'000	HK$'000
Placements with banks and other financial institutions		
- maturing between 1 and 3 months	43,527	95,605
- maturing between 3 and 12 months	99,089	79,550
	142,616	175,155

13 Held-to-maturity securities

	Group and Company	
	2012	2011
	HK$'000	HK$'000
Debt securities		
- Listed outside Hong Kong and issued by central governments and central banks	31,868	33,731
- Listed outside Hong Kong and issued by public sector entities	-	1,605
- Unlisted and issued by banks and other financial institutions	114,653	99,480
- Listed outside Hong Kong and issued by banks and other financial institutions	17,751	15,348
- Listed outside Hong Kong and issued by banks and other financial institutions	2,013	16,156
	166,285	166,320

13 Held-to-maturity securities (Continued)

	Group and Company	
	2012	2011
	HK$'000	HK$'000
Market value of listed securities	50,878	65,407

14 Advances and other accounts

	Group		Company	
	2012	2011	2012	2011
	HK$'000	HK$'000	HK$'000	HK$'000
Advances to customers	64,002	52,998	64,002	52,998
Other accounts	4,351	4,059	3,486	3,282
	68,353	57,057	67,488	56,280

15 Available-for-sale securities

	Group and Company	
	2012	2011
	HK$'000	HK$'000
At fair value:		
Debt securities		
- Listed outside Hong Kong and issued by banks	838	-
- Listed outside Hong Kong and issued by corporate entities	8,360	8,586
	9,198	8,586

16 Investment in associate

	Group		Company	
	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000
Unlisted shares, cost	1,137	1,137	1,137	1,137
Share of losses / allowance for impairment loss	(1,137)	(1,137)	(1,137)	(1,137)
	-	-	-	-

Particulars of the associate are as follows:

Name	Country of incorporation	Percentage of issued ordinary share capital held	Principal activity
AF Capital Sdn Bhd	Malaysia	49	Dormant

No summary financial information of the associate is provided as the company is dormant.

17 Investment in subsidiaries

	Company	
	2012 HK$'000	2011 HK$'000
Unlisted shares	500	500

Particulars of the subsidiaries, all wholly owned by the Company and incorporated in Hong Kong, are as follows:

Name	Principal activity
BPI Nominees Limited	Nominee and trustee services
BPI Remittance Centre (HK) Limited	Remittance services
Begara Company Limited	Dormant
Hilldale Company Limited	Dormant

18 Fixed assets

	Group		
	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Total HK$'000
At 1 January 2011			
Cost	994	541	1,535
Accumulated depreciation	(922)	(454)	(1,376)
Net book amount	72	87	159
Year ended 31 December 2011			
Opening net book amount	72	87	159
Additions	-	43	43
Depreciation charge	(41)	(65)	(106)
Closing net book amount	31	65	96
At 31 December 2011			
Cost	994	568	1,562
Accumulated depreciation	(963)	(503)	(1,466)
Net book amount	31	65	96

	Group		
	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Total HK$'000
At 1 January 2012			
Cost	994	568	1,562
Accumulated depreciation	(963)	(503)	(1,466)
Net book amount	31	65	96
Year ended 31 December 2012			
Opening net book amount	31	65	96
Additions	-	114	114
Depreciation charge	(31)	(81)	(112)
Closing net book amount	-	98	98
At 31 December 2012			
Cost	994	625	1,619
Accumulated depreciation	(994)	(527)	(1,521)
Net book amount	-	98	98

18 Fixed assets (Continued)

	Company		
	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Total HK$'000
At 1 January 2011			
Cost	554	289	843
Accumulated depreciation	(554)	(240)	(794)
Net book amount	-	49	49
Year ended 31 December 2011			
Opening net book amount	-	49	49
Additions	-	26	26
Depreciation charge	-	(31)	(31)
Closing net book amount	-	44	44
At 31 December 2011			
Cost	554	310	864
Accumulated depreciation	(554)	(266)	(820)
Net book amount	-	44	44

	Company		
	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Total HK$'000
At 1 January 2012			
Cost	554	310	864
Accumulated depreciation	(554)	(266)	(820)
Net book amount	-	44	44
Year ended 31 December 2012			
Opening net book amount	-	44	44
Additions	-	44	44
Depreciation charge	-	(44)	(44)
Closing net book amount	-	44	44
At 31 December 2012			
Cost	554	341	895
Accumulated depreciation	(554)	(297)	(851)
Net book amount	-	44	44

19 Deposits from customers

	Group		Company	
	2012	2011	2012	2011
	HK$'000	HK$'000	HK$'000	HK$'000
Time, call and notice deposits	317,324	390,664	320,677	400,016

20 Deferred taxation

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 16.5% (2011: 16.5%).

The movement on the deferred tax assets/ (liabilities) is as follows:

	Group and Company	
	2012	2011
	HK$'000	HK$'000
At 1st January	87	54
Recognised in the statement of comprehensive income	(43)	33
At 31st December	44	87

As at 31st December 2012, deferred tax assets/(liabilities) on the balance sheet is comprised of temporary differences from investment revaluation reserves for available-for-sale investments and accelerated tax depreciation.

Deferred tax asset/(liabilities)

	Group and Company					
	Investment revaluation reserve for available-for-sale securities		Accelerated tax depreciation		Total	
	2012	2011	2012	2011	2012	2011
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1st January	16	(18)	71	72	87	54
Recognised in the statement of comprehensive income	(33)	34	(10)	(1)	(43)	33
At 31st December	(17)	16	61	71	44	87

As at 31st December 2012, deferred tax assets of HK$61,000 are to be recovered after more than 12 months (2011: HK$87,000). Deferred tax liabilities of HK$17,000 are to be settled after more than 12 months (2011: HK$Nil)

21 Share capital

	2012 HK$'000	2011 HK$'000
Authorized:		
100,000,000 ordinary shares of HK$1 each	100,000	100,000
Issued and fully paid:		
75,000,000 ordinary shares of HK$1 each	75,000	75,000

22 Reserves

The Group's and the Company's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity and statement of changes in equity respectively on pages 8 to 9 of the financial statements.

23 Lease commitments

At 31st December the future aggregate minimum lease payment under non-cancellable operating leases in respect of the premises is as follows:

	Group		Company	
	2012 HK$'000	2011 HK$'000	2012 HK$'000	2011 HK$'000
No later than one year	4,472	3,002	2,305	1,471
Later than one year and no later than five years	2,840	1,097	1,303	93
	7,312	4,099	3,608	1,564

24 Off-balance sheet exposures

Contingent liabilities and commitments

The following is a summary of the contractual amounts of each significant class of contingent liability and commitment as at 31st December:

Group and Company

	2012 HK$'000	2011 HK$'000
Trade-related contingencies	-	-
Other commitments with an original maturity of under 1 year or which are unconditionally cancellable	5,721	19,713
	5,721	19,713

24 Off-balance sheet exposures (Continued)

The credit risk weighted amount of credit commitments is HK$Nil (2011: HK$Nil).

The Group has no bilateral netting arrangements with its counterparties.

25 Loans to officers

There is no loan made to officers as pursuant to section 161B and 161BA of the Hong Kong Companies Ordinance.

26 Related party transactions

(a) Group companies

Included in the following are transactions and balances with group companies.

	Note	Group 2012 HK$'000	Group 2011 HK$'000	Company 2012 HK$'000	Company 2011 HK$'000
Ultimate holding company:					
Cash and balances with banks and other financial institutions	(i)	36,098	8,056	36,027	8,023
Balances with the ultimate holding company	(ii)	(50,067)	(59,776)	(50,067)	(59,776)
		(13,969)	(51,720)	(14,040)	(51,753)

Note

(i) Bank balances with the ultimate holding company are at commercial terms. During the year, interest income of HK$250,000 (2011: HK$350,000) was recognised in the statement of comprehensive income.

(ii) Balances are unsecured, interest-free and repayable within 1 year.

(b) Key management compensation

	2012 HK$'000	2011 HK$'000
Salaries and other short-term benefits	869	867

27 Note to the cash flow statement

Reconciliation of profit before taxation to net cash outflow from operating activities:

	2012 HK$'000	2011 HK$'000
Profit before taxation	8,785	7,009
Net interest income	(5,701)	(5,154)
Depreciation of fixed assets	112	106
Net gain on redemption of available-for-sale securities	-	194
Interest received	13,635	11,674
Interest paid	(4,042)	(4,911)
Operating cash inflow before changes in operating assets and liabilities	12,789	8,918
Change in placements with banks and other financial institutions with original maturity over three months	(29,698)	6,707
Change in advances and other accounts	(11,288)	(6,188)
Change in financial assets at fair value through profit or loss	-	621
Change in balances with the ultimate holding company	(9,709)	2,254
Change in deposits from customers	(73,457)	(15,141)
Change in other payables	2,102	(14,768)
Net cash outflow from operating activities	(109,261)	(17,597)

28 Immediate and ultimate holding company

The immediate and ultimate holding company is Bank of the Philippine Islands, a bank incorporated and listed in the Republic of the Philippines.

29 Approval of financial statements

The financial statements were approved by the board of directors on 26 April 2013.

BPI INTERNATIONAL FINANCE LIMITED

UNAUDITED SUPPLEMENTARY INFORMATION

The following information is disclosed as part of the accompanying information to the financial statements and does not form part of the audited financial statements.

1 Capital adequacy and liquidity ratios

	2012	2011
Capital adequacy ratio	66.14%	60.88%
Core capital ratio	65.40%	60.24%
Liquidity ratio	365.43%	203.81%

The capital adequacy ratio as at 31st December 2012 represents the consolidated ratio of the Company and a subsidiary computed in accordance with the Banking (Capital) Rules.

The liquidity ratio is calculated as the simple average of each calendar month's average liquidity ratio for the twelve months of the financial year of the Company computed in accordance with the Fourth Schedule to the Banking Ordinance.

2 Components of capital base after deductions

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

	2012 HK$'000	2011 HK$'000
Core capital:		
Paid up ordinary share capital	75,000	75,000
Reserves	76,567	70,613
Statement of comprehensive income	7,452	5,843
Net deferred tax assets	(78)	(87)
Total core capital	158,941	151,369
Supplementary capital:		
Reserve on revaluation of AFS securities	105	(99)
Regulatory reserve	1,692	1,692
Total supplementary capital	1,797	1,593
Total capital base	160,738	152,962

2 Components of capital base after deductions (Continued)

Risk-weighted amount for credit, market and operational risks

(a) Risk-weighted amount for credit risk

The Group uses the basic approach for calculation of credit risk.

	2012 HK$'000	2011 HK$'000
Sovereign exposures	31,868	33,731
Public Sector Entity exposures	-	1,605
Bank exposures	93,166	103,763
Other exposures	77,177	76,494
Total risk-weighted amount for on-balance sheet exposures	202,211	215,593
Transaction-related contingencies	-	-
Trade-related contingencies	-	-
Total risk-weighted amount for off-balance sheet exposures	-	-
Total risk-weighted amount for credit risk	202,211	215,593

(b) Risk-weighted amount for market risk

The Group is exempted from the calculation of market risk in 2011 and 2012.

(c) Risk-weighted amount for operational risk

The Group uses the basic indicator approach for calculation of operational risk.

	2012 HK$'000	2011 HK$'000
Risk-weighted amount for operational risk	40,800	35,675

3 Currency concentrations

Equivalent in Hong Kong dollars	EUR HK$'000	US$ HK$'000	GBP HK$'000	AUD HK$'000	Total HK$'000
2012					
Spot assets	1,971	306,617	1,634	68,647	378,869
Spot liabilities	(1,513)	(249,521)	(1,491)	(68,242)	(320,767)
Net long position	458	57,096	143	405	58,102
Net structural position		-			-
2011					
Spot assets	5,194	368,230	1,815	79,990	455,229
Spot liabilities	(4,969)	(325,351)	(1,431)	(79,016)	(410,767)
Net long position	225	42,879	384	974	44,462
Net structural position		-			-

4 Segmental information

(i) By geographical areas

Information has been classified according to the location of the principal operations of the Company. All of the Company's principal operations are conducted in Hong Kong.

BPI INTERNATIONAL FINANCE LIMITED

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

4 Segmental information (Continued)

(ii) Advances to customers

Gross advances to customers by industry sectors

	2012 HK$'000	2011 HK$'000
Loans for use in Hong Kong		
- Individuals - others	-	-
Loans for use outside Hong Kong	64,002	52,998
	64,002	52,998
Trade finance	-	-
	64,002	52,998

Gross advances to customers by geographical area

	2012 HK$'000	2011 HK$'000
Residential status of customers:		
Hong Kong	-	-
The Philippines	64,002	52,998
	64,002	52,998

The above gross advances only include gross advances to customers and staff loans provided by subsidiaries are excluded.

4 Segmental information (Continued)

(iii) Cross-border claims

	Banks and other financial institutions HK$'000	Public sector entities HK$'000	Others HK$'000	Total HK$'000
As at 31st December 2012				
Asia Pacific excluding Hong Kong				
of which Australia	88,000	-	-	88,000
of which Philippines	48,000	-	98,000	146,000
of which Singapore	91,000	-	-	91,000
of which India	8,000	-	-	8,000
of which Japan	46,000	-	-	46,000
of which China	69,000	-	-	69,000
of which Korea	9,000	-	-	9,000
North America				
of which United States	41,000	-	-	41,000
of which Canada	-	-	-	-
Europe				
of which France	8,000	-	-	8,000
As at 31st December 2011				
Asia Pacific excluding Hong Kong				
of which Australia	151,000	-	-	151,000
of which Philippines	16,000	2,000	103,000	121,000
of which Singapore	77,000	-	-	77,000
of which India	8,000	-	-	8,000
of which Malaysia	76,000	-	-	76,000
North America				
of which United States	29,000	-	-	29,000
of which Canada	62,000	-	-	62,000
Europe				
of which France	-	-	-	-

The above geographical analysis takes into account the effect of transfer of risk.

4 Segmental information (Continued)

(iv) By class of business

The Company is primarily engaged in Retail and Corporate business, and Treasury activities.

Retail and Corporate business mainly covers deposit taking, consumer finance and securities services.

Treasury activities relate to the managing of capital, liquidity, interest rate and foreign exchange positions of the Company in addition to proprietary trades.

Business segments

2012	Retail and Corporate business HK$'000	Treasury HK$'000	Others HK$'000	Group HK$'000
Interest income - external	5,390	4,470	-	9,860
Interest expense - external	(4,159)	-	-	(4,159)
Net interest income	1,231	4,470	-	5,701
Net fees and commission income	10,928	-	-	10,928
Other operating income	7,700	-	-	7,700
Operating income	19,859	4,470	-	24,329
Operating expenses	(15,544)	-	-	(15,544)
Profit before taxation	4,315	4,470	-	8,785
Depreciation and amortisation charge	-	-	112	112
Segment assets				
Total assets	352,970	175,483	4,493	532,946
Segment liabilities				
Total liabilities	317,324	50,067	4,826	372,217

4 Segmental information (Continued)

(iv) Business segments (Continued)

2011	Retail and Corporate business HK$'000	Treasury HK$'000	Others HK$'000	Group HK$'000
Interest income - external	6,484	3,645	-	10,129
Interest expense - external	(4,975)	-	-	(4,975)
Net interest income	1,509	3,645	-	5,154
Net fees and commission income	10,038	-	-	10,038
Other operating income	7,033	-	-	7,033
Operating income	18,580	3,645	-	22,225
Operating expenses	(13,892)	(1,324)	-	(15,216)
Profit before taxation	4,688	2,321	-	7,009
Depreciation and amortisation charge	-	-	106	106
Segment assets				
Total assets	427,569	174,907	3,915	606,391
Segment liabilities				
Total liabilities	391,948	59,776	1,441	453,165

5 Overdue and rescheduled loans

There were no overdue and rescheduled loans and repossessed assets as at 31st December 2012 (2011: Nil).

6 Corporate governance

The Company has fully complied with the requirements set out in the guideline on "Corporate Governance of Locally Incorporated Authorized Institutions" issued by the Hong Kong Monetary Authority.

Board of Directors

The Board of Directors is ultimately responsible for the operations and the financial soundness of the Company. The ultimate goal of which is to meet its overall responsibility to all its shareholders, depositors, creditors, employees and other stakeholders. The responsibilities include the following:

(a) Ensure competent management

- Appoint a chief executive with integrity, technical competence, and experience in banking business which enables him/her to administer the Company's affairs effectively and prudently.
- Oversee the appointment of other senior executives such as the division heads and the Head of internal audit.
- Approve the management succession policy of the Company.
- Effectively supervise senior management's performance on an ongoing basis.

(b) Approve objectives, strategies and business plans

- The Company shall establish its objectives and draw up a business strategy for achieving them.
- Consistent with the Company's objectives, business plans shall be established to direct the on-going activities of the Company.
- The Board of Directors shall approve these objectives, strategy and business plans, and ensure that performance against plan is regularly reviewed.
- The Board of Directors shall approve annual budgets and review performance against these budgets.

(c) Ensure that the operations of the Company are conducted prudently, and within the framework of applicable laws and policies

- The Board of Directors shall ensure that the internal control systems of the Company are effective and that the Company's operations are properly controlled and comply with policies approved by the Board as well as with laws and regulations.
- The Board of Directors are ultimately responsible for ensuring that the Company complies with laws and regulations, in particular the Hong Kong Banking Ordinance.

6 Corporate governance (Continued)

Board of Directors (Continued)

(d) Ensure and monitor that the Company conducts its affairs with a high degree of integrity

- The Board of Directors shall ensure that the Company observes a high standard of integrity in its dealings with the public.
- Particular case shall be taken to comply with laws and regulations of statutory bodies in order to ensure the Company conducts its affairs with a high degree of integrity.
- The Board of Directors shall ensure that the Company's remuneration policy is consistent with its ethical values, objectives, strategies and control environment.
- The Board of Directors shall approve a set of ethical values which are communicated throughout the Company such as code of conduct.
- The Board of Directors shall establish policies and procedures to ensure compliance with ethical values.

Audit Committee

The Company's internal audit functions are subject to the direct supervision of the audit committee of the Company's ultimate holding company, Bank of the Philippine Islands.

Other Specialised Committees

The following committees have been established by the Company:

(a) Executive Committee

The Board of Directors of the Company serves as the Executive Committee of the Company.

It executes resolutions adopted in any stockholders' meetings, while the Company adopts business direction from the Board of Directors of the Company.

(b) Credit Committee

Credit Committee ensures that the Company's lending policy is adequate and lending activities are conducted in accordance with established policies and relevant laws and regulations. It also ensures that the Company's credit approval process is properly proceeded.

The Credit Committee has five members, one of them is presently a member of the Board of the Company.

6 Corporate governance (Continued)

Other Specialised Committees (Continued)

(c) Assets and Liability Committee

The Asset and Liability Committee (ALCO) manages the Company's assets and liabilities. Specifically, its objective is to plan, direct and control the levels, mix, volume and spreads on the various balance sheet and off balance sheet accounts. Aside from developing balance sheet strategies, the ALCO reviews and updates existing policies and guidelines and makes the necessary adjustments as needed to adapt to the changing financial environment.

This committee meets on a regular basis to discuss market developments, financial performance and risk and compliance issues and other matters relevant to the Company's business of managing house and clients' funds.

The ALCO members are: the Chief Executive, the Treasury Head, and the Compliance/Risk Management Head.

Remuneration

The Company adopts the remuneration policy and practices formulated by its parent bank, Bank of the Philippine Islands (BPI).

The objective of the Company's remuneration policy is to encourage employee behavior that supports the Company's risk tolerance, risk management framework and long-term financial soundness. It is in line with the objectives, business strategies and long-term goals of the Company and structured in a way that will not encourage excessive risk-taking by employees but allows the Company to attract and retain employees with relevant skills, knowledge and expertise to discharge their specific functions.

In response to the Hong Kong Monetary Authority's Supervisory Policy Manual, "Guideline on a Sound Remuneration System" (the "Guideline") issued in March 2010, the Company conducted a review of the BPI's existing remuneration policy, and which study was certified by the Company's Board, in its December 2010 meeting, as substantially in compliance with the guideline. On 4 December 2012, the parent bank's Human Resources Head issued a certification on the Company's compliance with the Guideline on Sound Remunerations System. This certification was submitted to the HKMA.

Below are some relevant Policies:

- Governance
  The Personnel & Compensation Committee is a BPI Board level committee that reviews and approves BPI's remuneration policy. The consistent, continuing implementation of the policy shall be the responsibility of the Board and the local compliance unit. An annual review of the policy shall be conducted and passed upon by the Board to ensure compliance with the guideline.

- Remuneration Structures
  No variable remuneration and special payouts are provided to the Company's employees. A fixed monthly salary is paid instead.

6 Corporate governance (Continued)

Remuneration (Continued)

- Performance Measurement
  A Performance & Planning Review (PPR) is conducted annually. This review includes all employees of the Company. A PPR is prepared and finalized by all employees at the beginning of year and approved by each employee's supervisor. The PPR details the employees' key result areas or expected deliverables for the year described in quantifiable terms. The PPR is used to evaluate the performance of each employee for the past year ending in June of each year. The PPR rating is the basis for the Company's annual merit increase.

- Senior Management and Key Personnel Compensation
  The aggregate fixed income payouts of the four members of senior management and key personnel of the Company (in accordance with the disclosure requirement of 3.2.3 of the Guideline) was HK$3,031,000 for 2012 (2011: HK$2,861,000).

  There were no variable remuneration and deferred remuneration for 2012.