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2016 FINAL RESULTS

RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

HIGHLIGHTS

- Operating profit after impairment allowances amounted to HK\$1,487 million, an improvement of 29% year-on-year.
- Net interest margin was up by 13 basis points to 1.66%.
- Profit before tax was 19% higher than 2015 to HK\$1,684 million.
- Profit attributable to equity owners amounted to HK\$1,420 million, an increase of 19% over that of last year.
- Cost to income ratio further improved to 45.90%.
- Return on shareholders' equity of 9.61% (10.43% in 2015) and earnings per share of HK\$1.94 (HK\$2.06 per share in 2015).
- Total assets increased by 8% to HK\$137.8 billion.
- Total dividends for the financial year of 2016, including the interim cash dividend of HK\$0.15 per share paid in September 2016, amounted to HK\$0.54 per share (2015 total dividends: HK\$0.58 per share).
- Total dividend payout as a percentage of an adjusted profit attributable to equity owners less the distribution paid on the additional equity instruments will be 35.1%.
- Total capital ratio decreased from 17.73% in December 2015 to 16.32% in December 2016, the Tier 1 capital ratio was at 14.16% and the Common Equity Tier 1 capital ratio was at 11.81%.

The board of directors (the “Board”) of Chong Hing Bank Limited (the “Bank” or “Chong Hing Bank”) is pleased to announce the consolidated results of the Bank and its subsidiaries (the “Group”) for the year ended 31 December 2016, together with the comparative figures for the corresponding year in 2015. The financial information in this announcement is based on the audited consolidated financial statements of the Group and does not constitute the Group’s statutory accounts for the year ended 31 December 2016. The 2016 final results have been reviewed by the Audit Committee of the Bank.

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CHAIRMAN'S STATEMENT

Since becoming a member of Yue Xiu Group, Chong Hing Bank has persistently delivered outstanding results. 2016 was an important year for the Bank as it embarked upon a five-year strategic plan to establish its long-term development direction and derive synergies with better efficiency. The Bank has defined its corporate vision of becoming an “integrated commercial bank with cross-border expertise”, and has a solid plan to achieve its goal.

The year of 2016 started with slower economic growth in the Mainland and Hong Kong and loan demand fell. In the second half of 2016, the Hong Kong stock market performed better and loan demand improved despite rising interest rates and depreciation of the Renminbi exchange rate against the US dollar. Against this background, I am pleased to announce that, in 2016, Chong Hing Bank's core business lines and overall financial health remained strong, asset quality was sound and profitability from core business had increased. Operating profit after impairment allowances was HK\$1,487 million, an improvement of 29% from last year. Profit attributable to equity owners amounted to HK\$1,420 million and earnings per share was HK\$1.94 (2015: HK\$2.06 per share). The increase in the number of shares by 50% after the rights issue in the third quarter of 2015 led to a slight decline in earnings per share. The Board has considered that it is prudent to preserve the Bank's capital so as to better satisfy the new requirements under “Basel III”. Hence, the Board has recommended the payment of the final cash dividend of HK\$0.39 per share for the year. When the dividend level was considered, the foreign exchange translation gains (net of tax) included in net trading income and net gains (net of tax) on non-core assets (as explained in the Managing Director's Statement) were excluded. The earnings excluding these net gains on foreign exchange translation and non-core assets would be HK\$1.54 per share (2015: HK\$1.67 per share). The total dividend payout for the year as a percentage of this adjusted profit attributable to equity owners less distribution paid on the additional equity instruments will be 35.1% (2015: 39.5%).

The major financial ratios for 2016 are as follows:

- Return on shareholders' equity: 9.61%
- Average liquidity maintenance ratio: 40.59%
- Total capital ratio: 16.32% as of 31 December 2016
- Tier 1 capital ratio: 14.16% as of 31 December 2016
- Loan to deposit ratio: 67.40% as of 31 December 2016

Guangzhou, the southern gate to China and home base of the Yue Xiu Group, has been actively developing its financial industry in recent years. Leveraging on the strength of the Yue Xiu Group, the Bank opened a sub-branch in Tianhe, Guangzhou in October 2014, and opened a new chapter for Chong Hing Bank's development in the Mainland. On 9 May 2016, the Bank opened its Guangzhou Branch to oversee the network of branches in the Mainland. This solidifies the Bank's development plans in the Mainland.

Following in the footsteps of the "Shanghai-Hong Kong Stock Connect" and the "Mainland-Hong Kong Mutual Recognition of Funds" arrangements, the "Shenzhen-Hong Kong Stock Connect" was officially launched on 5 December 2016. The "Shenzhen-Hong Kong Stock Connect" represents another important breakthrough for the cooperation mechanism between the capital markets in Hong Kong and the Mainland, and further deepens the mutual access between the two markets. It also deepens Hong Kong's ability to better serve as a global offshore Renminbi business hub and an international asset management centre, with a view to facilitating the development of the financial industries here and in the Mainland. To ride on the rapid development of Shenzhen in recent years, on 30 November 2016, the Bank opened a branch in Shenzhen. Benefiting from Shenzhen's proximity to Hong Kong and leveraging on its financial sector's openness to innovation and development, the Shenzhen Branch demonstrates the Bank's cross-border capabilities in Guangdong and Hong Kong. It also paves the way for ongoing expansion in the Mainland with a focus on professional and speciality banking, as well as service differentiation.

Before 2014, the Bank's presence in the Mainland was limited to one branch in Shantou. After active expansion, the Bank now has a 3+4 outlet structure in the Pearl River Delta, comprising 3 branches and 4 sub-branches. In the coming years, subject to regulatory approval, Chong Hing Bank aims at opening more cross-location sub-branches in other key cities in Guangdong Province, as well as branches in other cities in the Mainland. The Bank will endeavour to accomplish its vision of becoming an integrated commercial bank with cross-border expertise.

China is the world's second-largest economy. Although its annual economic growth has slowed after climbing to over 10% in 2010, China aims at achieving medium-high economic growth through the implementation of sustainable development strategies, including structural reforms and industrial upgrading and transformation. In 2016, China's economy continued its steady growth and gross domestic product increased by 6.7%. In 2017, there will be numerous challenges in the global environment: the potential instability of Brexit, the commencement of the rate hike cycle, the start of presidential transition in the United States, an economic slowdown in Europe, and general elections in Germany, France and the Netherlands scheduled in the year ahead. These uncertainties will affect the overall business environment in Hong Kong. Chong Hing Bank will properly position itself to face the challenges, identify new business opportunities and continue to grow its business without compromising on risk and control.

China's "One Belt, One Road" foreign policy will give rise to greater demand for infrastructure investment and financing, green finance and other related services. The Infrastructure Financing Facilitation Office (IFFO) of the Hong Kong Monetary Authority has entered into a memorandum of understanding on infrastructure financing facilitation with the Export-Import Bank of China and the China Development Bank Corporation (CDB). Hong Kong, in view of its location and expertise, should benefit from its initiative, and participate in and facilitate the financing of infrastructure projects which may arise. As of October 2016, CDB's asset in Hong Kong exceeded US\$50 billion and it has, through Hong Kong, commenced 29 infrastructure projects with investments of over US\$5 billion in the Belt and Road countries. Hong Kong is an international financial centre serving as a platform to provide investment and financing opportunities for overseas infrastructure

projects. The financial and banking industries in Hong Kong will benefit from the opening of cross-border investment channels. In view of this development, Chong Hing Bank will speed up its transformation reforms, broaden its product range, enhance its financial service capacities and risk management abilities, and better capture cross-border financial business opportunities.

Despite the volatile environment in 2016, the Bank has continued to deliver satisfactory results. I would like to express my gratitude to all the Directors of the Bank for their valuable guidance and assistance, and would like to thank the management team and all our staff members for their collaborative efforts, dedication and tireless contributions, which helped the Bank to achieve steady growth. On behalf of the Board, I wish to convey my sincere appreciation to our shareholders, customers and business partners for their patronage and support. Guided by its corporate mission, “to benefit shareholders, employees, customers and society”, I am confident that Chong Hing Bank will continue to reach new heights in the future.

Lastly, Mr Chiranakhorn Wanchai, an Independent Non-executive Director of the Bank, passed away on 23 January 2017. The Board, Management and staff of Chong Hing Bank are deeply saddened at his departure. He had been a great asset to the Board and to the Group, and his wise counsel, guidance and valuable contributions will be sorely missed.

Zhang Zhaoxing

Chairman

Hong Kong, 28 February 2017

MANAGING DIRECTOR'S STATEMENT

GLOBAL ECONOMY

2016 had been a turbulent year, both in the political front and the economic front.

In June, the United Kingdom (UK) shocked the world with the vote to exit the European Union (EU). The result of the referendum caused such severe volatility in financial markets that international rating agencies immediately downgraded the UK's outlook to negative. In July, Theresa May took over as the country's new Prime Minister following the resignation of David Cameron. In January 2017, she set out her Brexit blueprint. She pledged to take Britain out of the EU single market. A final Brexit proposal, however, would have to be put to a vote in the parliament. At the end of 2016, a constitutional referendum in Italy, the third-largest economy in the Eurozone, was rejected with 60% of voters casting ballots against it. Prime Minister Matteo Renzi immediately announced his resignation amidst a growing countrywide urge to leave the EU. Despite the decision of the Bank of England to cut rates and expand the size of its quantitative easing (QE) programme in August, and the European Central Bank's decision to extend its QE programme at its last rate-fixing meeting in 2016, it is believed that Brexit negotiations and general elections in several European countries in 2017 will continue to make the outlook of the UK and EU, as well as the global economy, uncertain.

In November, the presidential election in the United States (US) also surprised the world when Donald Trump defeated Hillary Clinton and won the presidency. On the same day, global stock markets and foreign exchange markets experienced extreme volatility and the futures on the Dow Jones Index fell by more than 800 points. Nonetheless, the US dollar strengthened significantly and started a new upward trend as the market expected Trump to introduce an expansionary fiscal policy and revitalise the US economy. On 14 December, the US Federal Reserve Board (FRB) held a rate-fixing meeting and unanimously decided to increase the federal funds rate by 0.25%, putting it between 0.5% and 0.75%. This marked the first rate hike of 2016 and the second since the 2008 financial crisis. The FRB emphasised it would closely monitor the development of global economic and financial markets and that the pace of future rate hikes will be gradual. With the US entering the rate hike cycle and the Trump effects, capital continuously flowed back to the country, leading to a surge in the US dollar. Since then, the three major US stock indices have hit record highs and the Dow Jones Index has risen by 8% overall.

In Japan, economic performance remained disappointing. In January 2017, the Bank of Japan held a rate-fixing meeting and decided to maintain its deposit interest rate at -0.1%, and expected economic recovery to continue to be moderate. In China, despite complex and challenging economic and financial situations at home and abroad, the Chinese Central Government adhered to its new development concept with the aim to make progress while ensuring stability. The country's economic growth reached 6.7% in 2016, and laid a sound foundation for the "13th Five-Year Plan". The Renminbi depreciated for the third consecutive year and the People's Bank of China (PBoC) continued to implement its prudent monetary policy to maintain financial stability. It also used foreign exchange reserves to stabilise the Renminbi exchange rate. As a result, the size of China's foreign exchange reserves decreased by approximately US\$319.8 billion to US\$3,010.5 billion as at the end of December 2016 and the CNY/USD exchange rate dropped by more than 6% during the year. However, it is believed the international demand for additional Renminbi assets will increase as the "One Belt, One Road" policy accelerates. Moreover, its formal inclusion in the Special Drawing Rights currency basket of the International Monetary Fund on 1 October 2016 keeps the Renminbi exchange rate stable.

Affected by the external environment, Hong Kong experienced great volatility in 2016. After suffering economic setback in the first quarter, the economy began recovering in the second quarter and continued in the third quarter. In the third quarter, the international trade environment further stabilised and Hong Kong's goods exports grew by 1.9% year-on-year, and total investment manifested a strong rebound with a year-on-year increase of 6%. Visitor arrivals to Hong Kong, however, continued to decline, causing a 1.8% drop in the export of services year-on-year. For the full year, hindered by the economic downturn, the value of Hong Kong's total retail sales fell by 8.1% compared with 2015. Gross domestic product for the year increased by 1.9% in real terms compared with 2015. Unemployment rate, however, remained low at 3.3%. Property prices resumed its upward trend in 2016. In an attempt to prevent further price hikes and fear of a housing bubble, the Hong Kong Government increased the ad valorem stamp duty rates for residential property transactions to a flat rate of 15% on 4 November. Nevertheless, housing prices continued to rise. The private domestic housing price index for the month of November hit an all-time high and broke a record set in September 2015 after increasing for eight consecutive months. The number of property registration in the entire market in 2016 decreased by approximately 4.1% to 73,004, compared with 2015. The Hong Kong stock market had been volatile with the Hang Seng Index (HSI) fluctuating between 18,278 and 24,364 points during the year, and ended the year at 22,000 points, up by 86 points year-on-year.

RESULTS ANNOUNCEMENT AND PROFIT ANALYSIS

The results for the financial year of 2016 of the Bank, on a consolidated basis, are summarised below:

Key Financial Data	31 December (12 months)		Variance %
	2016 HK\$'000	2015 HK\$'000	
1. Operating profit after impairment allowances	1,486,942	1,155,209	+28.72
2. Profit attributable to equity owners	1,419,704	1,193,136	+18.99
3. Return on shareholders' equity (Note 1)	9.61%	10.43%	-7.86
4. Earnings per share (Note 2)	HK\$1.94	HK\$2.06	-5.83
5. Net interest income	2,044,800	1,778,835	+14.95
6. Net interest margin	1.66%	1.53%	+8.50
7. Net fee and commission income	259,584	306,017	-15.17
8. Net trading income (Note 3)	230,059	63,615	+261.64
9. Other operating income	139,853	143,247	-2.37
10. Operating expenses	1,227,552	1,113,757	-10.22
11. Net reversal (charge) of impairment allowances on loans and advances	40,198	(22,748)	-
12. Cost to income ratio (Note 3)	45.90%	48.60%	-5.56
13. Average liquidity maintenance ratio	40.59%	39.46%	+2.86
	As of 31 December 2016 HK\$'000	As of 31 December 2015 HK\$'000	Variance %
14. Total loans and advances to customers	70,689,155	63,600,012	+11.15
15. Impaired loan ratio	0.07%	0.04%	+75.00
16. Non-performing loan ratio	0.64%	0.36%	+77.78
17. Provision coverage of impaired loans and advances	602.98%	1,086.86%	-44.52
18. Total customer deposits	102,880,629	99,392,364	+3.51
19. Loan to deposit ratio (Note 4)	67.40%	59.01%	+14.22
20. Investments in securities	29,727,952	31,486,824	-5.59
21. Total assets	137,772,051	127,837,646	+7.77
22. Net asset value per share (excluding additional equity instruments and before the final dividend)	HK\$20.85	HK\$19.61	+6.32
23. Total capital ratio	16.32%	17.73%	-7.95
24. Tier 1 capital ratio	14.16%	15.22%	-6.96
25. Common Equity Tier 1 capital ratio	11.81%	12.60%	-6.27

Notes: 1. Return on shareholders' equity took into consideration the coupon of the additional equity instruments relevant for the period.

2. Earnings per share was calculated after deducting the distribution paid on the additional equity instruments in the year.

3. During the year, net gains on disposal of the available-for-sale debt securities derived from the financial market activities were included in the net trading income of the Bank. This is to be in line with the current business model of the Bank. Comparative figures have been reclassified to ensure information is provided on a basis consistent with the current year's presentation.

4. Loan to deposit ratio was calculated as advances to customers less trade bills over deposits from customers plus certificates of deposits.

ANALYSIS OF KEY FINANCIAL DATA

In 2016, operating profit after impairment allowances increased by 29% year-on-year to HK\$1,487 million. Profit attributable to equity owners of the Bank reached HK\$1,420 million, a 19% increase over last year.

Net interest income increased by 15% to HK\$2,045 million. The Bank was able to reduce interest expenses after the rights issue in September 2015 and through proactive management of our assets and liabilities, we contained our interest expenses on deposits, which enabled the Bank to achieve a 23% saving in overall interest costs compared to the same period last year. This led to an increase in net interest income and improved net interest margin by 13 basis points to 1.66%.

Net fee and commission income fell by 15% to HK\$260 million. This was mainly due to a drop in securities brokerage fees to HK\$109 million, as the Hong Kong stock market recorded a 37% decline in the trading volume when compared to last year. The drop in brokerage income was partially offset by a 77% growth in agency fees mainly through increased sale of life insurance and unit trust products to customers.

Net trading income reached HK\$230 million. This was primarily due to healthy growth in customer related dealings in foreign currencies. This also included translation gains of HK\$126 million in relation to our operations in the Mainland.

Costs were prudently managed. The Bank strived for efficiency gains and at the same time invested in talents and systems to support business growth and expansion into the Mainland.

Operating expenses increased by 10% in 2016, within which staff costs increased by 7%. As the increase in operating income exceeded the increase in operating expenses, cost to income ratio improved by 270 basis points from 48.60% to 45.90%.

Net impairment allowances on loans and advances were net reversal of HK\$40 million this year, as compared to a net charge of HK\$23 million last year. A total of HK\$69 million of impairment allowances was reversed after recoveries from various customers.

Similar to 2015, certain assets which were not considered essential to the core business lines had been sold. As a result, net gains on disposal of non-core assets including property and other investments, net of impairment loss on available-for-sale securities, amounted to HK\$176 million. These net gains, however, were HK\$56 million less than a total gain of HK\$232 million in 2015.

Profit attributable to equity owners amounted to HK\$1,420 million, an increase of 19% over that for last year, translating into return on shareholders' equity of 9.61% and earnings per share of HK\$1.94. Excluding the net gains (net of tax) from the foreign currency translation and the net gains on non-core assets both explained above, the profit attributable to equity owners would have been HK\$1,158 million, and the increase would be 16% over similar profit for last year.

Total loans and advances to customers increased by 11% or HK\$7,089 million to HK\$70.7 billion. Of the increase, the growth in non-trade related advances rose by 19% or HK\$11 billion to HK\$69.3 billion, with noticeable growth in term loans, syndication loans and foreign currency loans. However, as a result of the depreciation of Renminbi against the US dollar and the reduction in interest rates in the Mainland, the volume of trade bills rediscounting in the market dwindled, and the Bank's trade bills balance reduced by 83% year-on-year to HK\$802 million. With prudent management on credit risk exposure, the credit quality of advances continued to be sound with impaired loan ratio at 0.07%, non-performing loan ratio at 0.64% and provision coverage of impaired loans and advances at 603%.

Total customer deposits increased by 4% to HK\$102.9 billion. Total customer deposits in December 2015 included short-term deposits from a customer as the Bank was acting as the settlement bank for its capital market activities. Excluding such deposits, total customer deposits would have increased by 9% year-on-year. Issuance of RMB1.5 billion of Panda bonds in May 2016 became a new source of funding to support our growth in the Mainland.

Total assets increased by 8% to HK\$137.8 billion. Excluding the placements with banks arising from the above-mentioned short-term deposits, the total assets would have increased by 12% in 2016. Although assets in the Mainland and Macau have increased at a faster rate of 97% year-on-year, 86% of the Bank's assets as of 31 December 2016 was still based in Hong Kong. Investments in securities were reduced by 6% year-on-year with less investments in securities issued by banks and at the same time with more investments in securities issued by central governments, central banks and corporate entities. As part of the Bank's strategy to develop its Mainland and cross-border businesses, the Mainland activities exposures had increased, with on-balance sheet exposures increasing by 41% year-on-year and growing from 19% to 25% of total assets of the banking operations.

As a result of more effective management of assets and liabilities, the Bank raised the level of loan to deposit ratio from 59.01% in December 2015 to 67.40% in December 2016, while keeping a prudent level of liquidity maintenance ratio with an average of 40.59% in 2016.

Total capital ratio decreased from 17.73% in December 2015 to 16.32% in December 2016, the Tier 1 capital ratio was at 14.16% and the Common Equity Tier 1 capital ratio was at 11.81%.

Overall, the Bank's core business lines and financial health are strong, asset quality sound, impaired loan ratio low, provision coverage high, and capital adequacy and liquidity ratios well above the relevant statutory requirements.

DIVIDEND

To properly balance sharing of success with preserving capital for future growth, the Board has recommended the payment of the final cash dividend of HK\$0.39 per share for the financial year of 2016 (2015 final cash dividend: HK\$0.37 per share) to the Shareholders whose names appear on the register of members of the Bank on Friday, 26 May 2017. Total dividends for the financial year of 2016, including the interim cash dividend of HK\$0.15 per share paid on 21 September 2016 (2015 interim cash dividend: HK\$0.21 per share), amounted to HK\$0.54 per share (2015 total dividends: HK\$0.58 per share).

RENMINBI FINANCIAL BONDS (PANDA BONDS)

On 19 February 2016, Chong Hing Bank received approval from the PBoC to issue Panda bonds up to RMB3 billion on a registration basis in the Mainland domestic interbank bond market. On 20 May 2016, the Bank issued its first batch of Panda bonds. The bonds were issued to keep pace with the Bank's development in the Mainland. Issue size was RMB1.5 billion with a maturity of three years and a coupon rate of 3.6% per annum payable annually. The face value of the bonds was RMB100 and the minimum subscription amount was RMB5 million. Both Chong Hing Bank and the Panda bonds received a credit rating of AAA from China Lianhe Credit Rating Co., Ltd.

Chong Hing Bank was the only local bank in Hong Kong to issue Panda bonds in 2016. It was also the first foreign commercial bank to issue Panda bonds after the three note-issuing banks in Hong Kong did so in 2015. In terms of the overall potential issue size of RMB3 billion, Panda bonds could be the Bank's largest public bond issuance in the capital market.

BUSINESS REVIEW

Corporate Banking

In the first half of 2016, with uncertainty in the market, investment appetite was weak, corporates de-leveraged and some prepaid their loans, and demand for new corporate loans declined. Fortunately, the market sentiment improved in the second half. Both the property and stock markets recorded significant rebound. The Mainland and Hong Kong developers actively participated in land purchases with both the number of tender offers and tender prices reaching new highs. As a result, the demand for corporate loans showed significant improvement in the second half.

Despite challenges of a volatile market, the Bank persevered with its strategy to expand and to develop a new one-stop banking products and services platform for target corporate customers in Hong Kong and the Mainland. The Bank offered comprehensive banking services, including cross-border financing, capital expenditure financing, financial market and wealth management for Hong Kong large corporates, mid-caps and small and medium-sized enterprises (SME). The Bank continued to be a strong supporter of the SMEs and actively participated in the Hong Kong Government's "SME Loan Guarantee Scheme" and the Hong Kong Mortgage Corporation Limited's "SME Financing Guarantee Scheme".

To strengthen its position in the syndicated loans market, in January 2016, the Bank established a dedicated department to provide syndicated loans services for core customers. During the year, the Bank completed 20 syndicated loans and was the lead arranger for three of them. Results are pleasing and the Bank has opened a new chapter for the syndicated loans business.

Advances to corporate banking customers in Hong Kong and the Mainland grew by 10% and 9% respectively year-on-year. The Bank continued to develop its cross-border business. Part of the loan growth in Hong Kong was attributable to cross-border business. According to the usage of the loans or business activities of the borrowers for both Hong Kong and outside Hong Kong operations, corporate loans for use in Hong Kong and outside Hong Kong increased by 12% and 30% respectively year-on-year. The Bank has properly balanced loan growth and risk management, and there were no individual impairment allowances on loans for use outside Hong Kong as of 31 December 2016.

The increased loan demand and the closing of the various syndicated and bilateral loans in 2016 not only generated increased interest income for the Bank, but also led to meaningful increase in loan arrangement fees for the year.

There was severe currency fluctuation in 2016. Many corporates looked for currency hedging products to hedge their currency positions and mitigate the exchange risk. The Bank rode on the opportunity and captured increased fee income from the foreign exchange business.

Whilst the Bank continues to serve and provide excellent service to our existing and long-standing customers, the Bank also actively reaches out to new target customers. The Bank is devoted to supporting quality Mainland enterprises to expand their businesses in Hong Kong, and supporting Hong Kong customers' business both in Hong Kong and their expansion into the Mainland. Through acquisition of high-quality customers and cross-selling to meet their different needs, the Bank seeks to generate higher returns for shareholders without compromising on lending quality.

Personal Banking

In 2016, uncertainties affected personal investors' appetite in equities, in wealth management solutions as well as in properties. Despite difficulties in the market, the Bank continued its business model reform and established a customer-focused structure with the aim to provide one-stop banking services and comprehensive wealth management services to valued personal customers both in Hong Kong and in the Pearl River Delta in order to meet their local requirements as well as their cross-border needs.

During the year, the Bank strengthened its relationships management teams, deepened the relationship with existing customers and actively acquired new target customers and established business relationships with them. Remarkable results were achieved in 2016 with the following highlights:

- The Bank continued to maintain a stable deposit base mainly from its personal customers, allowing the Bank to balance loan growth as well as wealth management and cross-border financial business needs while meeting the liquidity requirements of regulatory authorities.

- The wealth management business recorded strong double-digit growth for the second consecutive year. Commission income from the sales of investment products in 2016 increased by nearly 34% compared to 2015. Commission income from the sales of life insurance products also recorded a two-fold increase compared to last year.
- The retail loan book increased by 14% year-on-year without compromising on loan quality. During the year, the delinquency rate on retail loans remained at a healthy level.
- In spite of continued weakness in the retail sector, declining Mainland tourist arrivals and a decreasing number of branch stores for various merchants, the Bank expanded its credit card business by introducing customer rewards programmes and market promotions. In 2016, the credit card business delivered a similar level of performance as in 2015. The Bank's merchant-acquiring amount for Visa and MasterCard recorded modest growth and it will continue to develop the credit card business to attract young customers with new products.

In 2017, the Bank will focus on expanding its business platforms, opening additional sales channels and introducing new services and products to meet customers' needs. Advertisements and promotions will be used to acquire new customers while developing the Bank's financial business with a focus on high-value cross-border customers between Guangdong and Hong Kong to ensure long-term stable growth.

Financial Markets Business

Over the past two years, the Bank has made significant progress in building its financial markets business. The Bank also recorded substantial growth in the treasury business, product development and customer business.

With regard to the treasury business, the Bank optimised the balance sheet using various financial instruments while complying with the established risk appetite, risk limits and liquidity requirements. At the same time, the Bank continued to grow its investment portfolio and to improve its credit quality.

The Bank has established a product and marketing team and recruited several professionals with international financial markets experience. In 2016, our portfolio of financial products was further enriched. This allowed the Bank to offer advice and services suiting the financial needs of different corporate and personal customers, thereby improving intermediate business income.

As a result, the Bank recorded significant growth in interest and non-interest income from the Financial Markets Division during 2016.

Mainland Operations

In 2016, the Bank continued its expansion into the Mainland. The Bank opened Guangzhou Branch in May, Hengqin Sub-Branch in the Guangdong Free Trade Zone in August, and Shenzhen Branch in November. The Bank now has 3 branches and 4 sub-branches in the Mainland, mainly in the Pearl River Delta. By establishing more physical outlets, the Bank is able to increase its brand recognition, enhance its market influence, and promote the Bank's corporate image in the Mainland.

In 2016, the Bank intensified its efforts to grow its customer base, to optimise its balance sheet, and to streamline the credit approval process, with an aim to bring in stronger operating results in the future. The loan quality of the Mainland branches and sub-branches in 2016 remained sound and there were no loans at special mention grade or lower grade in 2016. The Mainland branches and sub-branches opened many new accounts and created a solid customer base for developing new business in the future.

In June, the government of the Nansha Free Trade Zone appointed the Bank to launch the “Hong Kong Pass” Commercial Service. Leveraging the Bank’s network in Hong Kong, business registration agency services were provided to Hong Kong investors and foreign investors who would like to establish a business in the Nansha Free Trade Zone. In July, the Nansha Sub-Branch in the Guangdong Free Trade Zone assisted enterprises in the Nansha District with the filing and registration process for cross-border loans at the PBoC. This expanded the financing channel for the district’s enterprises and helped the Bank realise its strategic plan to support the establishment of infrastructure in the free trade zone.

Also in June, the Bank participated in the annual China (Guangzhou) International Finance Expo (the “Expo”) for the third consecutive year. During the Expo held in Guangzhou, the Bank showcased a range of products and services while interacting with industry peers and the public, creating future business opportunities.

The Bank will continue to develop its cross-border financial services and connect financial services for individual and corporate customers in Guangdong and Hong Kong. The Bank aims to establish itself as an “integrated commercial bank with cross-border expertise”.

Chong Hing Securities Limited (Chong Hing Securities)

The global economic and political climate was unstable in 2016. After the US presidential election, the market expected repatriation of capital and investments from developing countries back to the US. This, together with the expectation of interest rate hikes in the US, led to a substantial rise in the US stock market and strengthening of the US dollar.

Although the Renminbi continued to depreciate, the economy of China maintained growth, which supported moderate growth in its stock markets. The long expected “Shenzhen-Hong Kong Stock Connect” was finally launched in early December 2016, bringing long-term positive implications to the markets in Hong Kong and the Mainland. Chong Hing Securities, a wholly-owned subsidiary of the Bank, was one of the first local securities brokers to participate in the “Shenzhen-Hong Kong Stock Connect” following its participation of “Shanghai-Hong Kong Stock Connect” in November 2014.

The overall income of Chong Hing Securities in 2016 declined compared to that of 2015 due to lower turnover in the Hong Kong equity market. However, the trading volume and commission income generated through trading on electronic channels recorded growth compared with the same period in 2015.

As various economic and political factors are expected to change in 2017, the overall stock market performance will remain unstable.

Chong Hing Insurance Company Limited (Chong Hing Insurance)

Notwithstanding the competitive nature of Hong Kong's insurance industry and a general decrease in underwriting profit, coupled with diminished investment returns due to external conditions, overall results of Chong Hing Insurance, a wholly-owned subsidiary of the Bank, remained satisfactory.

Chong Hing Insurance will continue to use the bancassurance model to develop new business to realise the Bank's potential on the back of its strong business network. It will also explore new business opportunities to enhance its performance.

Future Development

The Bank continues to invest into the future.

In 2015, the Bank commenced an upgrade of its information technology system and successfully launched the new system in the Mainland in January 2017. Investment will continue with launches in stages in Hong Kong in the coming two years. The new system will improve operational efficiency and provide a platform to support the growing business and new products and services. The Bank will also invest into electronic and digital channels and aims to enhance the customer experience and provide customers with safe, reliable, convenient and efficient services.

In March 2016, the Bank, with the support of a consultant firm, commenced a project to review the current operations, to define future business directions and to formulate a 5-year strategic plan. The plan, which was completed at the year end, has a clear vision and has set challenging yet achievable milestones to transform the Bank in the next five years. The Bank aims to build up and strengthen its core competencies, to establish a customer-focused culture and enhance customer experience, to improve productivity and efficiency, and to create differentiation in a highly competitive banking environment. The goal is to be a niche commercial bank with cross-border capabilities.

The Bank will continue to build on its solid foundation in Hong Kong and to expand its operations in the Mainland. The Bank aims to first build up a strong regional base in the Pearl River Delta, to capture target customers, to increase its market share, and to improve its profit contribution. This will build the foundation for the Bank to expand into other key cities in the country in future years.

To better capitalise on the unfailing support of its major shareholder, the Yue Xiu Group, and Yue Xiu's strong connections in the Mainland, in September 2016, the Bank established the "Chong Hing Bank Synergy Office" to strengthen the connection with the Yue Xiu Group. The aim is to proactively look for business synergy to achieve a win-win situation for both parties. This will allow the Bank to leverage advantages provided by this relationship, and facilitate the development of synergic businesses and customer relationship management. By utilising such opportunities from the Yue Xiu Group and enhancing business opportunities from customer referral, the Bank has started approaching new customers in maximising the benefits of cross-selling and value-added sales.

CORPORATE RESPONSIBILITY

Established in 1948, Chong Hing Bank has deep roots in Hong Kong for 69 years. The Bank is dedicated to providing customers from different backgrounds with convenient banking services. The Bank currently has 43 branches in Hong Kong. To provide new services and better experiences for customers, 3 branches were relocated in new premises in 2016. These are the Tai Wo Plaza Branch in Tai Po, the Cheung Fat Estate Branch in Tsing Yi and the Tin Chak Estate Branch in Tin Shui Wai. With new designs based on a “New Place • New Face” theme, the new branches provide a more spacious and comfortable environment for customers and more personalised services. In the Mainland, there are 3 branches and 4 sub-branches and there is 1 branch in Macau.

As a company that bears the community at heart, Chong Hing Bank and its staff participated in various community, sports, cultural and charity activities in 2016:

- Throughout the year, the Bank donated to a number of organisations that help those in need.
- Leveraging on its branch network, the Bank assisted charity organisations such as Tung Wah Group of Hospitals, Po Leung Kuk and Yan Oi Tong in their community fund-raising activities including selling their raffle tickets, collecting donations from flag bags, and inserting promotional leaflets into bank mailers.
- In January, the Bank supported the “Charity Cycling Marathon”.
- In October and December, the Bank sponsored the “Fine Art Asia” and “Ink Asia” exhibitions respectively.
- In November, the Bank’s staff visited Caritas Nursery School Kennedy Town and threw a series of games and activities designed under the theme “Hong Kong Currency”, allowing children to learn how to distinguish currency in a relaxed, happy and playful atmosphere.
- In December, the Bank and Food Angel jointly held a special activity “Share A Meal” that taught staff the importance of reducing food waste at source.

In recognition of its participation in numerous volunteering, community and caring activities, for the ninth consecutive year, the Bank was named a “Caring Company” by the Hong Kong Council of Social Service. The Bank also received certificates of appreciation from many charity organisations.

CORPORATE GOVERNANCE

The Bank fully appreciates that compliance with the relevant statutory and regulatory requirements and maintaining good corporate governance standards are imperative to the sustainability of the Bank. The Bank has deployed considerable resources, and has implemented all relevant measures, to ensure that the statutory and regulatory requirements are fully complied with, and that a high standard of corporate governance is maintained.

For details of the Bank’s corporate governance practices, please refer to the section entitled “Corporate Governance Report” of the Bank’s 2016 Annual Report which will be published in late March 2017.

AWARDS

The Bank always aims to offer quality banking services to its customers. During the year, it achieved excellent results in different fields and received awards from different organising bodies:

– Hong Kong

The Bank is working with SMEs with the goal of achieving mutual growth while providing them with diversified banking services. This support has been widely recognised by the industry and in June, the Bank received the “Best SME’s Partner Award” by the Hong Kong General Chamber of Small and Medium Business for the eighth time.

In March, the Bank received the “Straight Through Processing (STP) Award” from the Bank of New York Mellon for the eighth consecutive year. This award recognised the Bank’s outstanding performance in payment formatting and high STP rate of over 95% in fully-automated US dollar payment processing without manual intervention.

For the first time, the Bank received the “Two Stars Honour Award” from Hong Kong Life Insurance Limited, recognising its excellent business performance throughout the year. In 2017, the Bank hopes to build upon this success by working with an increasingly diverse array of businesses and further developing its banking services.

– Mainland

The Bank’s Nansha Sub-Branch in the Guangdong Free Trade Zone was the only foreign bank of the ten competing in the final of the “2016 Guangdong Provincial Cross-Border Renminbi Business Competition” organised by the Guangzhou Branch of the PBoC. The Sub-Branch won the third prize, recognising its strong performance in the field of cross-border Renminbi business.

OUTLOOK

In 2017, it is generally expected that the global economy will continue to be confronted by uncertainties. With the unpredictable policy directions of the new US administration, the implementation of the Brexit decision, geopolitical tensions in various regions and the diversified monetary policy of major central banks, it is far from clear how the global economy will develop.

Despite the uncertainties, there should also be opportunities in 2017. The US economy has continued to show improvement and the banking industry will benefit from the interest rate hikes and interest rate normalisation. The launch of the “Shenzhen-Hong Kong Stock Connect” has further deepened the inter-connectivity between capital markets in Hong Kong and the Mainland, strengthening Hong Kong’s status as an international financial centre. Currently, Hong Kong is applying to become a member of the Asian Infrastructure Investment Bank (AIIB). If successful, Hong Kong could develop into a bond issuance platform for the AIIB and the financing centre for countries participating in China’s “One Belt, One Road” foreign policy, thereby contributing to regional progress.

The Bank will seize opportunities arising from these developments. Leveraging its professional team and strengthened management structure, prudent risk management culture, and continuous support from the Yue Xiu Group, the Bank will facilitate the development of cross-border financial services. It will also offer a comprehensive connection for individual and corporate financial services in the Mainland and Hong Kong, and achieve the goal of becoming an “integrated commercial bank with cross-border expertise”.

Over the years, Chong Hing Bank has established an excellent brand with a strong reputation and a loyal customer base. Since becoming part of the Yue Xiu Group, the Bank has strengthened its management team, set more challenging targets for long-term success, and focused on the corporate goal of “benefit shareholders, employees, customers and society”. The Bank has initiated and will continue with its various business and operational reforms. The Bank will integrate its long-standing corporate culture with the brand value of the Yue Xiu Group, and create an even stronger corporate culture, with clear vision and core values. With the support of the major shareholder, coupled with strong leadership and concerted efforts of a professional team, the Bank will reach new heights, deliver sustainable growth and create long-term value for shareholders.

APPRECIATION

2016 had been a turbulent year. Despite a very complicated and volatile business environment, Chong Hing Bank continued to progress and paved the way for the future. I would like to thank all Directors on the Board for their devoted efforts and wise guidance, particularly in steering the Bank’s future strategies. I would also like to thank the management team and all staff members for their dedication and commitment to helping the Bank achieve outstanding results. In the coming year, the Bank’s focus is to implement its strategic plan of becoming a niche commercial bank in the Mainland and Hong Kong with cross-border capabilities, to generate sustainable growth and to offer excellent service to its customers and the community.

Leung Ko May Yee Margaret

Deputy Chairman, Managing Director and Chief Executive

Hong Kong, 28 February 2017

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2016

	<i>Notes</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i> (Restated)	Variance %
Interest income		3,001,170	3,018,604	-0.58
Interest expense		(956,370)	(1,239,769)	+22.86
Net interest income	4	<u>2,044,800</u>	<u>1,778,835</u>	+14.95
Fee and commission income		344,494	387,444	-11.09
Fee and commission expenses		(84,910)	(81,427)	-4.28
Net fee and commission income	5	259,584	306,017	-15.17
Net trading income	6	230,059	63,615	+261.64
Other operating income	7	139,853	143,247	-2.37
Operating expenses	8	(1,227,552)	(1,113,757)	-10.22
Operating profit before impairment allowances		1,446,744	1,177,957	+22.82
Net reversal (charge) of impairment allowances on loans and advances	16	40,198	(22,748)	+276.71
Operating profit after impairment allowances		1,486,942	1,155,209	+28.72
Net gains on disposal of assets held for sale		–	52,154	-100.00
Net gains on disposal of property and equipment		24,757	3,359	+637.03
Net gains on disposal of other investments	14	160,729	70,304	+128.62
Net gains on disposal of and fair value adjustments on investment properties	18	2,026	106,737	-98.10
Impairment loss on available-for-sale securities		(11,071)	(200)	-5,435.50
Impairment loss on goodwill	28	(11,000)	–	–
Share of profits of associates		31,617	31,827	-0.66
Profit before taxation		1,684,000	1,419,390	+18.64
Taxation	9	(264,296)	(226,254)	-16.81
Profit for the year				
– Attributable to equity owners of the Bank		<u>1,419,704</u>	<u>1,193,136</u>	+18.99
Earnings per share – basic and diluted	11	<u>HK\$1.94</u>	<u>HK\$2.06</u>	-5.83

The notes on pages 28 to 62 form an integral part of these consolidated financial information.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2016

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Profit for the year	<u>1,419,704</u>	<u>1,193,136</u>
Other comprehensive income		
Items that may not be reclassified subsequently to profit or loss:		
Surplus on transfer of land and buildings to investment properties	16,229	11,371
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation	(168,225)	(45,385)
Fair value gains (losses) of available-for-sale securities arising during the year	202,037	(41,665)
Amount reclassified to the profit or loss upon impairment of available-for-sale securities	11,071	200
Amount reclassified to the profit or loss upon disposal of available-for-sale securities	(178,309)	(81,018)
Income tax effect relating to disposal of available-for-sale securities	29,421	13,368
Income tax effect relating to fair value change of available-for-sale securities	(35,869)	5,933
Share of other comprehensive income of associates	<u>497</u>	<u>13,435</u>
Other comprehensive expense for the year (net of tax)	<u>(123,148)</u>	<u>(123,761)</u>
Total comprehensive income for the year	<u>1,296,556</u>	<u>1,069,375</u>
Total comprehensive income attributable to:		
Equity owners of the Bank	<u>1,296,556</u>	<u>1,069,375</u>

The notes on pages 28 to 62 form an integral part of these consolidated financial information.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2016

	Notes	2016 HK\$'000	2015 HK\$'000	Variance %
Assets				
Cash and short-term funds	12	30,521,281	21,431,894	+42.41
Placements with banks maturing between one to twelve months		1,616,540	7,751,110	-79.14
Derivative financial instruments	13	424,845	577,651	-26.45
Financial assets at fair value through profit or loss	14	241	271	-11.07
Available-for-sale securities	14	24,164,028	22,800,023	+5.98
Held-to-maturity securities	14	5,563,683	8,686,530	-35.95
Advances and other accounts	16	74,081,605	65,386,648	+13.30
Tax recoverable		3,128	–	–
Assets held for sale	17	2	–	–
Interests in associates		262,565	247,901	+5.92
Investment properties	18	282,927	264,222	+7.08
Property and equipment	19	633,604	627,777	+0.93
Prepaid lease payments for land	20	2,201	2,269	-3.00
Deferred tax assets	27	4,672	10,744	-56.52
Intangible assets	28	210,729	50,606	+316.41
Total assets		137,772,051	127,837,646	+7.77
Liabilities				
Deposits and balances of banks		2,696,681	5,728,313	-52.92
Financial assets sold under repurchase agreements	21	9,845,753	3,322,683	+196.32
Deposits from customers	22	102,880,629	99,392,364	+3.51
Certificates of deposit	23	812,329	351,962	+130.80
Derivative financial instruments	13	553,614	844,778	-34.47
Other accounts and accruals		1,243,889	1,124,688	+10.60
Current tax liabilities		356,298	135,457	+163.03
Debt securities issued	23	1,663,774	–	–
Loan capital	24	1,792,267	1,819,591	-1.50
Deferred tax liabilities	27	13,245	10,069	+31.54
Total liabilities		121,858,479	112,729,905	+8.10
Equity attributable to owners of the Bank				
Share capital	25	5,435,904	5,435,904	–
Additional equity instruments	26	2,312,030	2,312,030	–
Reserves		8,165,638	7,359,807	+10.95
Total equity		15,913,572	15,107,741	+5.33
Total liabilities and equity		137,772,051	127,837,646	+7.77

The notes on pages 28 to 62 form an integral part of these consolidated financial information.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2016

	Share capital	Additional equity instruments	Goodwill	Investment revaluation reserve	Land and building revaluation reserve	General reserve	Translation reserve	Regulatory reserve	Retained profits	Total
Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2016	5,435,904	2,312,030	(182)	140,772	158,018	1,388,500	(15,030)	663,000	5,024,729	15,107,741
Profit for the year	-	-	-	-	-	-	-	-	1,419,704	1,419,704
Exchange differences arising on translation	-	-	-	-	-	-	(168,225)	-	-	(168,225)
Surplus on transfer of land and buildings to investment properties	-	-	-	-	16,229	-	-	-	-	16,229
Fair value gains of available-for-sale securities arising during the year	-	-	-	202,037	-	-	-	-	-	202,037
Amount reclassified to the profit or loss upon impairment of available-for-sale securities	-	-	-	11,071	-	-	-	-	-	11,071
Amount reclassified to the profit or loss upon disposal of available-for-sale securities	-	-	-	(178,309)	-	-	-	-	-	(178,309)
Income tax effect relating to disposal of available-for-sale securities	-	-	-	29,421	-	-	-	-	-	29,421
Income tax effect relating to fair value change of available-for-sale securities	-	-	-	(35,869)	-	-	-	-	-	(35,869)
Share of other comprehensive income of associates	-	-	-	497	-	-	-	-	-	497
Other comprehensive income (expense)	-	-	-	28,848	16,229	-	(168,225)	-	-	(123,148)
Total comprehensive income (expense) for the year	-	-	-	28,848	16,229	-	(168,225)	-	1,419,704	1,296,556
Distribution payment for additional equity instruments	-	(151,425)	-	-	-	-	-	-	-	(151,425)
Transfer from retained profits	-	151,425	-	-	-	-	-	-	(151,425)	-
Interim dividend paid	10	-	-	-	-	-	-	-	(97,875)	(97,875)
Final dividend paid	10	-	-	-	-	-	-	-	(241,425)	(241,425)
Earmark of retained profits as regulatory reserve	-	-	-	-	-	-	-	76,000	(76,000)	-
At 31 December 2016	<u>5,435,904</u>	<u>2,312,030</u>	<u>(182)</u>	<u>169,620</u>	<u>174,247</u>	<u>1,388,500</u>	<u>(183,255)</u>	<u>739,000</u>	<u>5,877,708</u>	<u>15,913,572</u>

The notes on pages 28 to 62 form an integral part of these consolidated financial information.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2016

		Share capital	Additional equity instruments	Goodwill	Investment revaluation reserve	Land and building revaluation reserve	General reserve	Translation reserve	Regulatory reserve	Retained profits	Total
Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2015		1,760,317	2,312,030	(182)	230,519	146,647	1,388,500	30,355	573,000	4,342,466	10,783,652
Profit for the year		-	-	-	-	-	-	-	-	1,193,136	1,193,136
Exchange differences arising on translation		-	-	-	-	-	-	(45,385)	-	-	(45,385)
Surplus on transfer of land and buildings to investment properties		-	-	-	-	11,371	-	-	-	-	11,371
Fair value losses of available-for-sale securities arising during the year		-	-	-	(41,665)	-	-	-	-	-	(41,665)
Amount reclassified to the profit or loss upon impairment of available-for-sale securities		-	-	-	200	-	-	-	-	-	200
Amount reclassified to the profit or loss upon disposal of available-for-sale securities		-	-	-	(81,018)	-	-	-	-	-	(81,018)
Income tax effect relating to disposal of available-for-sale securities		-	-	-	13,368	-	-	-	-	-	13,368
Income tax effect relating to fair value change of available-for-sale securities		-	-	-	5,933	-	-	-	-	-	5,933
Share of other comprehensive income of associates		-	-	-	13,435	-	-	-	-	-	13,435
Other comprehensive (expense) income		-	-	-	(89,747)	11,371	-	(45,385)	-	-	(123,761)
Total comprehensive (expense) income for the year		-	-	-	(89,747)	11,371	-	(45,385)	-	1,193,136	1,069,375
Issue of share capital		3,675,587	-	-	-	-	-	-	-	-	3,675,587
Distribution payment for additional equity instruments		-	(151,173)	-	-	-	-	-	-	-	(151,173)
Transfer from retained profits		-	151,173	-	-	-	-	-	-	(151,173)	-
Interim dividend paid	10	-	-	-	-	-	-	-	-	(91,350)	(91,350)
Final dividend paid	10	-	-	-	-	-	-	-	-	(178,350)	(178,350)
Earmark of retained profits as regulatory reserve		-	-	-	-	-	-	-	90,000	(90,000)	-
At 31 December 2015		5,435,904	2,312,030	(182)	140,772	158,018	1,388,500	(15,030)	663,000	5,024,729	15,107,741

The retained profits of the Group included retained profits of HK\$130,859,000 (2015: retained profits of HK\$116,692,000) retained by the associates of the Group.

The regulatory reserve is set up in compliance with the Hong Kong Monetary Authority's requirements and is distributable to shareholders of the Bank subject to consultation with the Hong Kong Monetary Authority (the "HKMA").

The general reserve comprises transfers from previous years' retained profits.

The notes on pages 28 to 62 form an integral part of these consolidated financial information.

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2016

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i> (Restated)
OPERATING ACTIVITIES		
Profit before taxation	1,684,000	1,419,390
Adjustments for:		
Net interest income	(2,044,800)	(1,778,835)
Net (reversal) charge of impairment allowances on loans and advances	(40,198)	22,748
Net gains on disposal of assets held for sale	–	(52,154)
Net gains on disposal of property and equipment	(24,757)	(3,359)
Net gains on disposal of available-for-sale securities	(178,309)	(81,018)
Net gains on disposal of and fair value adjustments on investment properties	(2,026)	(106,737)
Share of profits of associates	(31,617)	(31,827)
Net (gains) losses on fair value hedge	(6,989)	2,369
Dividend received from investments	(11,790)	(11,605)
Depreciation	58,447	52,105
Release of prepaid lease payments for land	66	66
Impairment loss on goodwill	11,000	–
Impairment loss on available-for-sale securities	11,071	200
Exchange adjustments	(241,943)	(45,883)
Operating cash flows before movements in operating assets and liabilities	(817,845)	(614,540)
(Increase) decrease in operating assets:		
Money at call and short notice with original maturity over three months	929,473	(263,808)
Exchange fund bills with original maturity over three months	152,457	(740,216)
Placements with banks with original maturity over three months	5,994,434	(2,302,973)
Financial assets at fair value through profit or loss	30	16
Advances to customers	(7,030,729)	(6,681,164)
Advances to banks	(496,256)	–
Other accounts	(1,152,637)	36,304
Increase (decrease) in operating liabilities:		
Deposits and balances of banks	(3,031,632)	1,314,452
Financial assets sold under repurchase agreements	6,523,070	(1,626,081)
Deposits from customers	3,488,265	17,258,973
Certificates of deposit	460,367	(1,756,174)
Derivative financial instruments	181,489	3,987
Other accounts and accruals	133,848	(369,922)
Cash generated from operations	5,334,334	4,258,854
Hong Kong Profits Tax paid	(12,199)	(78,275)
Overseas tax paid	(31,087)	(55,176)
Interest received	2,104,067	2,281,984
Interest paid	(899,264)	(1,042,198)
NET CASH GENERATED FROM OPERATING ACTIVITIES	6,495,851	5,365,189

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i> (Restated)
INVESTING ACTIVITIES		
Interest received from available-for-sale securities and held-to-maturity securities	828,537	556,037
Dividends received on investments	11,790	11,605
Dividends received from associates	17,450	19,670
Purchase of held-to-maturity securities	–	(5,035,378)
Purchase of available-for-sale securities	(15,883,224)	(17,442,189)
Purchase of property and equipment	(82,389)	(72,185)
Purchase of intangible assets	(166,941)	–
Proceeds from redemption of held-to-maturity securities	3,093,664	5,013,542
Proceeds from sale and redemption of available-for-sale securities	14,502,715	2,466,870
Proceeds from disposal of assets held for sale	–	195,826
Proceeds from disposal of property and equipment	33,166	3,526
	<u>2,354,768</u>	<u>(14,282,676)</u>
NET CASH GENERATED FROM (USED IN) INVESTING ACTIVITIES		
FINANCING ACTIVITIES		
Net proceeds from issue of share capital	–	3,675,587
Net proceeds from issue of debt securities	1,740,244	–
Interest paid on loan capital	(67,769)	(61,835)
Interest paid on debt securities issued	(1,188)	–
Dividends paid to ordinary shareholders	(339,300)	(269,700)
Distribution paid on additional equity instruments	(151,425)	(151,173)
	<u>1,180,562</u>	<u>3,192,879</u>
NET CASH GENERATED FROM FINANCING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
	<u>10,031,181</u>	<u>(5,724,608)</u>
CASH AND CASH EQUIVALENTS AT 1 JANUARY		
	<u>19,022,227</u>	<u>24,746,835</u>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		
	<u>29,053,408</u>	<u>19,022,227</u>
Represented by:		
Cash and balances with central bank and banks	4,009,869	5,639,475
Money at call and short notice with original maturity of three months or less	23,182,828	11,331,885
Exchange fund bills with original maturity of three months or less	1,049,906	1,099,926
Placements with banks maturing between one to twelve months with original maturity of less than three months	810,805	950,941
	<u>29,053,408</u>	<u>19,022,227</u>

The notes on pages 28 to 62 form an integral part of these consolidated financial information.

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2016

1. GENERAL

The financial information relating to the years ended 31 December 2016 and 2015 included in this announcement of 2016 final results do not constitute the Group's statutory annual consolidated financial statements for those years but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The Bank has delivered the financial statements for the year ended 31 December 2015 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance and will deliver the financial statements for the year ended 31 December 2016 in due course.

The Bank's auditor has reported on the financial statements of the Group for both years. The independent auditor's reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

Chong Hing Bank Limited (the "Bank") is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited.

The Bank is engaged in the provision of banking and related financial services. The address of the registered office of the Bank is Ground Floor, Chong Hing Bank Centre, 24 Des Voeux Road Central, Hong Kong.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2016 and are relevant to the Group:

"Annual Improvements to HKFRSs 2012-2014 Cycle", effective for the accounting period on or after 1 January 2016, includes a number of amendments to various HKFRSs. None of the amendments are expected to have an impact to the Group except for amendments to HKFRS 7 "Financial instruments: Disclosures", amendments to HKAS 19 "Employee benefits" and amendments to HKAS 34 "Interim financial reporting". The impact of these three amendments are summarised below:

- The are two amendments to HKFRS 7:

- i) Service contracts

If an entity transfers a financial asset to a third party under conditions which allow the transferor to derecognise the asset, HKFRS 7 requires disclosure of all types of continuing involvement that the entity might still have in the transferred assets. It provides guidance about what is meant by continuing involvement.

There is a consequential amendment to HKFRS 1 to give the same relief to first time adopters.

- ii) Interim financial statements

It clarifies the additional disclosure required by the amendments to HKFRS 7, 'Disclosure – offsetting financial assets and financial liabilities' is not specifically required for all interim periods, unless required by HKAS 34.

- the amendments to HKAS 19 clarifies when determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important, not the country where they arise. The assessment of whether there is a deep market in high-quality corporate bonds is based on corporate bonds in that currency, not corporate bonds in a particular country. Similarly, where there is no deep market in high-quality corporate bonds in that currency, government bonds in the relevant currency should be used.
- the amendments to HKAS 34 clarifies what is meant by the reference in the standard to ‘information disclosed elsewhere in the interim financial report’. It also amends HKAS 34 to require a cross-reference from the interim financial statements to the location of that information.

Amendments to HKAS 1 “Disclosure initiative”, the amendments clarify guidance in HKAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.

Although the amendments do not require specific changes, they clarify a number of presentation issues and highlight that preparers are permitted to tailor the format and presentation of the financial statements to their circumstances and the needs of users.

The key areas addressed by the changes are as follows:

- **Materiality:** an entity should not aggregate or disaggregate information in a manner that obscures useful information. An entity need not provide disclosures if the information is not material;
- **Disaggregation and subtotals:** the amendments clarify what additional subtotals are acceptable and how they should be presented;
- **Notes:** an entity is not required to present the notes to the financial statements in a particular order, and management should tailor the structure of their notes to their circumstances and the needs of their users;
- **Accounting policies:** how to identify a significant accounting policy that should be disclosed;
- **Other comprehensive income from equity accounted investments:** other comprehensive income of associates and joint ventures should be separated into the share of items that will subsequently be reclassified to profit or loss and those that will not.

There are also amendments to a standard effective for the accounting period beginning on or after 1 January 2016 but do not have material financial impact. Therefore, these amendments are not analysed in details.

3. SEGMENT INFORMATION

(a) Operating segments

The Group’s operating segments, which are also the reportable segments, based on information regularly reviewed by the chief operating decision maker (Executive Committee of the Group) for the purpose of allocating resources to segments and assessing their performance on business divisions of the Group, are as follows:

The corporate and personal banking services provided by the Group are principally lending and trade finance facilities, auto financing, consumer financing, overdraft facilities, mandatory provident fund services, provision of fixed deposits, current and savings accounts, credit cards and personal wealth management services. The Group also provides automated telephone and internet banking services to its customers. Other banking services offered include remittance and money exchange, safe deposit boxes, autopay and direct debit services.

Financial markets activities mainly comprise inter-bank placement and deposit transactions, management of overall interest rate risk and liquidity of the Group and centralised cash management. Income from foreign exchange activities is generated from services provided to customers in the form of foreign exchange trading and forward contracts, and from the Bank’s cash management activities through foreign currency funding swaps.

Securities dealing activities of the Group include securities trading, stockbroking and futures broking.

Others comprise investment holding, insurance, other investment advisory services and property investments.

No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

(i) Operating segment information for the year ended 31 December 2016 is presented below:

Operating segment revenues and results

	Corporate and personal banking HK\$'000	Financial markets activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Interest income from external customers	1,781,977	1,212,094	5,843	1,256	-	3,001,170
Interest expense to external customers	(686,345)	(270,025)	-	-	-	(956,370)
Inter-segment interest income (Note 1)	357,719	-	-	-	357,719	-
Inter-segment interest expense (Note 1)	-	(357,719)	-	-	(357,719)	-
Net interest income	1,453,351	584,350	5,843	1,256	-	2,044,800
Fee and commission income	235,260	-	109,234	-	-	344,494
Fee and commission expenses	(84,862)	-	(48)	-	-	(84,910)
Net trading income	949	102,850	-	126,260	-	230,059
Other operating income	118,329	-	-	21,524	-	139,853
Segment revenue						
Total operating income	1,723,027	687,200	115,029	149,040	-	2,674,296
Comprising:						
– Segment revenue from external customers	1,365,308	1,044,919	115,029	149,040		
– Inter-segment transactions	357,719	(357,719)	-	-		
Operating expenses (Note 2)	(721,421)	(59,991)	(67,835)	(24,954)	-	(874,201)
Net reversal of impairment allowances on						
Loans and advances	40,198	-	-	-	-	40,198
Net (losses) gains on disposal of property and equipment	(67)	-	2	24,822	-	24,757
Net gains on disposal of other investments	-	46,337	-	114,392	-	160,729
Net gains on disposal of and fair value adjustments on investment properties	-	-	-	2,026	-	2,026
Impairment loss on available-for-sale securities	-	-	-	(11,071)	-	(11,071)
Impairment loss on goodwill	-	-	-	(11,000)	-	(11,000)
Segment profit	<u>1,041,737</u>	<u>673,546</u>	<u>47,196</u>	<u>243,255</u>	<u>-</u>	<u>2,005,734</u>
Unallocated corporate expenses						(353,351)
Share of profits of associates						31,617
Profit before taxation						<u>1,684,000</u>

Notes: 1. Inter-segment pricing for funding transactions is charged at prevailing customer deposits interest rates.

2. The difference between the operating expenses in the consolidated income statement and the operating expenses in the operating segments is the unallocated corporate expenses.

Operating segment assets and liabilities as at 31 December 2016

	Corporate and personal banking <i>HK\$'000</i>	Financial markets activities <i>HK\$'000</i>	Securities business <i>HK\$'000</i>	Others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Assets					
Segment assets	77,287,514	59,003,434	288,494	454,148	137,033,590
Interests in associates					262,565
Unallocated corporate assets					475,896
					<u>137,772,051</u>
Liabilities					
Segment liabilities	103,641,993	17,452,642	139,485	119,599	121,353,719
Unallocated corporate liabilities					504,760
					<u>121,858,479</u>

Other information – amounts included in the measure of segment results and segment assets

	Corporate and personal banking <i>HK\$'000</i>	Financial markets activities <i>HK\$'000</i>	Securities business <i>HK\$'000</i>	Others <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Capital expenditure during the year	48,920	2,826	2,066	22	199,678	253,512
Depreciation	42,373	1,536	1,913	504	16,303	62,629
Release of prepaid lease payments for land	66	-	-	-	-	66
	<u>66</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>66</u>

All direct costs incurred by different segments are grouped under respective segments. Indirect costs and support functions' costs are allocated to various segments and products based on effort and time spent while segments' other operating income is allocated depending on the nature of costs incurred. Indirect costs and support functions' costs and income related to corporate activities that cannot be reasonably allocated to segments or products are grouped as unallocated corporate expenses and unallocated corporate income respectively. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of performance.

There is no operating income with a single external customer amounting to or exceeding 10% of the Group's and the Bank's total operating income.

Assets and liabilities related to corporate activities that cannot be reasonably allocated to segments, products and support functions are grouped as unallocated corporate assets and liabilities. All direct segment assets and liabilities are grouped under respective segments.

(ii) Operating segment information for the year ended 31 December 2015 is presented below:

Operating segment revenues and results

	Corporate and personal banking <i>HK\$'000</i>	Financial markets activities <i>HK\$'000</i>	Securities business <i>HK\$'000</i>	Others <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Interest income from external customers	1,845,858	1,163,309	8,139	1,298	–	3,018,604
Interest expense to external customers	(1,034,069)	(205,700)	–	–	–	(1,239,769)
Inter-segment interest income (<i>Note 1</i>)	522,865	–	–	–	(522,865)	–
Inter-segment interest expense (<i>Note 1</i>)	–	(522,865)	–	–	522,865	–
Net interest income	1,334,654	434,744	8,139	1,298	–	1,778,835
Fee and commission income	209,226	–	178,218	–	–	387,444
Fee and commission expenses	(81,226)	–	(201)	–	–	(81,427)
Net trading income (expenses) (restated)	936	63,994	–	(1,315)	–	63,615
Other operating income	111,436	–	–	31,811	–	143,247
Segment revenue						
Total operating income	1,575,026	498,738	186,156	31,794	–	2,291,714
Comprising:						
– Segment revenue from external customers	1,052,161	1,021,603	186,156	31,794		
– Inter-segment transactions	522,865	(522,865)	–	–		
Operating expenses (<i>Note 2</i>)	(706,227)	(50,995)	(73,717)	(25,523)	–	(856,462)
Impairment allowances on loans and advances	(22,748)	–	–	–	–	(22,748)
Net gains on disposal of assets held for sale	–	–	–	52,154	–	52,154
Net (losses) gains on disposal of property and equipment	(712)	–	3	4,068	–	3,359
Net gains on disposal of other investments (restated)	–	–	–	70,304	–	70,304
Net gains on disposal of and fair value adjustments on investment properties	–	–	–	106,737	–	106,737
Impairment loss on available-for-sale securities	–	–	–	(200)	–	(200)
Segment profit	<u>845,339</u>	<u>447,743</u>	<u>112,442</u>	<u>239,334</u>	<u>–</u>	1,644,858
Unallocated corporate expenses						(257,295)
Share of profits of associates						<u>31,827</u>
Profit before taxation						<u>1,419,390</u>

Notes: 1. Inter-segment pricing for funding transactions is charged at prevailing customer deposits interest rates.

2. The difference between the operating expenses in the consolidated income statement and the operating expenses in the operating segments is the unallocated corporate expenses.

Operating segment assets and liabilities as at 31 December 2015

	Corporate and personal banking <i>HK\$'000</i>	Financial markets activities <i>HK\$'000</i>	Securities business <i>HK\$'000</i>	Others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Assets					
Segment assets	70,307,318	56,156,693	268,686	582,142	127,314,839
Interests in associates					247,901
Unallocated corporate assets					274,906
Consolidated total assets					<u>127,837,646</u>
Liabilities					
Segment liabilities	100,094,959	12,128,623	106,770	104,524	112,434,876
Unallocated corporate liabilities					295,029
Consolidated total liabilities					<u>112,729,905</u>

Other information – amounts included in the measure of segment results and segment assets

	Corporate and personal banking <i>HK\$'000</i>	Financial markets activities <i>HK\$'000</i>	Securities business <i>HK\$'000</i>	Others <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Capital expenditure during the year	45,161	4,129	1,255	92	21,548	72,185
Depreciation	36,195	921	1,936	471	12,582	52,105
Release of prepaid lease payments for land	66	–	–	–	–	66

(b) Geographical information

Geographical information (including geographical analysis of total segment revenue) is analysed by the Group based on the locations of the principal operations of the branches and subsidiaries which are responsible for reporting the results or booking the assets. Non-current assets presented below are based on the location of the entities' country of domicile which is the same as the location of the non-current assets.

Details of geographical information are set out below:

	2016						
	Total operating income <i>HK\$'000</i>	Profit before taxation <i>HK\$'000</i>	Capital expenditure during the year <i>HK\$'000</i>	Total assets <i>HK\$'000</i>	Total liabilities <i>HK\$'000</i>	Total contingent liabilities and commitments <i>HK\$'000</i>	Non-current assets <i>HK\$'000</i>
Hong Kong	2,414,138	1,583,927	222,423	118,135,827	108,326,735	21,852,799	1,283,254
Macau and Mainland China	260,158	100,073	31,089	19,636,224	13,531,744	3,735,358	108,706
Total	2,674,296	1,684,000	253,512	137,772,051	121,858,479	25,588,157	1,391,960
	2015						
	Total operating income <i>HK\$'000</i>	Profit before taxation <i>HK\$'000</i>	Capital expenditure during the year <i>HK\$'000</i>	Total assets <i>HK\$'000</i>	Total liabilities <i>HK\$'000</i>	Total contingent liabilities and commitments <i>HK\$'000</i>	Non-current assets <i>HK\$'000</i>
Hong Kong (Restated)	2,049,511	1,267,117	39,422	117,852,280	106,488,708	17,490,015	1,136,419
Macau and Mainland China	227,118	138,218	32,763	9,965,208	6,241,021	1,148,114	56,008
America	15,085	14,055	–	20,158	176	1,353	282
Total (Restated)	2,291,714	1,419,390	72,185	127,837,646	112,729,905	18,639,482	1,192,709

Note: Total operating income consists of net interest income, net fee and commission income, net trading income and other operating income.

Non-current assets consist of interests in associates, investment properties, property and equipment, prepaid lease payments for land (non-current portion) and goodwill.

4. NET INTEREST INCOME

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Interest income		
Balances and placements with central bank and banks	294,803	521,044
Investments in securities	910,983	642,338
Loans and advances	1,780,671	1,844,979
Interest rate swaps	14,713	10,243
	<u>3,001,170</u>	<u>3,018,604</u>
Interest expense		
Deposits and balances of banks	(75,103)	(51,778)
Deposits from customers	(686,118)	(1,033,923)
Financial assets sold under repurchase agreements	(66,275)	(40,575)
Certificates of deposit	(6,668)	(37,141)
Debt securities issued	(38,961)	–
Loan capital in issue	(71,018)	(63,832)
Interest rate swaps	(12,227)	(12,520)
	<u>(956,370)</u>	<u>(1,239,769)</u>
Net interest income	<u>2,044,800</u>	<u>1,778,835</u>
Included within interest income		
Interest income on impaired loans and advances	<u>704</u>	<u>163</u>

Included within interest income and interest expense are HK\$2,986,457,000 (2015: HK\$3,008,361,000) and HK\$944,143,000 (2015: HK\$1,227,249,000) earned and incurred from financial assets and financial liabilities that are not at fair value through profit or loss, respectively.

Included above is interest income from unlisted investments in debt securities of HK\$910,983,000 (2015: HK\$642,338,000).

5. NET FEE AND COMMISSION INCOME

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Fee and commission income		
Securities dealings	109,234	178,218
Credit lines	26,972	30,432
Trade finance	13,962	13,204
Credit card services	91,610	87,041
Agency services	85,780	48,538
Others	16,936	30,011
Total fee and commission income	344,494	387,444
Less: Fee and commission expenses	(84,910)	(81,427)
Net fee and commission income	<u>259,584</u>	<u>306,017</u>
of which:		
Net fee and commission, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading nor designated at fair value through profit or loss		
– Fee income	139,879	151,617
– Fee expenses	(83,138)	(78,676)
	<u>56,741</u>	<u>72,941</u>

6. NET TRADING INCOME

	<i>Note</i>	2016 HK\$'000	2015 HK\$'000 (Restated)
Foreign exchange		201,704	65,894
Net gains (losses) from financial assets designated at fair value		919	(366)
Net gains (losses) on financial instruments at fair value through profit or loss		2,867	(10,258)
Net losses gains on fair value hedge:			
– Net losses on hedged items attributable to the hedged risk		(312,858)	(12,189)
– Net gains on hedging instruments		319,847	9,820
Net gains on disposal of available-for-sale debt securities	<i>14</i>	17,580	10,714
		<u>230,059</u>	<u>63,615</u>

“Net trading income – foreign exchange” includes gains and losses from spots and forward contracts, swaps and translated foreign currency assets and liabilities, which are not designated as qualifying hedging relationship.

The Group entered into foreign exchange swaps for its liquidity management and funding activities. It involves swapping a currency (“original currency”) into another currency (“swap currency”) at the spot exchange rate for short-term placement and simultaneously entering into a forward contract to convert the funds back to the original currency on maturity of the placement. The exchange difference between the spot and forward contracts is recognised as a gain or loss in “net trading income – foreign exchange”, while the corresponding interest differential between the surplus funds in the original currency and swap currency is reflected in net interest income.

“Net trading income – foreign exchange” also includes certain translation gains and losses reported in accordance with Hong Kong Accounting Standard 21 “The Effects of Changes in Foreign Exchange Rates” in relation to the Group’s Mainland Operation. There were translation gains of approximately HK\$56 million arising from translation of non-Renminbi net monetary assets maintained in the Mainland branches and there were translation gains of approximately HK\$70 million arising from the translation of Renminbi net monetary liabilities at Head Office level in relation to the working capital provided to the Mainland branches. These translation gains from monetary items had been reported as “net trading income – foreign exchange” whereas the corresponding translation losses from the consolidation of the Mainland branches had been reported as part of exchange differences arising on translation under other comprehensive income.

During the year, net gains on disposal of the available-for-sale debt securities derived from the financial market activities is included in the net trading income of the Group. This is to in line with the current business model of the Group. Comparative figures have been reclassified to ensure information is provided on a basis consistent with the current year’s presentation.

7. OTHER OPERATING INCOME

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Dividend income		
– Listed investments	5,922	5,905
– Unlisted investments	5,868	5,700
	11,790	11,605
Gross rents from investment properties	7,399	8,979
Less: Outgoings	(1,640)	939
Net rental income	5,759	9,918
Safe deposit box rentals	51,088	50,627
Insurance underwriting premiums less claims and commission expenses	13,158	19,982
Other banking services income	51,082	47,974
Others	6,976	3,141
	<u>139,853</u>	<u>143,247</u>

8. OPERATING EXPENSES

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Auditor's remuneration		
– Audit services – current year	5,134	3,998
– Audit services – under provision in prior year	615	–
– Non-audit services	2,985	249
Total auditor's remuneration	8,734	4,247
Staff costs (including directors' emoluments)		
– Salaries and other costs	709,038	637,937
– Retirement benefits scheme contributions	41,615	35,121
– Capitalised to intangible assets	(30,693)	–
Total staff costs	719,960	673,058
Depreciation	62,629	52,105
– Capitalised to intangible assets	(4,182)	–
	58,447	52,105
Release of prepaid lease payments for land	66	66
Premises and equipment expenses, excluding depreciation and release of prepaid lease payments for land		
– Rentals and rates for premises	136,303	117,335
– Capitalised to intangible assets	(5,025)	–
	131,278	117,335
– Others	29,675	30,757
Other operating expenses	281,518	236,189
– Capitalised to intangible assets	(2,126)	–
	<u>1,227,552</u>	<u>1,113,757</u>

Included in the premises and equipment expenses are minimum lease payments under operating lease of HK\$127,072,000 (2015: HK\$109,053,000).

In addition to the Non-audit services of Auditor's remuneration disclosed above, the Group has capitalised Non-audit services of Auditor's remuneration of HK\$536,000 (2015: HK\$645,000).

9. TAXATION

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
The tax charge comprises:		
Hong Kong Profits Tax		
– Current year	235,009	178,458
– Over provision in prior years	(133)	(208)
Overseas taxation		
– Current year	26,632	47,662
– Over provision in prior years	(509)	(113)
Deferred tax (<i>Note 27</i>)	3,297	455
	<u>264,296</u>	<u>226,254</u>

Hong Kong Profits Tax is calculated at 16.5% (2015: 16.5%) of the estimated assessable profit for the year.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

The tax charge for the year can be reconciled to the Group's profit before taxation per the consolidated income statement as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Profit before taxation	<u>1,684,000</u>	<u>1,419,390</u>
Tax at the domestic income tax rate of 16.5% (2015: 16.5%)	277,859	234,199
Tax effect of share of profits of associates	(5,217)	(5,252)
Tax effect of expenses not deductible for tax purpose	1,719	10,683
Tax effect of income not taxable for tax purpose	(9,752)	(21,136)
Over provision in prior years	(642)	(321)
Effect of different tax rates of subsidiaries and branches operating in other jurisdictions	472	8,101
Others	(143)	(20)
Tax charge for the year	<u>264,296</u>	<u>226,254</u>

10. DIVIDENDS

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Dividends recognised as distribution to ordinary shareholders during the year:		
2016 Interim – HK\$0.15 (2015: 2015 Interim – HK\$0.21) per share	97,875	91,350
2015 Final – HK\$0.37 (2015: 2014 Final – HK\$0.41) per share	241,425	178,350
	339,300	269,700

The final dividend of HK\$0.39 per share, totalling HK\$254,475,000, in respect of the current financial year (2015: HK\$0.37 per share, totalling HK\$241,425,000) has been proposed by the Board and is subject to approval by the shareholders in the next AGM of the shareholders.

At the board meeting on 22 August 2016, the Board declared a total amount of interim dividend of HK\$97,875,000 (2015: HK\$91,350,000) at a rate of HK\$0.15 (2015: HK\$0.21) per share. The interim dividend was paid on 21 September 2016.

11. EARNINGS PER SHARE – BASIC AND DILUTED

The calculation of basic earnings per share is based on the profit attributable to equity owners of the Bank of HK\$1,419,704,000 (2015: HK\$1,193,136,000) with deduction of distribution payment for additional equity instruments of HK\$151,425,000 (2015: HK\$151,173,000) on 652,500,000 (2015: 506,207,000) weighted average ordinary shares in issue during the year.

As at 31 December 2016 and 31 December 2015, there were no potential dilutive instrument in issue.

12. CASH AND SHORT-TERM FUNDS

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Cash and balances with central bank and banks	4,009,869	5,639,475
Money at call and short notice	23,415,448	12,493,978
Exchange fund bills	3,095,964	3,298,441
	30,521,281	21,431,894

Included in the “Cash and balances with central bank and banks” of the Group are surplus reserve deposits placed with People’s Bank of China by the Mainland branches of HK\$376,287,000 (2015: HK\$1,300,185,000).

13. DERIVATIVE FINANCIAL INSTRUMENTS

	Notional amount <i>HK\$'000</i>	2016 Fair value		Notional amount <i>HK\$'000</i>	2015 Fair value	
		Assets <i>HK\$'000</i>	Liabilities <i>HK\$'000</i>		Assets <i>HK\$'000</i>	Liabilities <i>HK\$'000</i>
Derivatives held for trading						
– Foreign currency forward contracts	46,805,949	238,799	173,054	50,451,669	442,399	549,336
– Interest rate swaps	567,520	11,227	10,708	1,141,030	6,598	6,338
Derivatives designated as hedging instruments						
– Interest rate swaps	16,284,175	174,819	369,852	11,579,083	128,654	289,104
		<u>424,845</u>	<u>553,614</u>		<u>577,651</u>	<u>844,778</u>

As at 31 December 2016, the currencies of foreign currency forward contracts mainly comprise buying Hong Kong dollars and United States dollars (2015: Hong Kong dollars and United States dollars), and the currencies of foreign currency forward contracts mainly comprise selling United States dollars and Hong Kong dollars (2015: Renminbi and United States dollars). As at 31 December 2016 and 31 December 2015, all of these contracts have settlement dates within one year from the end of the reporting period.

The remaining maturity of interest rate swaps held for trading is within 10 years (2015: within 10 years).

Of the interest rate swaps held for trading with a notional amount of HK\$567,520,000 (2015: HK\$1,141,030,000) as at 31 December 2016, the notional amount of HK\$283,760,000 (2015: HK\$958,060,000) was floating-to-fixed rate swaps, the remaining notional amount of HK\$283,760,000 (2015: HK\$182,970,000) was fixed-to-floating rate swaps.

The credit risk-weighted amounts of derivative exposures calculated based on the Banking (Capital) Rules of the Hong Kong Banking Ordinance are as follows:

	2016			2015		
	Notional amount <i>HK\$'000</i>	Replacement cost <i>HK\$'000</i>	Credit risk- weighted amount <i>HK\$'000</i>	Notional amount <i>HK\$'000</i>	Replacement cost <i>HK\$'000</i>	Credit risk- weighted amount <i>HK\$'000</i>
Exchange rate contracts	46,805,949	238,799	222,385	50,451,669	442,399	259,178
Interest rate contracts	16,851,695	186,046	113,171	12,720,113	135,252	58,446
		<u>424,845</u>	<u>335,556</u>		<u>577,651</u>	<u>317,624</u>

Replacement cost is the cost which would be incurred by the Group if it was required to enter into another contract to replace the existing transaction or existing contract with another counterparty with substantially the same economic consequences for the Group and is calculated by marking-to-market the existing transaction or existing contract. If the resultant value is positive for the Group, the replacement cost shall be the resultant value of the existing transaction or existing contract. If the resultant value is negative for the Group, the replacement cost shall be zero. Replacement cost is a close approximation of the credit risk for these contracts at the end of the reporting period.

The derivative financial instruments including exchange rate contracts and interest rate contracts have been recognised in the statements of financial position at fair values.

The fair values of the derivative financial instruments do not take into account the effect of any bilateral netting agreements.

Fair value hedge of fixed-rate bonds

The Group designates certain interest rate swaps as fair value hedges of available-for-sale debt securities with carrying amount of HK\$15,011,658,000 (2015: HK\$10,142,015,000) as at 31 December 2016. The purpose is to minimise its exposure to fair value changes of its fixed-rate bonds by swapping these fixed-rate bonds from fixed rates to floating rates. The interest rate swaps and the corresponding fixed-rate bonds have the same terms. The management of the Group considers that the interest rate swaps are highly effective hedging instruments. The remaining maturity of these interest rate swaps and debt securities ranged from 5 months to 9 years.

During the years ended 31 December 2016 and 31 December 2015, the above fair value hedges were effective in hedging the fair value exposures to interest rate movements and as a result, both the losses in fair value of the bonds of HK\$342,602,000 (2015: losses of HK\$8,551,000) and gains in fair value of the interest rate swaps of HK\$346,203,000 (2015: gain of HK\$4,497,000) were included in the consolidated income statement.

Fair value hedge of subordinated note issued

The Group designates an interest rate swap as fair value hedge of the interest rate movement of the US\$225 million subordinated note issued (see note 24). The purpose is to minimise its exposure to fair value changes of its fixed-rate note by swapping fixed-rate note from fixed rate to floating rate. The interest rate swap and the hedged subordinated note have the same terms and the management of the Group considers that the interest rate swap is a highly effective hedging instrument.

The hedge was effective in hedging the fair value exposure to interest rate movements and as a result, both the decrease in fair value of the note of HK\$29,744,000 (2015: increase in fair value of HK\$3,638,000) and losses in fair value of the interest rate swap of HK\$26,356,000 (2015: gains of HK\$5,323,000) were included in the consolidated income statement.

14. INVESTMENTS IN SECURITIES

	Financial assets at fair value through profit or loss		Available-for-sale securities HK\$'000	Held-to-maturity securities HK\$'000	Total HK\$'000
	Held for trading HK\$'000	Designated at fair value HK\$'000			
2016					
Equity securities:					
Listed in Hong Kong	241	–	56,882	–	57,123
Listed overseas	–	–	2,317	–	2,317
	<u>241</u>	<u>–</u>	<u>59,199</u>	<u>–</u>	<u>59,440</u>
Unlisted	–	–	32,561	–	32,561
	<u>241</u>	<u>–</u>	<u>91,760</u>	<u>–</u>	<u>92,001</u>
Debt securities – Unlisted:					
Certificates of deposit	–	–	3,472,782	141,134	3,613,916
Other debt securities	–	–	20,599,486	5,422,549	26,022,035
	<u>–</u>	<u>–</u>	<u>24,072,268</u>	<u>5,563,683</u>	<u>29,635,951</u>
Total:					
Listed in Hong Kong	241	–	56,882	–	57,123
Listed overseas	–	–	2,317	–	2,317
Unlisted	–	–	24,104,829	5,563,683	29,668,512
	<u>241</u>	<u>–</u>	<u>24,164,028</u>	<u>5,563,683</u>	<u>29,727,952</u>
As analysed by issuing entities:					
Central governments and central banks	–	–	4,006,693	4,645	4,011,338
Public sector entities	–	–	26	39,234	39,260
Banks	–	–	7,314,551	941,530	8,256,081
Corporate entities	241	–	12,842,758	4,578,274	17,421,273
	<u>241</u>	<u>–</u>	<u>24,164,028</u>	<u>5,563,683</u>	<u>29,727,952</u>

	Financial assets at fair value through profit or loss				Total HK\$'000
	Held for trading HK\$'000	Designated at fair value HK\$'000	Available-for-sale securities HK\$'000	Held-to-maturity securities HK\$'000	
2015					
Equity securities:					
Listed in Hong Kong	271	–	186,172	–	186,443
Listed overseas	–	–	2,984	–	2,984
	<u>271</u>	<u>–</u>	<u>189,156</u>	<u>–</u>	<u>189,427</u>
Unlisted	–	–	34,333	–	34,333
	<u>271</u>	<u>–</u>	<u>223,489</u>	<u>–</u>	<u>223,760</u>
Debt securities – Unlisted:					
Certificates of deposit	–	–	7,264,655	2,720,985	9,985,640
Other debt securities	–	–	15,311,879	5,965,545	21,277,424
	<u>–</u>	<u>–</u>	<u>22,576,534</u>	<u>8,686,530</u>	<u>31,263,064</u>
Total:					
Listed in Hong Kong	271	–	186,172	–	186,443
Listed overseas	–	–	2,984	–	2,984
Unlisted	–	–	22,610,867	8,686,530	31,297,397
	<u>271</u>	<u>–</u>	<u>22,800,023</u>	<u>8,686,530</u>	<u>31,486,824</u>
As analysed by issuing entities:					
Central governments and central banks	–	–	1,762,697	16,183	1,778,880
Public sector entities	–	–	17	39,802	39,819
Banks	–	–	10,866,759	3,986,232	14,852,991
Corporate entities	271	–	10,170,191	4,644,313	14,814,775
Others	–	–	359	–	359
	<u>271</u>	<u>–</u>	<u>22,800,023</u>	<u>8,686,530</u>	<u>31,486,824</u>

As at 31 December 2015, available-for-sale financial assets of aggregated carrying amount of HK\$230,513,000 are bonds issued by Yuexiu Property Company Limited, a fellow subsidiary of the Group.

For the equity securities classified as available-for-sale financial instruments, impairment losses accumulated through the years of HK\$14,978,000 (2015: HK\$30,078,000) have been provided by the Group.

Unlisted equity securities classified as available-for-sale held by the Group amounting to HK\$32,286,000 (2015: HK\$33,974,000) are measured at cost less impairment. No impairment has been recognised for these equity securities.

Certain held-to-maturity certificates of deposit of HK\$775,000 (2015: HK\$17,052,000) held by the San Francisco representative office of the Bank have been pledged to the State of California of the United States of America in compliance with the requirements of the California Financial Code.

Debt securities classified as available-for-sale and held-to-maturity amounting to HK\$16,789,000 (2015: nil) and HK\$4,645,000 (2015: HK\$16,183,000) respectively were issued by the Government of Hong Kong Special Administrative Region and the Mainland.

The debt securities classified as available-for-sale and held-to-maturity held by the Group are mainly guaranteed or issued by corporates and financial institutions from the Mainland and Hong Kong.

In 2016 and 2015, certain securities classified as available-for-sale financial instruments have been disposed. Net gains on disposal of available-for-sale debt securities included in net trading income (note 6) refers to the gains on the disposal of debt securities which form part of the business operation. Net gains on disposal of other investments refers to the gains on the disposal of equity investments and structured investment vehicles which were held for capital appreciation.

15. TRANSFER OF FINANCIAL ASSETS

The following were the Group's debt securities classified as held-to-maturity and available-for-sale as at 31 December 2016 and 31 December 2015 that were transferred to an entity with terms to repurchase these debt securities at agreed dates and prices. As the Group has retained substantially all the risks and rewards relating to these debt securities, the full carrying amount of these debt securities continued to be recognised. The cash received on the transfer was reported as liabilities under "Financial assets sold under repurchase agreements" (see note 21). The transferred debt securities serve as collateral to secure these liabilities. During the covered period, the legal title of the debt securities are transferred to the counterparty entity and there is no restriction for the counterparty entity to sell or repledge the collateral. These debt securities are either measured at amortised cost or carried at fair value in the consolidated statement of financial position.

	31 December 2016		
	Available- for-sale debt securities HK\$'000	Held-to- maturity debt securities HK\$'000	Total HK\$'000
Carrying amount of transferred assets	8,967,269	1,656,879	10,624,148
Carrying amount of associated liabilities (<i>Note 21</i>)	<u>8,382,649</u>	<u>1,463,104</u>	<u>9,845,753</u>
	31 December 2015		
	Available- for-sale debt securities HK\$'000	Held-to- maturity debt securities HK\$'000	Total HK\$'000
Carrying amount of transferred assets	2,956,066	534,753	3,490,819
Carrying amount of associated liabilities (<i>Note 21</i>)	<u>2,805,533</u>	<u>517,150</u>	<u>3,322,683</u>

16. ADVANCES AND OTHER ACCOUNTS

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Advances to customers		
Bills receivable	564,206	498,288
Trade bills	801,981	4,741,164
Other advances to customers	<u>69,322,968</u>	<u>58,360,560</u>
	70,689,155	63,600,012
Interest receivable	481,079	507,384
Impairment allowances		
– Individually assessed	(39,737)	(23,688)
– Collectively assessed	<u>(251,219)</u>	<u>(250,494)</u>
	70,879,278	63,833,214
Advances to banks	496,256	–
Other accounts	<u>2,706,071</u>	<u>1,553,434</u>
	<u>74,081,605</u>	<u>65,386,648</u>

Included in the “Other Accounts” of the Group is variation margin of HK\$538,331,000 (2015: HK\$362,753,000) deposited in banks for certain interest rate swaps, foreign currency forward contracts and repurchase agreements and an amount of approximately HK\$1,548,577,000 (2015: HK\$313,914,000) placed as reserve funds with banks in the Mainland by the Mainland branches. Among which, HK\$716,623,000 (2015: HK\$151,741,000) are the mandatory reserve deposits placed with the People’s Bank of China. The mandatory reserve deposits are not available for the Group’s daily operation; HK\$831,954,000 (2015: HK\$162,173,000) are the fixed deposits placed with banks in the Mainland in compliance with the requirements of Regulations Governing Foreign Financial Institutions of the Mainland. In addition, in 2015, there is bank balance placed with a bank in Mainland of HK\$357,970,000 in relation to the Guangzhou Branch setup awaiting capital verification.

The remaining balance of “Other Accounts” of the Group amounting to HK\$619,163,000 (2015: HK\$518,797,000) mainly included account receivables from Hong Kong Securities Clearing Company Limited, Hong Kong Futures Exchange Clearing Corporation Limited and brokerage clients in relation to securities dealing of HK\$259,568,000 (2015: HK\$239,587,000).

Impairment allowances on advances:

	Individual assessment <i>HK\$'000</i>	Collective assessment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance 1 January 2016	23,688	250,494	274,182
– Increase in impairment allowances	27,070	2,167	29,237
– Amounts reversed	(69,435)	–	(69,435)
Charge (reversal) of impairment allowances (net)	(42,365)	2,167	(40,198)
Amounts written off	(5,758)	–	(5,758)
Recoveries of advances written off in previous years	64,876	–	64,876
Unwinding effect of discount rate	(704)	–	(704)
Exchange difference	–	(1,442)	(1,442)
Balance 31 December 2016	39,737	251,219	290,956
Balance 1 January 2015	19,945	238,987	258,932
– Increase in impairment allowances	19,813	12,439	32,252
– Amounts reversed	(9,504)	–	(9,504)
Charge of impairment allowances (net)	10,309	12,439	22,748
Amounts written off	(8,558)	–	(8,558)
Recoveries of advances written off in previous years	2,149	–	2,149
Unwinding effect of discount rate	(163)	–	(163)
Exchange difference	6	(932)	(926)
Balance 31 December 2015	23,688	250,494	274,182

Details of the impaired loans are as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Gross impaired loans	48,253	25,227
Less: Impairment allowances under individual assessment	<u>(39,737)</u>	<u>(23,688)</u>
Net impaired loans	<u>8,516</u>	<u>1,539</u>
Gross impaired loans as a percentage of gross advances to customers	<u>0.07%</u>	<u>0.04%</u>
Market value of collateral pledged	<u>9,150</u>	<u>12,412</u>

Details of the non-performing loans are as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Gross non-performing loans (<i>Note</i>)	449,772	227,138
Less: Impairment allowances under individual assessment	<u>(39,737)</u>	<u>(23,688)</u>
Net non-performing loans	<u>410,035</u>	<u>203,450</u>
Gross non-performing loans as a percentage of gross advances to customers	<u>0.64%</u>	<u>0.36%</u>
Market value of collateral pledged	<u>760,420</u>	<u>574,177</u>

Note: Non-performing loans represent advances which are either classified as “substandard”, “doubtful” or “loss” under the Group’s classification of loan quality. The occurrence of loss event(s) may not necessarily result in impairment loss where the advances are fully collateralised. While such advances are of “substandard” or lower grades, they are regarded as not being impaired.

In addition to the individually assessed loans impairment allowance, the Group has also provided collectively assessed loans impairment allowance for loans that are individually insignificant or advances where no impairment has been identified individually.

17. ASSETS HELD FOR SALE

The carrying amount of assets held for sale comprises:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Leasehold land and buildings in Hong Kong Held on medium-term lease (10-50 years expired)	<u>2</u>	<u>–</u>

18. INVESTMENT PROPERTIES

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
At 1 January	264,222	288,413
Transfer from land and buildings	19,000	13,200
Transfer to assets held for sale	–	(141,954)
Net increase in fair value recognised in the profit or loss	2,026	106,737
Exchange adjustments	(2,321)	(2,174)
	<u>282,927</u>	<u>264,222</u>
At 31 December	<u>282,927</u>	<u>264,222</u>

All of the Group's property interests held under operating leases to earn rentals and/or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

Net gains on fair value adjustments on investment properties:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Net gains on fair value adjustments on investment properties	<u>2,026</u>	<u>106,737</u>

Investment properties owned by the Group were revalued at 31 December 2016 by adopting the direct comparison approach (2015: direct comparison approach) and with reference to the recent transactions for similar premises by Vigers Appraisal and Consulting Limited (2015: Vigers Appraisal and Consulting Limited), independent professionally qualified valuers. The fair value is mainly arrived at by reference to comparable market transactions for similar properties.

The fair value of investment properties is estimated based on assumptions that there would be no forced sale situation in any manner for these investment properties and the structure of these investment properties were in a reasonable condition at the end of the reporting period.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

One of the key inputs used in valuing the investment properties was the unit sale rate taking into account of time, location and individual factors such as size and levels of building, which ranged from HK\$3,000 to HK\$47,900 (2015: HK\$5,800 to HK\$45,000) per square feet. A decrease in the unit sale rate would result in decrease in fair value measurement of the investment properties by the same percentage decrease and vice versa.

In estimating the fair value of the Group's investment properties, the management of the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the management of the Group engages third party qualified valuers to perform the valuation of the Group's investment properties. At the end of each reporting period, the management of the Group works closely with the qualified external valuers to establish and determine the appropriate valuation techniques and inputs for Level 2 and Level 3 fair value measurement. The management of the Group will first consider and adopt Level 2 inputs where inputs can be derived from observable quoted prices in the active market. When Level 2 inputs are not available, the management of the Group will adopt valuation techniques that include Level 3 inputs. Where there is a material change in the fair value of the assets, the causes of the fluctuations will be reported to the directors of the Bank.

Information about the valuation techniques and inputs in determining the fair value of the Group's investment properties are disclosed above.

Investment properties are classified as Level 3 under fair value hierarchy as at 31 December 2016 and 31 December 2015. There were no transfers into or out of Level 3 during the year.

The investment properties are rented out under operating leases or are held for capital appreciation purposes.

The carrying amount of investment properties of the Group comprises:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Leasehold properties		
Held in Hong Kong on long-term lease (over 50 years unexpired)	159,700	159,100
Held in Hong Kong on medium-term lease (10 – 50 years unexpired)	84,300	66,900
Held outside Hong Kong on medium-term lease (10 – 50 years unexpired)	38,927	38,222
	<u>282,927</u>	<u>264,222</u>

19. PROPERTY AND EQUIPMENT

	Leasehold land <i>HK\$'000</i>	Buildings <i>HK\$'000</i>	Equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
COST				
At 1 January 2016	486,181	163,595	641,040	1,290,816
Additions	–	–	82,389	82,389
Disposals	(3,661)	(814)	(13,356)	(17,831)
Transfer to assets held for sale	(6)	(20)	–	(26)
Transfer to investment properties	(4,202)	(1,070)	–	(5,272)
Exchange adjustments	–	(251)	(4,259)	(4,510)
At 31 December 2016	<u>478,312</u>	<u>161,440</u>	<u>705,814</u>	<u>1,345,566</u>
ACCUMULATED DEPRECIATION				
At 1 January 2016	131,429	48,663	482,947	663,039
Depreciation	10,805	4,072	47,752	62,629
Eliminated on disposals	(93)	(534)	(8,795)	(9,422)
Transfer to assets held for sale	(4)	(20)	–	(24)
Transfer to investment properties	(1,931)	(570)	–	(2,501)
Exchange adjustments	–	(110)	(1,649)	(1,759)
At 31 December 2016	<u>140,206</u>	<u>51,501</u>	<u>520,255</u>	<u>711,962</u>
CARRYING AMOUNTS				
At 31 December 2016	<u>338,106</u>	<u>109,939</u>	<u>185,559</u>	<u>633,604</u>
At 1 January 2016	<u>354,752</u>	<u>114,932</u>	<u>158,093</u>	<u>627,777</u>

	Leasehold land HK\$'000	Buildings HK\$'000	Equipment HK\$'000	Total HK\$'000
COST				
At 1 January 2015	486,350	166,070	577,595	1,230,015
Additions	–	–	72,185	72,185
Disposals	–	–	(8,740)	(8,740)
Transfer to investment properties	(169)	(2,212)	–	(2,381)
Exchange adjustments	–	(263)	–	(263)
At 31 December 2015	<u>486,181</u>	<u>163,595</u>	<u>641,040</u>	<u>1,290,816</u>
ACCUMULATED DEPRECIATION				
At 1 January 2015	120,634	45,160	454,265	620,059
Depreciation	10,834	4,016	37,255	52,105
Eliminated on disposals	–	–	(8,573)	(8,573)
Transfer to investment properties	(39)	(513)	–	(552)
At 31 December 2015	<u>131,429</u>	<u>48,663</u>	<u>482,947</u>	<u>663,039</u>
CARRYING AMOUNTS				
At 31 December 2015	<u><u>354,752</u></u>	<u><u>114,932</u></u>	<u><u>158,093</u></u>	<u><u>627,777</u></u>
At 1 January 2015	<u><u>365,716</u></u>	<u><u>120,910</u></u>	<u><u>123,330</u></u>	<u><u>609,956</u></u>

The above items of property and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold land	Over the lease term of the leasehold land ranging from 33 to 929 years
Buildings	Over its estimated useful life of 50 years or the remaining lease period of the land which it is situated ranging from 33 to 929 years, whichever is the shorter
Equipment	10%-20%

The carrying amounts of leasehold land shown above comprise:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Leasehold land in Hong Kong:		
Held on long-term lease (over 50 years unexpired)	33,507	37,379
Held on medium-term lease (10 – 50 years unexpired)	303,775	316,521
Leasehold land outside Hong Kong:		
Held on medium-term lease (10 – 50 years unexpired)	<u>824</u>	<u>852</u>
	<u>338,106</u>	<u>354,752</u>

The carrying amounts of buildings shown above comprise:

	2016 HK\$'000	2015 HK\$'000
Building		
Held in Hong Kong on long-term lease (over 50 years unexpired)	7,959	8,585
Held in Hong Kong on medium-term lease (10-50 years unexpired)	96,031	100,036
Held outside Hong Kong on medium-term lease (10-50 years unexpired)	<u>5,949</u>	<u>6,311</u>
	<u>109,939</u>	<u>114,932</u>

20. PREPAID LEASE PAYMENTS FOR LAND

The Group's prepaid lease payments for land comprise:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
COST		
Outside Hong Kong held on:		
Leases of between 10-50 years	<u>2,850</u>	<u>2,850</u>
Net book value at 1 January	2,269	2,336
Release of prepaid operating lease payments	(66)	(66)
Exchange adjustments	<u>(2)</u>	<u>(1)</u>
Net book value at 31 December	<u>2,201</u>	<u>2,269</u>
Analysed as:		
Current portion	66	66
Non-current portion	<u>2,135</u>	<u>2,203</u>
Total	<u>2,201</u>	<u>2,269</u>

21. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Analysed by collateral type:		
Debt securities classified as:		
Available-for-sale (<i>Note 15</i>)	8,382,649	2,805,533
Held-to-maturity (<i>Note 15</i>)	1,463,104	517,150
	<u>9,845,753</u>	<u>3,322,683</u>

As at 31 December 2016, debt securities which are classified as available-for-sale and held-to-maturity with carrying amount of HK\$8,967,269,000 (2015: HK\$2,956,066,000) and HK\$1,656,879,000 (2015: HK\$534,753,000) respectively were sold under repurchase agreements with other banks. All repurchase agreements are due within 12 months from the end of the reporting period.

22. DEPOSITS FROM CUSTOMERS

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Demand deposits and current accounts	9,508,384	8,032,054
Savings deposits	35,751,109	31,440,381
Time, call and notice deposits	57,621,136	59,919,929
	<u>102,880,629</u>	<u>99,392,364</u>

23. CERTIFICATES OF DEPOSIT AND DEBT SECURITIES ISSUED

The Group has issued certificates of deposit which are measured at amortised cost with a total carrying amount of HK\$812,329,000 as at 31 December 2016 (2015: HK\$351,962,000). Certificates of deposit bear contractual interest rates between 1.10% to 1.41% (2015: 0.84% to 1.2%) per annum and will mature in 2017. All certificates of deposit issued are not secured by any collateral.

The Group has issued securities which are measured at amortised cost with a total carrying amount of HK\$1,663,774,000 as at 31 December 2016. The debt securities issued bear contractual interest rate at 3.6% per annum and will mature in 2019. The debt securities issued are not secured by any collateral.

24. LOAN CAPITAL

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
US\$225 million fixed rate subordinated note due 2020 under fair value hedge (after adjustment of hedged interest rate risk) (<i>Notes (a) & (b)</i>)	<u>1,792,267</u>	<u>1,819,591</u>

Notes:

- (a) This represented a subordinated note qualifying as tier 2 capital under Basel II accord with face value of US\$225,000,000 issued on 5 November 2010. The note will mature on 4 November 2020. If at any time on or after 1 January 2013, the note no longer fully qualifies as term subordinated debt for inclusion in Category II – Supplementary Capital of the Bank upon changes to regulatory requirements, the Bank may, at its option and subject to the prior written approval of the HKMA, exercise a change of the status of the note by serving the “Change in Status Notice” to the noteholders. Upon a “Change in Status Notice” becoming effective, the note shall thereafter constitute unsubordinated obligations and the rate of interest on the note shall be reduced from 6% per annum to 5.5% per annum. As “Change in Status Notice” has not been served, the rate of interest on the note remains at 6% per annum.
- (b) The subordinated note issued is not secured by any collateral.

25. SHARE CAPITAL

	Number of shares (<i>thousands</i>)	Share capital <i>HK\$'000</i>
Ordinary shares, issued and fully paid:		
At 1 January 2015	435,000	1,760,317
Issuance of shares upon right issues (<i>Note (a)</i>)	<u>217,500</u>	<u>3,675,587</u>
At 31 December 2015 and 1 January 2016	<u>652,500</u>	<u>5,435,904</u>
At 31 December 2016	<u>652,500</u>	<u>5,435,904</u>

Notes:

- (a) During the year ended 31 December 2015, 217,500,000 new shares were issued and allotted under the rights issue at the subscription price of HK\$17.05 each on the basis of 1 rights share for every 2 shares held on 21 August 2015.

26. ADDITIONAL EQUITY INSTRUMENTS

	2016	2015
	HK\$'000	HK\$'000
US\$300 million undated non-cumulative subordinated additional tier 1 capital securities	<u>2,312,030</u>	<u>2,312,030</u>

On 25 September 2014, the Bank issued undated non-cumulative subordinated additional tier 1 capital securities (“Additional Tier 1 Capital Securities”) with a face value of US\$300 million (equivalent to HK\$2,312,030,000 net of related issuance costs). The Additional Tier 1 Capital Securities are undated and bear a 6.50% coupon until the first call date on 25 September 2019. The coupon will be reset every five years if the Additional Tier 1 Capital Securities are not redeemed to a fixed rate equivalent to the then-prevailing five-year US Treasury rate plus 4.628% per annum.

The coupon shall be payable semi-annually. The Bank has the right to cancel coupon payment (subject to the requirement as set out in the terms and conditions of the Additional Tier 1 Capital Securities) and the coupon cancelled shall not be cumulative. However, the Bank is stopped from declaring dividend to its ordinary shareholders unless the next scheduled coupon payment is paid.

The principal of the Additional Tier 1 Capital Securities will be written off up to the amount as directed or agreed with the HKMA if the HKMA notifies the Bank that in the opinion of the HKMA, the Bank would become non-viable if there is no written off of the principal.

The Bank has a call option to redeem all the outstanding capital securities from 25 September 2019 or any subsequent coupon payment date, but subject to restriction as set out in the terms and conditions.

During the year, a distribution of US\$19,500,000 (2015: US\$19,500,000) (equivalent to HK\$151,425,000 (2015: HK\$151,173,000)) was paid to the securities holders.

27. DEFERRED TAXATION

For the purpose of presentation in the statements of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2016	2015
	HK\$'000	HK\$'000
Deferred tax assets	4,672	10,744
Deferred tax liabilities	<u>(13,245)</u>	<u>(10,069)</u>
	<u>(8,573)</u>	<u>675</u>

The following are the major deferred tax assets (liabilities) recognised and movements thereon during the current and prior reporting year:

	Accelerated tax depreciation <i>HK\$'000</i>	Collectively assessed impairment allowance <i>HK\$'000</i>	Investment properties <i>HK\$'000</i>	Revaluation of available- for-sale securities <i>HK\$'000</i>	Remeasurement of retirement benefits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2016	(3,881)	38,327	(7,653)	(22,626)	(3,492)	675
Credit (charge) to income statement for the year (<i>Note 9</i>)	982	(2,962)	(1,317)	-	-	(3,297)
Charge to other comprehensive income for the year	-	-	-	(6,448)	-	(6,448)
Exchange adjustments	-	-	497	-	-	497
At 31 December 2016	<u>(2,899)</u>	<u>35,365</u>	<u>(8,473)</u>	<u>(29,074)</u>	<u>(3,492)</u>	<u>(8,573)</u>
At 1 January 2015	(6,844)	38,138	(4,729)	(41,927)	(3,492)	(18,854)
Credit (charge) to income statement for the year (<i>Note 9</i>)	2,963	189	(3,607)	-	-	(455)
Credit to other comprehensive income for the year	-	-	-	19,301	-	19,301
Exchange adjustments	-	-	683	-	-	683
At 31 December 2015	<u>(3,881)</u>	<u>38,327</u>	<u>(7,653)</u>	<u>(22,626)</u>	<u>(3,492)</u>	<u>675</u>

Under the Enterprise Income Tax Law of the PRC, withholding tax is imposed on profits distributed by the Bank's PRC branches from 1 January 2008 onwards. Deferred taxation has not been provided in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC branches amounting to HK\$455,797,000 (2015: HK\$453,011,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

28. INTANGIBLE ASSETS

	Goodwill	Internally developed software	Total
Cost:			
At 1 January 2016	110,606	–	110,606
Addition through internal development	–	171,123	171,123
At 31 December 2016	<u>110,606</u>	<u>171,123</u>	<u>281,729</u>
At 1 January and 31 December 2015	<u>110,606</u>	<u>–</u>	<u>110,606</u>
Accumulated impairment			
At 1 January 2016	60,000	–	60,000
Impairment	11,000	–	11,000
At 31 December 2016	<u>71,000</u>	<u>–</u>	<u>71,000</u>
At 1 January and 31 December 2015	<u>60,000</u>	<u>–</u>	<u>60,000</u>
Net book value			
At 31 December 2016	<u>39,606</u>	<u>171,123</u>	<u>210,729</u>
At 31 December 2015	<u>50,606</u>	<u>–</u>	<u>50,606</u>

The Group acquired 100% of issued share capital of Chong Hing Insurance Company Limited. The amount of goodwill arising as a result of acquisition was HK\$110,606,000.

For the year ended 31 December 2016, the management has reviewed goodwill for impairment testing purpose. The review comprised a comparison of the carrying amount and the value in use of an acquired subsidiary (the smallest cash-generating unit) to which the goodwill has been allocated. The acquired subsidiary is involved in insurance business.

The value in use calculations primarily use cash flow projections based on the five-year financial budgets approved by the management of the subsidiary and estimated terminal value at the end of the five-year period. There are a number of assumptions and estimates involved for the preparation of cash flow projections for the period covered by the approved budget and the estimated terminal value. Key assumptions include the expected growth in revenues (growth rate at 4% to 10%), long term growth rate (3%) and selection of discount rate (12%).

Value in use is derived at by discounting the expected future cash flows.

The management of the Group determines impairment loss on the goodwill of HK\$11,000,000 for the year ended 31 December 2016 (2015: Nil).

During the year, there was an addition of HK\$171,123,000 to internally developed software, which is a computer software currently under internal development. Included in the balance as at 31 December 2016, HK\$42,026,000 is capitalised from expenditures that directly attributable to the development of the software.

29. CONTINGENT LIABILITIES AND COMMITMENTS

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Contingent liabilities and commitments		
– contractual amounts		
Direct credit substitutes	805,429	868,445
Trade-related contingencies	596,068	225,216
Forward asset purchases	161,609	40,758
Undrawn formal standby facilities, credit lines and other commitments		
Which are unconditionally cancellable without prior notice	6,489,024	6,653,368
With an original maturity of one year and under	8,880,273	8,188,562
With an original maturity of over one year	8,397,394	2,355,451
Lease commitments	258,360	307,682
	<u>25,588,157</u>	<u>18,639,482</u>

The credit risk-weighted amount of contingent liabilities and commitments is HK\$6,103,286,000 (2015: HK\$3,543,850,000).

The credit risk-weighted amount is calculated based on “standardised approach”. The risk-weights used in the computation of credit risk-weighted amounts range from 0% to 100% (2015: 0% to 100%) which is assessed in accordance with the Banking (Capital) Rules.

Direct credit substitutes include financial guarantees given by the Group.

Most of the contingent liabilities and commitments are denominated in Hong Kong dollars.

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Within one year	120,932	109,844
In the second to fifth years, inclusive	<u>137,428</u>	<u>197,838</u>
	<u>258,360</u>	<u>307,682</u>

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of three years and rentals are fixed.

Capital commitments outstanding at the end of the reporting period are as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of property and equipment	161,609	40,758

At the end of the reporting period, the Group as lessor had contracted with tenants for the following future minimum lease payments:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Within one year	7,409	6,926
In the second to fifth years, inclusive	10,764	11,075
After five years	632	1,522
	18,805	19,523

30. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following material transactions with related parties:

	Interest, commission and rental income		Interest, rental and other operating expenses	
	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Ultimate holding company	2	24,698	3,505	18,182
Intermediate holding company	1,528	–	17,518	–
Fellow subsidiaries	11,579	21,039	14,068	24,477
Associates	62,115	32,534	5,393	4,654
Key management personnel (<i>Note</i>)	1,202	782	1,219	1,700

During the year, the Group had net trading income with intermediate holding company and fellow subsidiary of HK\$8,921,000 (2015: Nil).

At the end of reporting period, the Group had the following material outstanding balances with related parties:

	Amounts due from related parties		Amounts due to related parties	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
Ultimate holding company	<u>–</u>	<u>–</u>	<u>1,453,839</u>	<u>2,153,574</u>
Intermediate holding company	<u>295,792</u>	<u>–</u>	<u>2,140</u>	<u>–</u>
Fellow subsidiaries	<u>2,507</u>	<u>301,064</u>	<u>1,842,204</u>	<u>1,147,378</u>
Associates	<u>–</u>	<u>5,835</u>	<u>152,867</u>	<u>254,191</u>
Key management personnel (<i>Note</i>)	<u>55,754</u>	<u>53,352</u>	<u>211,290</u>	<u>165,407</u>

The above outstanding balances bear interest at rates similar to those made available to non-related parties. A portion of the loans to related parties are secured with properties, securities and fixed deposits.

As at 31 December 2015, the Group held available-for-sale debt securities issued by a fellow subsidiary of HK\$230,513,000.

As at 31 December 2016, the Group had operating lease commitments with fellow subsidiaries of HK\$19,183,000 (31 December 2015: HK\$32,161,000).

Note: Includes key management personnel, close family members of key management personnel and entities that are controlled or jointly controlled, directly or indirectly, by key management personnel.

Amounts due from related parties are included in advances and other accounts on the statements of financial position.

Amounts due to related parties are included in deposits from customers on the statements of financial position.

Compensation of key management personnel

The remuneration of directors and other members of the key management during the year was as follows:

	2016 HK\$'000	2015 HK\$'000
Short-term benefits	<u>139,331</u>	<u>128,073</u>
Post employment benefits	<u>8,739</u>	<u>7,396</u>
	<u>148,070</u>	<u>135,469</u>

The remuneration of directors and key management is reviewed by the Remuneration Committee having regard to the performance of individuals and market trends.

As of 31 December 2016, the Group accrued a bonus for the Group's senior management and employees. The accrued bonus was approved by the Remuneration Committee on 15 February 2017. The Group has not completed the allocation of the bonus to individual senior management. The allocation of accrued bonus included under short-term benefits above represents the best estimate of management for the bonus to be distributed to key management personnel as of the date of approval of the financial statements.

31. COMPARATIVE AMOUNTS

Certain comparative figures have been reclassified to conform with the current period's presentation.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2016

1. ADVANCES TO CUSTOMERS – BY INDUSTRY SECTORS

The Group's gross advances to customers (including advances booked in branches outside Hong Kong and subsidiaries) are analysed and reported by industry sectors according to the usage of the loans or business activities of the borrowers as follows:

	31 December 2016				
	Gross loans and advances <i>HK\$'000</i>	Collective impairment allowances <i>HK\$'000</i>	Individual impairment allowances <i>HK\$'000</i>	Loans and advances secured by collateral <i>HK\$'000</i> <i>(Note 1)</i>	Gross impaired advances <i>HK\$'000</i>
Loans for use in Hong Kong					
Industrial, commercial and financial					
– Property development	4,718,611	16,133	–	1,962,584	–
– Property investment	7,088,653	36,377	–	6,512,554	–
– Financial concerns	2,521,908	7,860	–	1,468,264	–
– Stockbrokers	2,943,866	9,009	–	1,660,372	–
– Wholesale and retail trade	2,827,690	28,426	7,256	2,379,035	7,256
– Manufacturing	2,424,713	24,217	3,899	1,652,931	8,357
– Transport and transport equipment	1,854,325	14,335	–	906,457	–
– Recreational activities	1,135	–	–	1,135	–
– Information technology	136,692	1,486	–	12,572	–
– Others <i>(Note 2)</i>	10,866,348	40,134	5,677	6,434,983	5,677
Individuals					
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	496,907	233	–	496,907	–
– Loans for the purchase of other residential properties	8,506,503	–	–	8,502,916	–
– Credit card advances	111,614	1,720	751	–	751
– Others <i>(Note 3)</i>	3,362,930	5,148	746	2,401,894	746
	<u>47,861,895</u>	<u>185,078</u>	<u>18,329</u>	<u>34,392,604</u>	<u>22,787</u>
Trade finance	2,585,427	8,028	21,408	886,960	25,466
Loans for use outside Hong Kong	<u>20,241,833</u>	<u>58,113</u>	<u>–</u>	<u>4,247,662</u>	<u>–</u>
	<u><u>70,689,155</u></u>	<u><u>251,219</u></u>	<u><u>39,737</u></u>	<u><u>39,527,226</u></u>	<u><u>48,253</u></u>

31 December 2015

	Gross loans and advances <i>HK\$'000</i>	Collective impairment allowances <i>HK\$'000</i>	Individual impairment allowances <i>HK\$'000</i>	Loans and advances secured by collateral <i>HK\$'000</i> <i>(Note 1)</i>	Gross impaired advances <i>HK\$'000</i>
Loans for use in Hong Kong					
Industrial, commercial and financial					
– Property development	2,189,155	8,733	–	1,066,507	–
– Property investment	7,140,081	41,102	–	6,762,493	–
– Financial concerns	3,907,080	13,643	–	2,857,545	–
– Stockbrokers	1,673,788	6,699	–	1,047,000	–
– Wholesale and retail trade	2,807,443	33,402	8,659	1,752,215	8,659
– Manufacturing	2,880,266	38,760	2,656	1,658,538	2,656
– Transport and transport equipment	1,483,263	9,248	–	856,509	–
– Recreational activities	1,173	–	–	1,173	–
– Information technology	46,979	779	–	132	–
– Others (<i>Note 2</i>)	9,474,669	53,750	340	5,744,183	340
Individuals					
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	497,758	–	–	497,758	–
– Loans for the purchase of other residential properties	8,015,269	–	–	8,014,320	–
– Credit card advances	101,009	1,610	692	–	717
– Others (<i>Note 3</i>)	2,217,239	3,657	867	1,779,564	867
	<u>42,435,172</u>	<u>211,383</u>	<u>13,214</u>	<u>32,037,937</u>	<u>13,239</u>
Trade finance	5,651,328	4,696	9,680	740,892	9,680
Loans for use outside Hong Kong	<u>15,513,512</u>	<u>34,415</u>	<u>794</u>	<u>4,980,269</u>	<u>2,308</u>
	<u><u>63,600,012</u></u>	<u><u>250,494</u></u>	<u><u>23,688</u></u>	<u><u>37,759,098</u></u>	<u><u>25,227</u></u>

Notes: 1. Loans and advances secured by collateral are determined as the lower of the market value of collateral or outstanding loan principal.

2. Major items included in “Others” are for electricity and gas, hotels, catering, margin lending and other business purposes.

3. Major items mainly included loans to professionals and other individuals for various private purposes.

4. Comparative information has been restated to conform with the current year’s presentation.

The Group's advances to customers overdue for over three months, and new impairment allowances and advances written off during the year ended 31 December 2016 and 2015 in respect of industry sectors which constitute not less than 10 per cent of gross advances to customers are analysed as follows:

	Advances overdue for over three months as at 31 December HK\$'000	2016 New impairment allowances during the year HK\$'000	Advances written-off during the year HK\$'000
Loans for use in Hong Kong			
Industrial, commercial and financial			
– Property investment	–	–	–
– Others	3,013	2,772	236
Individuals			
– Loans for the purchase of other residential properties	5,780	472	472
Loans for use outside Hong Kong	–	135	–
	<u> </u>	<u> </u>	<u> </u>
		2015	
	Advances overdue for over three months as at 31 December HK\$'000	New impairment allowances during the year HK\$'000	Advances written-off during the year HK\$'000
Loans for use in Hong Kong			
Industrial, commercial and financial			
– Property investment	159,725	–	–
– Others	340	4,829	4,573
Individuals			
– Loans for the purchase of other residential properties	419	28	28
Loans for use outside Hong Kong	135,274	121	–
	<u> </u>	<u> </u>	<u> </u>

2. ADVANCES TO CUSTOMERS – BY GEOGRAPHICAL AREAS

The Group's gross advances to customers by countries or geographical areas after taking into account any risk transfers are as follows:

	2016				
	Total advances <i>HK\$'000</i>	Advances overdue for over three months <i>HK\$'000</i>	Impaired advances <i>HK\$'000</i>	Individual impairment allowance <i>HK\$'000</i>	Collective impairment allowance <i>HK\$'000</i>
Hong Kong	56,974,017	55,448	48,253	39,737	202,120
Mainland China	10,670,402	–	–	–	40,052
Macau	2,517,063	–	–	–	9,047
Others	527,673	–	–	–	–
	<u>70,689,155</u>	<u>55,448</u>	<u>48,253</u>	<u>39,737</u>	<u>251,219</u>
	2015				
	Total advances <i>HK\$'000</i>	Advances overdue for over three months <i>HK\$'000</i>	Impaired advances <i>HK\$'000</i>	Individual impairment allowance <i>HK\$'000</i>	Collective impairment allowance <i>HK\$'000</i>
Hong Kong	51,355,270	375,988	22,919	22,894	217,953
Mainland China	9,832,239	2,308	2,308	794	24,204
Macau	2,386,415	–	–	–	8,337
America	3,110	–	–	–	–
Others	22,978	–	–	–	–
	<u>63,600,012</u>	<u>378,296</u>	<u>25,227</u>	<u>23,688</u>	<u>250,494</u>

4. CURRENCY RISK

The Group's foreign currency exposures arising from non-trading and structural position which constitute 10% or more of the total net position in all foreign currencies are as follows:

	USD	2016 RMB	Total
Equivalent in thousand of HK\$			
Spot assets	43,198,586	25,692,734	68,891,320
Spot liabilities	(26,518,744)	(23,225,764)	(49,744,508)
Forward purchases	14,816,584	5,446,876	20,263,460
Forward sales	(31,251,838)	(7,627,195)	(38,879,033)
Net long position	<u>244,588</u>	<u>286,651</u>	<u>531,239</u>
	MOP	RMB	Total
Net structural position	<u>48,545</u>	<u>351,377</u>	<u>399,922</u>
		2015 RMB	Total
Equivalent in thousand of HK\$			
Spot assets		26,548,622	26,548,622
Spot liabilities		(22,809,094)	(22,809,094)
Forward purchases		14,176,552	14,176,552
Forward sales		(17,554,841)	(17,554,841)
Net long position		<u>361,239</u>	<u>361,239</u>
	MOP	RMB	Total
Net structural position	<u>48,545</u>	<u>351,377*</u>	<u>399,922*</u>

* The comparative figures have been restated to conform with the current year's presentation.

5. OVERDUE AND RESCHEDULED ASSETS

	2016 Gross amount of advances <i>HK\$'000</i>	Percentage to total advances %
Advances overdue for		
– 6 months or less but over 3 months	1,429	0.0
– 1 year or less but over 6 months	27,448	0.0
– Over 1 year	<u>26,571</u>	<u>0.0</u>
Total overdue advances	<u><u>55,448</u></u>	<u><u>0.1</u></u>
Rescheduled advances	<u><u>265,023</u></u>	<u><u>0.4</u></u>
Individual impairment allowances made in respect of overdue loans and advances	<u><u>33,630</u></u>	
	2015	
	Gross amount of advances <i>HK\$'000</i>	Percentage to total advances %
Advances overdue for		
– 6 months or less but over 3 months	138,025	0.2
– 1 year or less but over 6 months	212,820	0.3
– Over 1 year	<u>27,451</u>	<u>0.0</u>
Total overdue advances	<u><u>378,296</u></u>	<u><u>0.5</u></u>
Rescheduled advances	<u><u>1,092</u></u>	<u><u>0.0</u></u>
Individual impairment allowances made in respect of overdue loans and advances	<u><u>19,566</u></u>	

The value of the security of the above overdue advances is analysed as follows:

	2016 HK\$'000	2015 <i>HK\$'000</i>
Covered portion of overdue loans and advances	22,412	359,501
Uncovered portion of overdue loans and advances	33,036	18,795
	<u>55,448</u>	<u>378,296</u>
Market value of collateral held against covered portion of overdue loans and advances	<u>89,224</u>	<u>914,110</u>

There were no advances to banks or other assets which were overdue for over three months as at 31 December 2016 and 31 December 2015, nor were there any rescheduled advances to banks and other financial institutions.

Reposessed assets held by the Group as at 31 December 2016 amounted to HK\$2,500,000 (2015: HK\$13,730,000).

6. MAINLAND ACTIVITIES EXPOSURES

The table below summaries the non-bank Mainland China exposures of the Bank's Hong Kong banking operations and the Bank's Mainland branch and sub-branches categorized by types of counterparties:

	31 December 2016		Total HK\$'000
	On-balance sheet exposure HK\$'000	Off-balance sheet exposure HK\$'000	
Type by counterparties			
1. Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	11,885,965	1,136,390	13,022,355
2. Local government, local government-owned entities and their subsidiaries and JVs	3,123,582	247,363	3,370,945
3. Mainland China nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	8,081,232	1,432,214	9,513,446
4. Other entities of central government not reported in item 1 above	3,279,271	554,276	3,833,547
5. Other entities of local government not reported in item 2 above	250,068	-	250,068
6. Mainland China nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	7,656,328	1,975,802	9,632,130
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	402,801	406,500	809,301
Total	34,679,247	5,752,545	40,431,792
Total assets after provision (Note)	136,919,757		
On-balance sheet exposures as percentage of total assets (Note)	25%		

	31 December 2015		Total HK\$'000
	On-balance sheet exposure HK\$'000	Off-balance sheet exposure HK\$'000	
Type by counterparties			
1. Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	8,882,948	372,752	9,255,700
2. Local government, local government-owned entities and their subsidiaries and JVs	2,656,138	453,323	3,109,461
3. Mainland China nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	4,053,774	1,057,871	5,111,645
4. Other entities of central government not reported in item 1 above	594,855	–	594,855
5. Other entities of local government not reported in item 2 above	782,005	–	782,005
6. Mainland China nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	7,415,023	931,423	8,346,446
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	151,138	1,500	152,638
Total	24,535,881	2,816,869	27,352,750
Total assets after provision (Note)	126,741,016		
On-balance sheet exposures as percentage of total assets (Note)	19%		

The categories of non-bank counterparties and type of direct exposures are disclosed in accordance with Banking (Disclosure) Rules with reference to the Return of Mainland Activities of the HKMA.

Note: Include total assets after provisions of the Bank's Hong Kong banking operations and the Bank's Mainland branches and sub-branches.

7. CAPITAL ADEQUACY RATIOS, LEVERAGE RATIO AND LIQUIDITY RATIOS

	2016	2015
	%	%
Total capital ratio	16.32	17.73
Tier 1 capital ratio	14.16	15.22
Common Equity Tier 1 (“CET 1”) capital ratio	11.81	12.60
		31 December
		2016
		%
Capital buffers (as a percentage of risk-weighted assets)		
Capital conservation buffer ratio		0.625
Countercyclical capital buffer ratio		0.491
		1.116

Countercyclical Capital Buffer Ratio

For 2015, there is no information disclosed relating to the Countercyclical capital buffer (“CCyB”) ratio pursuant to section 24B of the Banking (Disclosure) Rules for this period because the applicable JCCyB ratio (a capital buffer level announced by the regulatory authorities for the purpose of implementing the provisions concerning the countercyclical capital buffer under Basel III) for Hong Kong and for jurisdiction outside Hong Kong are at 0% before 1 January 2016.

Capital Conservation Buffer Ratio

Under the Banking (Capital) Rules, the capital conservation buffer ratio for calculating the Bank's buffer level is 0% for 2015.

	2016	2015
	<i>%</i>	<i>%</i>
Leverage ratio	9.57	10.19
	Year ended	Year ended
	31 December	31 December
	2016	2015
	<i>%</i>	<i>%</i>
Average liquidity maintenance ratio for the year	40.59	39.46

Capital adequacy ratios are compiled in accordance with the Banking (Capital) Rules under Hong Kong Banking Ordinance for the implementation of the “Basel III” capital accord, which became effective on 1 January 2013. In accordance with the Banking (Capital) Rules, the Bank has adopted the “standardised approach” for the calculation of the risk-weighted assets for credit risk, “standardised (market risk) approach” for the calculation of market risk and “basic indicator approach” for the calculation of operational risk. The capital adequacy ratio is consolidated, under the Banking (Capital) Rules, with reference to the financial information of the Bank, Chong Hing Finance Limited, Right Way Investments Limited, Gallbraith Limited, Chong Hing Information Technology Limited, Card Alliance Company Limited, Top Benefit Enterprise Limited and Hero Marker Limited.

Leverage ratio is disclosed in accordance with the Banking (Disclosure) Rules under Hong Kong Banking Ordinance. The leverage ratio is consolidated with reference to the financial information of the Bank, Chong Hing Finance Limited, Right Way Investments Limited, Gallbraith Limited, Chong Hing Information Technology Limited, Card Alliance Company Limited, Top Benefit Enterprise Limited and Hero Marker Limited.

Liquidity maintenance ratio (“LMR”) is compiled in accordance with the Banking (Liquidity) Rules under Hong Kong Banking Ordinance, which became effective on 1 January 2015. The LMR is calculated on an unconsolidated basis. The average liquidity maintenance ratio is calculated based on the arithmetic mean of the average value of the LMR of the Bank reported in the liquidity position return of the Bank for each month during the reporting period.

8. BASIS OF CONSOLIDATION

The consolidated financial statements cover the consolidated financial information of the Bank and all its subsidiaries and include the attributable share of interest in the Group's associates.

In preparing the capital adequacy ratio and liquidity ratio of the Group, they are prepared according to the basis of consolidation determined by the Hong Kong Monetary Authority for regulatory purposes. The main difference between the consolidation basis for accounting and regulatory purposes is that the former includes the Bank, all its subsidiaries and the attributable share of interests in the Group's associates whereas the latter includes the Bank and only some of the Group's subsidiaries which mainly conduct banking business or other business incidental to banking business. The LMR is prepared on an unconsolidated basis which includes the Bank only.

Subsidiaries that are included within the accounting scope of consolidation but are not included within the regulatory scope of consolidation are as follows:

Name of company	Principal activities	Total assets		Total equity	
		2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
Chong Hing (Nominees) Limited	Provision of nominee services	100	100	100	100
Chong Hing Securities Limited	Stockbroking	680,437	600,210	565,335	521,100
Chong Hing Commodities and Futures Limited	Investment holding and commodities and futures broking	66,779	67,270	63,102	62,771
Chong Hing Insurance Company Limited	Insurance underwriting	351,924	330,042	211,312	206,902
Chong Hing (Management) Limited	Provision of management services	173	110	100	100

STATEMENT OF COMPLIANCE

In preparing the consolidated financial statements for 2016, the Bank has fully complied with the Banking (Disclosure) Rules under the Hong Kong Banking Ordinance.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Bank is an authorised institution supervised by the HKMA under the Banking Ordinance. The Bank is committed to maintaining high standards of corporate governance, with a view to safeguarding the interests of shareholders, customers, employees and other stakeholders. The Bank has applied the principles in the Corporate Governance Code (the “Code”) set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and the module on “Corporate Governance of Locally Incorporated Authorised Institutions” under the Supervisory Policy Manual issued by the HKMA to its corporate governance structure and practices.

Pursuant to the Code, listed issuer must give considered reasons in its annual report for each deviation from any of the code provisions contained in the Code.

Throughout the year ended 31 December 2016, the Bank complied with all the applicable code provisions set out in the Code, except for deviations from the following code provisions:

1. Code Provision A.4.1 provides that non-executive directors should be appointed for a specific term, subject to re-election. None of the Non-executive Directors of the Bank was appointed for a specific term; however, all of them are subject to retirement by rotation and re-election at the annual general meeting (“AGM”) of the Bank in accordance with the Bank’s Articles of Association.
2. Code Provision A.6.7 provides that independent non-executive directors and other non-executive directors should attend general meetings. Code Provision E.1.2 also provides that the chairman of the board should attend the annual general meeting. Due to an unexpected business engagement external to the Bank, Mr Zhang Zhaoxing, Chairman of the Board, Mr Zhu Chunxiu and Mr Li Feng, being Non-executive Directors, were unable to attend the 2016 AGM of the Bank held on 13 May 2016. Mr Chiranakhorn Wanchai, an Independent Non-executive Director, was not able to join the 2016 AGM in person due to health reason.

COMPLIANCE WITH MODEL CODE

The Bank has adopted its own code for securities transactions by Directors on terms no less exacting than those set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) under Appendix 10 to the Listing Rules. All the Directors confirmed, following specific enquiry by the Bank, that they have complied with the required standards set out in the Model Code and the Bank’s own code for securities transactions by Directors throughout the year ended 31 December 2016.

FINAL DIVIDEND

The Board will recommend at the forthcoming AGM of the Bank to be held on Thursday, 18 May 2017 the payment of the final cash dividend for 2016 of HK\$0.39 per share (2015: HK\$0.37 per share). This final cash dividend, if approved, will be paid on Monday, 5 June 2017 to the Shareholders whose names appear on the register of members of the Bank on Friday, 26 May 2017.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of ascertaining the Shareholders who are entitled to attend and vote at the 2017 AGM, the register of members of the Bank will be closed from Friday, 12 May 2017 to Wednesday, 17 May 2017 (both days inclusive), during which period no transfer of shares can be registered. In order to qualify for attending and voting at the 2017 AGM, all transfer documents, together with the relevant share certificates, must be lodged for registration with the Bank's share registrar and transfer office, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 pm on Thursday, 11 May 2017.

In addition, for the purpose of ascertaining the Shareholders who are qualified to receive the final cash dividend, the register of members of the Bank will be closed from Wednesday, 24 May 2017 to Friday, 26 May 2017 (both days inclusive), during which period no transfer of shares can be registered. In order to qualify for receiving the 2016 final cash dividend, all transfer documents, together with the relevant share certificates, must be lodged for registration with the Bank's share registrar and transfer office, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 pm on Tuesday, 23 May 2017.

PURCHASE, SALE OR REDEMPTION OF THE BANK'S LISTED SECURITIES

Neither the Bank nor any of its subsidiaries purchased, sold or redeemed any of the Bank's listed securities during the year of 2016.

PUBLICATION OF 2016 FINAL RESULTS AND ANNUAL REPORT

This announcement is published on the websites of the Bank (www.chbank.com) and Hong Kong Exchanges and Clearing Limited (the "HKEX") (www.hkexnews.hk). The 2016 Annual Report will be available on the websites of the Bank and the HKEX, and the printed copies will be despatched to the Shareholders in late March 2017.

By Order of the Board
Chong Hing Bank Limited
Lai Wing Nga
Company Secretary

Hong Kong, 28 February 2017

As at the date of this announcement, the Board of the Bank comprises:

- *Executive Directors*
Mrs Leung Ko May Yee Margaret (Deputy Chairman, Managing Director and Chief Executive), Mr Zong Jianxin (Deputy Managing Director) and Mr Lau Wai Man (Deputy Managing Director);
- *Non-executive Directors*
Mr Zhang Zhaoxing (Chairman), Mr Zhu Chunxiu, Mr Wang Shuhui, Mr Li Feng and Mr Chow Cheuk Yu Alfred; and
- *Independent Non-executive Directors*
Mr Cheng Yuk Wo, Mr Ma Chiu Cheung Andrew, Mr Lee Ka Lun and Mr Yu Lup Fat Joseph.