

# 創興銀行有限公司 Chong Hing Bank Limited

Stock Code : 1111

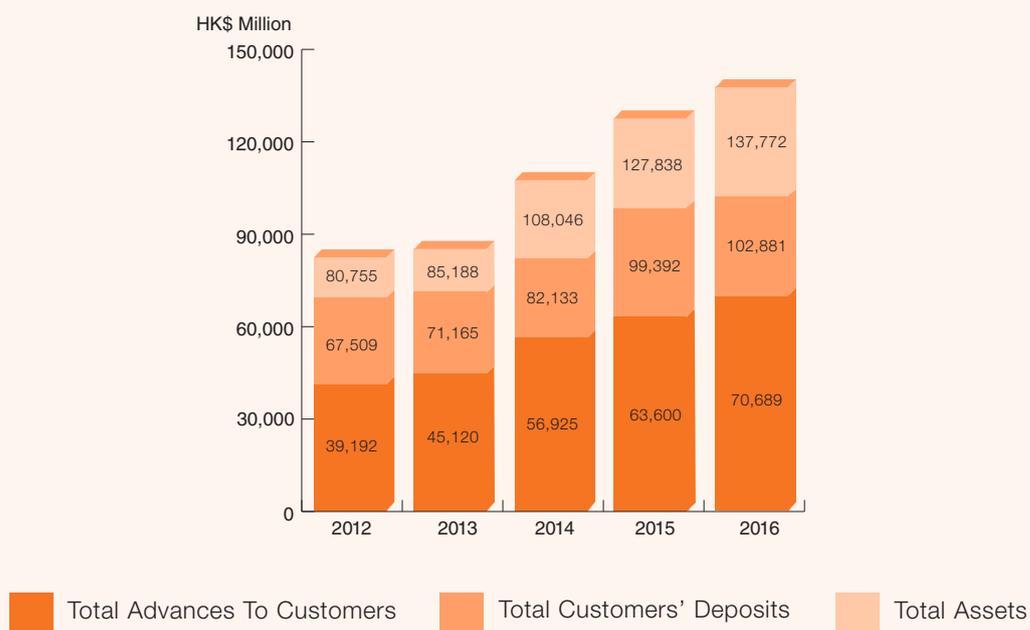


2016 ANNUAL REPORT

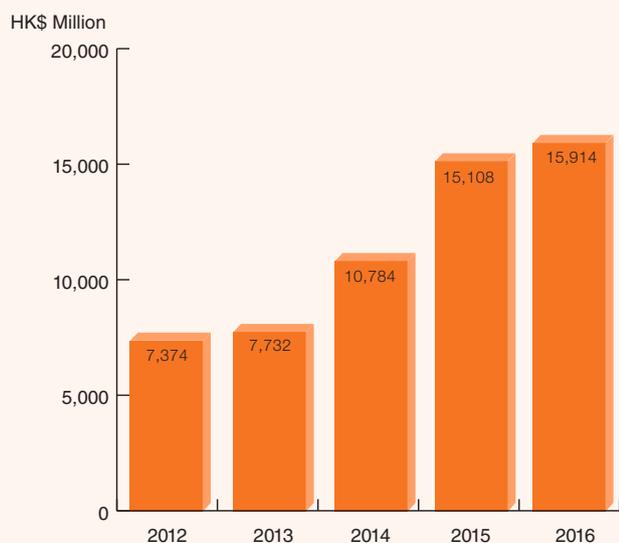
<b>2</b>	<b>Five-year Financial Summary</b>
<b>3</b>	<b>Corporate Information</b>
<b>5</b>	<b>Biographical Details of Directors and Senior Management</b>
<b>13</b>	<b>Abridged Corporate Structure</b>
<b>14</b>	<b>Shareholders' Calendar</b>
<b>15</b>	<b>Chairman's Statement</b>
<b>18</b>	<b>Managing Director's Statement</b>
<b>35</b>	<b>Directors' Report</b>
<b>46</b>	<b>Corporate Governance Report</b>
<b>65</b>	<b>Independent Auditor's Report</b>
<b>73</b>	<b>Financial Statements – Contents</b>
75	Consolidated Income Statement
76	Consolidated Statement of Comprehensive Income
77	Consolidated Statement of Financial Position
78	Consolidated Statement of Changes in Equity
80	Consolidated Statement of Cash Flows
82	Notes to the Consolidated Financial Statements
<b>209</b>	<b>Unaudited Supplementary Financial Information</b>
<b>232</b>	<b>Head Office, Branches, Sub-Branches, Representative Offices, Principal Subsidiaries and Associates</b>

# FIVE-YEAR FINANCIAL SUMMARY

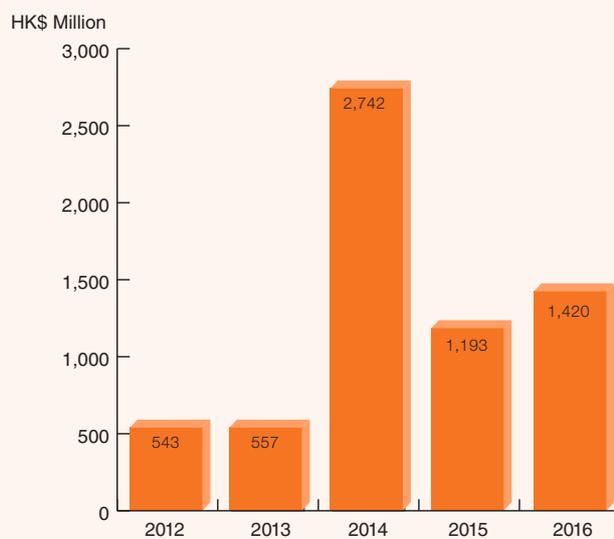
## Total Advances To Customers / Total Customers' Deposits / Total Assets



## Total Equity



## Profit Attributable To Equity Owners



**BOARD OF DIRECTORS****Executive Directors**

Mrs LEUNG Ko May Yee Margaret SBS, JP  
*(Deputy Chairman, Managing Director and Chief Executive)*  
 Mr ZONG Jianxin *(Deputy Managing Director)*  
 Mr LAU Wai Man *(Deputy Managing Director)*

**Non-executive Directors**

Mr ZHANG Zhaoxing *(Chairman)*  
 Mr ZHU Chunxiu  
 Mr WANG Shuhui  
 Mr LI Feng  
 Mr CHOW Cheuk Yu Alfred BBS, JP

**Independent Non-executive Directors**

Mr CHENG Yuk Wo  
 Mr MA Chiu Cheung Andrew  
 Mr LEE Ka Lun  
 Mr YU Lup Fat Joseph

**BOARD COMMITTEES****Audit Committee**

Mr CHENG Yuk Wo *(Chairman)*  
 Mr WANG Shuhui  
 Mr CHOW Cheuk Yu Alfred BBS, JP  
 Mr LEE Ka Lun  
 Mr YU Lup Fat Joseph

**Connected Party Transactions Committee**

Mr MA Chiu Cheung Andrew *(Chairman)*  
 Mr CHOW Cheuk Yu Alfred BBS, JP  
 Mr CHENG Yuk Wo  
 Mr CHAN Hoi Kit Frederick *(Chief Financial Officer)*  
 Mr HSU Rockson *(Chief Risk Officer)*

**Nomination Committee**

Mr YU Lup Fat Joseph *(Chairman)*  
 Mr ZHANG Zhaoxing  
 Mr ZHU Chunxiu  
 Mr CHENG Yuk Wo  
 Mr MA Chiu Cheung Andrew

**Remuneration Committee**

Mr YU Lup Fat Joseph *(Chairman)*  
 Mr ZHANG Zhaoxing  
 Mr CHOW Cheuk Yu Alfred BBS, JP  
 Mr MA Chiu Cheung Andrew  
 Mr LEE Ka Lun

**Risk Committee**

Mr LEE Ka Lun *(Chairman)*  
 Mr ZHU Chunxiu  
 Mr LI Feng  
 Mr CHENG Yuk Wo  
 Mr YU Lup Fat Joseph

**SENIOR MANAGEMENT**

Mr HSU Rockson *(Chief Risk Officer)*  
 Mr CHAN Hoi Kit Frederick *(Chief Financial Officer)*  
 Mr TSANG Chiu Wing *(Chief Operating Officer)*  
 Mrs NG Yu Kam Ping Alice *(Head of Personal Banking)*  
 Ms CHAN Yun Ling *(Head of Financial Markets)*  
 Mr YIP Kui Yin Frederick *(Head of Credit Risk Management)*  
 Ms LAI Wing Nga *(Company Secretary)*

## CORPORATE INFORMATION

as of 28 February 2017

### REGISTERED OFFICE

Address : Ground Floor, Chong Hing Bank Centre  
24 Des Voeux Road Central, Hong Kong  
Telephone : (852) 3768 1111  
Facsimile : (852) 3768 1888  
SWIFT BIC : LCHB HK HH  
Website : [www.chbank.com](http://www.chbank.com)  
E-mail : [info@chbank.com](mailto:info@chbank.com)



Smartphone quick website access code

### PRINCIPAL LEGAL ADVISERS

Deacons  
Kwan & Chow  
Mayer Brown JSM  
Robertsons

### AUDITOR

PricewaterhouseCoopers

### SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited

### STOCK CODES AND SHORT NAMES

The Stock Exchange of Hong Kong Limited's Stock Codes and Short Names in respect of the Bank's (i) shares, (ii) subordinated notes due 2020 and (iii) undated non-cumulative subordinated additional tier 1 capital securities are (i) 01111 (CHONG HING BANK), (ii) 04327 (CH BANK N2011) and (iii) 05804 (CH BANK UCS) respectively.

## BOARD OF DIRECTORS



*Front (from left to right): LAU Wai Man, LEUNG Ko May Yee Margaret, ZHANG Zhaoxing, ZHU Chunxiu, ZONG Jianxin  
Back (from left to right): LI Feng, LEE Ka Lun, MA Chiu Cheung Andrew, CHOW Cheuk Yu Alfred, YU Lup Fat Joseph,  
WANG Shuhui, CHENG Yuk Wo*

### Executive Directors

#### **Mrs LEUNG Ko May Yee Margaret** SBS, JP

aged 64, has been appointed an Executive Director, the Deputy Chairman and the Managing Director of the Bank since February 2014 and has additionally assumed the role of the Chief Executive of the Bank since May 2016. Mrs Leung has been appointed an Executive Director, the Vice-chairman and the Chief Executive of Yuexiu Financial Holdings Limited (the immediate holding company of the Bank) ("Yuexiu Financial Holdings") since February 2014. She is also the Chairman of Chong Hing Finance Limited, a wholly-owned subsidiary of the Bank. Mrs Leung is an Independent Non-executive Director of each of First Pacific Company Limited (Stock Code: 00142), Li & Fung Limited (Stock Code: 00494), Sun Hung Kai Properties Limited (Stock Code: 00016) and Hong Kong Exchanges and Clearing Limited (Stock Code: 00388), all of which are companies listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). In addition, she is also an Independent Non-executive Director of QBE Insurance Group Limited, which is listed on the Australian Securities Exchange (Stock Code: QBE). Mrs Leung was an Independent Non-executive Director of China Construction Bank Corporation, a company listed on the Stock Exchange (Stock Code: 00939), until June 2016. Mrs Leung is a council member, Treasurer, the Chairman of the Finance Committee, a member of the Human Resources Policy Committee and the Business School Board of Directors of the University of Hong Kong; a member of the Business School Advisory Board of the Hong Kong University of Science and Technology; a Steward of The Hong Kong Jockey Club; a member of the Steering Committee on Strategic Review on Healthcare Manpower Planning and Professional Development; and a member of the National Committee of the Chinese People's Political Consultative Conference, the Guangzhou Municipal Committee of the Chinese People's Political Consultative Conference and the Standing Committee of the Henan Provincial Committee of the Chinese People's Political Consultative Conference. Prior to joining the Bank, Mrs Leung was the Vice Chairman and the Chief Executive of Hang Seng Bank Limited (Stock Code: 00011), and the Group General Manager of HSBC Holdings plc (Stock Code: 00005), both of which are companies listed on the Stock Exchange.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

as of 28 February 2017

### **Mr ZONG Jianxin**

aged 50, has been appointed Deputy Managing Director and Head of China Business of the Bank since May 2015 and an Executive Director of the Bank since September 2015. He has additionally acted as Alternate Chief Executive of the Bank since May 2016. Mr Zong has been an Executive Director of Yuexiu Financial Holdings since November 2015. Mr Zong has more than 20 years of banking experience, specialising in corporate banking, international business and investment banking business. He was an Executive Director and Alternate Chief Executive of Industrial and Commercial Bank of China (Asia) Limited (“ICBC Asia”) from October 2010 to May 2015, and was also a Director of various subsidiaries of ICBC Asia from December 2010 to May 2015. Mr Zong held various positions in Industrial and Commercial Bank of China Limited, Shenzhen Branch from October 1999 to December 2009, with his last position as the Vice President of the Branch from June 2006 to December 2009. Mr Zong holds a Master Degree in Business Administration awarded by Shanghai Jiao Tong University.

### **Mr LAU Wai Man**

aged 58, has been appointed an Executive Director of the Bank since August 2001 and was appointed as Deputy Managing Director and re-designated as Alternate Chief Executive of the Bank in May 2016. He has been an Executive Director and Alternate Chief Executive of Yuexiu Financial Holdings since February 2014. He is also a Director of all the subsidiaries of the Bank. Mr Lau holds a Bachelor of Law degree and a Master of Business Administration degree. He is a Vice President of the Council of the Hong Kong Institute of Bankers, a Certified Financial Planner<sup>CM</sup> and a member of the Hong Kong Institute of Certified Public Accountants. He was a fellow of the Association of Chartered Certified Accountants and a senior associate of the Australian Institute of Bankers. Mr Lau joined the Bank as the Chief Auditor in 1988, and was Deputy Chief Executive Officer from July 2007 to March 2013 and Chief Executive Officer from March 2013 to May 2016. Before joining the Bank, he had worked for an international bank and a global accounting firm.

## **Non-executive Directors**

### **Mr ZHANG Zhaoxing**

aged 53, has been appointed the Chairman and a Non-executive Director of the Bank since February 2014. Mr Zhang is the Chairman of Guangzhou Yue Xiu Holdings Limited, Yue Xiu Enterprises (Holdings) Limited (“Yuexiu”) and Yuexiu Financial Holdings. He is also an Executive Director and the Chairman of Yuexiu Property Company Limited (“Yuexiu Property”) (Stock Code: 00123), a company listed on the Stock Exchange. Mr Zhang holds an Executive Master of Business Administration degree awarded by Huazhong University of Science and Technology and possesses the qualification of senior accountant in China. He has extensive experience in the financial management, industrial operation, capital operation and corporate culture development of large enterprises. Prior to joining Yuexiu in 2008, Mr Zhang was the Director and General Manager of Guangzhou Radio Group Co., Ltd., Chairman and General Manager of Haihua Electronics Enterprise (China) Corporation, Chairman of Guangzhou Guangdian Real Estate Development Co., Ltd. and a Director of GRG Banking Equipment Co., Ltd. (Stock Code: 002152), a company listed on the Shenzhen Stock Exchange. He was also the Chairman and an Executive Director of Yuexiu Transport Infrastructure Limited (Stock Code: 01052), a company listed on the Stock Exchange, from July 2008 to March 2014 and General Manager of Yuexiu Property from July 2008 to March 2014. Mr Zhang is a deputy to the 12th National People’s Congress of the People’s Republic of China.

### **Mr ZHU Chunxiu**

aged 54, has been appointed a Non-executive Director of the Bank since February 2014. Mr Zhu is the Vice-chairman and General Manager of Guangzhou Yue Xiu Holdings Limited and Yue Xiu Enterprises (Holdings) Limited (“Yuexiu”), and is also a Non-executive Director of Yuexiu Financial Holdings. He is the Chairman and an Executive Director of Yuexiu Transport Infrastructure Limited (Stock Code: 01052) and the Vice-chairman and an Executive Director of Yuexiu Property Company Limited (Stock Code: 00123), both of which are listed on the Stock Exchange. Mr Zhu was a Director of Guangzhou Rural Commercial Bank (formerly known as Guangzhou Rural Credit Union). Prior to joining Yuexiu in 2013, Mr Zhu was the Vice-chairman and General Manager of Guangzhou Finance Holdings Group Co., Ltd. (formerly known as Guangzhou International Holding Group Co., Ltd.). Mr Zhu was awarded the Degree in Executive Master of Business Administration by Sun Yat-Sen University, and holds the economist qualification in China. Mr Zhu has extensive experience in the operation and management of large financial institutions and banks. He is a deputy to the 14th and 15th sessions of the Guangzhou City People’s Congress.

### **Mr WANG Shuhui**

aged 45, has been appointed a Non-executive Director of the Bank since February 2014. He is a Non-executive Director of Yuexiu Financial Holdings, and a Director of Guangzhou Yuexiu Financial Holdings Group Co., Ltd. (formerly known as GuangZhou Friendship Group Co., Ltd.), a company listed on the Shenzhen Stock Exchange (Stock Code: 000987). Mr Wang was an Executive Director of Yuexiu Transport Infrastructure Limited, a company listed on the Stock Exchange (Stock Code: 01052), from November 2009 to March 2014, and was a Director and a Deputy General Manager of Guangzhou Yue Xiu Holdings Limited and Yue Xiu Enterprises (Holdings) Limited (“Yuexiu”). Mr Wang graduated from the School of Finance of the Southwestern University of Finance and Economics and holds a Master degree in Monetary Economics and Banking and an economist qualification from Jinan University. Before joining Yuexiu in May 2006, Mr Wang had over 13 years of experience in Guangzhou Securities Co., Ltd. and had held various senior management positions (including the Project Manager of the Securities Issuance Consultancy Department, Manager of the Research and Development Department, Director of the Office of the CEO, General Manager of the Human Resource Department and the Assistant to the CEO, Board Secretary, Vice President) within the company. Mr Wang has solid knowledge and extensive professional experiences in financial industry and is familiar with the practice in the financial markets of Mainland China and the practice of listed company business operation.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

as of 28 February 2017

### **Mr LI Feng**

aged 48, has been appointed a Non-executive Director of the Bank since February 2014. Mr Li is the Chief Capital Officer of, as well as the General Manager of the Capital Department of, Guangzhou Yue Xiu Holdings Limited and Yue Xiu Enterprises (Holdings) Limited (“Yuexiu”), the General Manager of the Customer Resource Management and Synergy Department of the Yue Xiu Group and a Director of Guangzhou City Construction & Development Co., Ltd., mainly responsible for formulating and implementing Yue Xiu Group’s major capital management plans, organizing and coordinating the investor relationship of Yue Xiu Group’s listed companies, and optimizing and upgrading the customer resource management and synergy of the Yue Xiu Group. He is also an Executive Director of Yuexiu Property Company Limited (Stock Code: 00123), a company listed on the Stock Exchange; a Non-executive Director of Yuexiu REIT Asset Management Limited (the Manager of Yuexiu Real Estate Investment Trust (Stock Code: 00405), which is listed on the Stock Exchange); and a Director of Guangzhou Yuexiu Financial Holdings Group Co., Ltd. (formerly known as GuangZhou Friendship Group Co., Ltd.), a company listed on the Shenzhen Stock Exchange (Stock Code: 000987). Mr Li graduated from the Faculty of Naval Architecture and Ocean Engineering of South China University of Technology majoring in Naval Architecture, and obtained a Master of Business Administration degree from Jinan University. He holds the qualification of a Senior Engineer in China and the certificate in Major Administrative Decision-Making and Argumentation (廣州市重大行政決策論證專家) conferred by the Guangzhou Municipal Government. Mr Li joined Yuexiu in December 2001 and has successively held positions in Yue Xiu Group and Yuexiu, including the Assistant to General Manager, Assistant Manager of Corporate Management Department, Assistant to General Manager of Supervision and Auditing Department, Deputy General Manager of Capital Department, and Deputy General Manager of Yue Xiu International Development Limited. Mr Li is familiar with business of listed companies and the operations of capital markets. Since 2008, he has participated in all of the major capital operation projects of the Yue Xiu Group; before that, he was also involved in the successful listing of Yuexiu Real Estate Investment Trust, and has extensive practical experience in capital operations.

### **Mr CHOW Cheuk Yu Alfred** BBS, JP

aged 66, has been a Board member of the Bank since February 2003, and was re-designated from Independent Non-executive Director to Non-executive Director of the Bank in September 2004. Mr Chow has been a Non-executive Director of Yuexiu Financial Holdings since February 2014. He is also a Non-executive Director of Chong Hing Insurance Company Limited, a wholly-owned subsidiary of the Bank. He graduated from the University of Hong Kong with a Bachelor of Laws degree and a Master of Social Sciences (Public Administration) degree. With 17 years’ working experience in the civil service and over 30 years as a solicitor, Mr Chow is presently the senior partner of Kwan & Chow, Solicitors in Hong Kong. He is also a China-Appointed Attesting Officer. Mr Chow is a director and legal advisor of Hong Kong Chiu Chow Chamber of Commerce Limited and Federation of HK Chiu Chow Community Organizations Limited; and legal advisor to Jao Tsung-I Petite Ecole Fan Club and various community bodies. He was the Chairman of the HKSAR Passports Appeal Board and Chief Adjudicator of the Registration of Persons Tribunal, and currently serves on other statutory boards.

### Independent Non-executive Directors

#### Mr CHENG Yuk Wo

aged 56, has been appointed an Independent Non-executive Director of the Bank since September 2004. He has also been an Independent Non-executive Director of Yuexiu Financial Holdings since February 2014. Mr Cheng, a co-founder of a Hong Kong merchant banking firm, is currently the proprietor of a certified public accountant practice in Hong Kong. Mr Cheng obtained a Master of Science (Economics) degree in Accounting and Finance from the London School of Economics, England and a Bachelor of Arts (Honours) degree in Accounting from the University of Kent, England. He is a fellow of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants, and a member of the Institute of Chartered Professional Accountants of Canada. Mr Cheng has more than 30 years of expertise in financial and corporate advisory services in mergers, acquisitions and investments. He had worked at Coopers and Lybrand (now known as PricewaterhouseCoopers) in London and Swiss Bank Corporation (now known as UBS AG) in Toronto, and held senior management positions in a number of Hong Kong listed companies.

In addition to his directorship in the Bank, Mr Cheng is also an Independent Non-executive Director of a number of companies listed on the Stock Exchange, including CSI Properties Limited (Stock Code: 00497), HKC (Holdings) Limited (Stock Code: 00190), C.P. Lotus Corporation (Stock Code: 00121), Goldbond Group Holdings Limited (Stock Code: 00172), CPMC Holdings Limited (Stock Code: 00906), Top Spring International Holdings Limited (Stock Code: 03688), Liu Chong Hing Investment Limited (Stock Code: 00194), Chia Tai Enterprises International Limited (Stock Code: 03839), DTXS Silk Road Investment Holdings Company Limited (formerly known as UDL Holdings Limited) (Stock Code: 00620) and Miricor Enterprises Holdings Limited (Stock Code: 08358). Besides, Mr Cheng was an Independent Non-executive Director of Imagi International Holdings Limited (Stock Code: 00585), a company listed on the Stock Exchange, from July 2010 to January 2016.

#### Mr MA Chiu Cheung Andrew

aged 75, has been appointed an Independent Non-executive Director of the Bank since August 2007. He has also been an Independent Non-executive Director of Yuexiu Financial Holdings since February 2014. Mr Ma is a founder and former director of AMA CPA Limited (formerly known as Andrew Ma DFK (CPA) Limited). He is presently a Director of Mayee Management Limited and also a Director of several other private companies. Mr Ma has more than 30 years' experience in the fields of accounting, auditing and finance. He received his Bachelor's degree in Economics from The London School of Economics and Political Science (University of London) in England. Mr Ma is a fellow member of the Institute of Chartered Accountants in England and Wales, the Hong Kong Institute of Certified Public Accountants, The Hong Kong Institute of Directors and The Taxation Institute of Hong Kong.

In addition to his directorship in the Bank, Mr Ma is also an Independent Non-executive Director of a number of companies listed on the Stock Exchange, including Asia Financial Holdings Limited (Stock Code: 00662), China Resources Power Holdings Company Limited (Stock Code: 00836), C.P. Pokphand Co. Ltd. (Stock Code: 00043) and Asiaray Media Group Limited (Stock Code: 01993). Mr Ma was an Independent Non-executive Director of Beijing Properties (Holdings) Limited (formerly known as Peaktop International Holdings Limited) (Stock Code: 00925) from September 2004 to December 2014 and Southwest Securities International Securities Limited (formerly known as Tanrich Financial Holdings Limited) (Stock Code: 00812) from April 2005 to January 2015, both of which are companies listed on the Stock Exchange.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

as of 28 February 2017

### **Mr LEE Ka Lun**

aged 61, has been appointed an Independent Non-executive Director of the Bank since February 2014. Mr Lee has been an Independent Non-executive Director of Yuexiu Financial Holdings since November 2013. He is also an Independent Non-executive Director of Yuexiu Property Company Limited (Stock Code: 00123), Chow Sang Sang Holdings International Limited (Stock Code: 00116), REXLot Holdings Limited (Stock Code: 00555), Medicskin Holdings Limited (Stock Code: 08307) and Ever Harvest Group Holdings Limited (Stock Code: 01549), all of which are listed on the Stock Exchange. Mr Lee is an accountant by profession and is a Fellow of the Association of Chartered Certified Accountants in the UK. He has over 20 years of experience in banking and auditing.

### **Mr YU Lup Fat Joseph**

aged 69, has been appointed an Independent Non-executive Director of the Bank since August 2015. Mr Yu has been an Independent Non-executive Director of Yuexiu Financial Holdings since August 2015. He is also an Independent Non-executive Director of Yuexiu Property Company Limited (Stock Code: 00123), a company listed on the Stock Exchange. Mr Yu holds a Master Degree in Applied Finance from Macquarie University in Australia, a Diploma of Management Studies from the University of Hong Kong and a Diploma from the Association of International Bond Dealers. Mr Yu was the Founding President of the Hong Kong Forex Club from 1974 to 1975. Mr Yu was also the Founding Deputy Chairman of the Hong Kong Capital Markets Association and Asia Chairman of the Association of International Bond Dealers. Mr Yu has held numerous senior managerial and advisory positions and has more than 40 years of experience in investment, banking and finance.

Note: The directorships held by the Directors in the subsidiaries of the Bank (where applicable) are set out in the “List of names of the directors of Chong Hing Bank Limited and its subsidiaries” posted on the Bank’s website ([www.chbank.com/en/about-ch-bank/investor-relations/directors-list/index.shtml](http://www.chbank.com/en/about-ch-bank/investor-relations/directors-list/index.shtml)).

### SENIOR MANAGEMENT

#### **Mr HSU Rockson**

aged 47, General Manager, has been appointed Chief Risk Officer of the Bank since September 2015. Mr Hsu has more than 20 years of risk management experience in foreign and local banks and possesses sound knowledge in credit risk management in China and various business segments. Prior to joining the Bank, he was Deputy Risk Officer of a local bank. Mr Hsu graduated from New York University, USA and obtained a Bachelor of Science degree in Finance and International Business.

#### **Mr CHAN Hoi Kit Frederick**

aged 56, General Manager, has been appointed Chief Financial Officer of the Bank since May 2013. He is also a Director of various subsidiaries of the Bank. He graduated from Imperial College, University of London in Computing Science and obtained a Master of Business Administration degree from Henley Management College, United Kingdom. He is a fellow of the Institute of Chartered Accountants in England & Wales, a member of BCS, The Chartered Institute for IT and a fellow of the Hong Kong Institute of Certified Public Accountants. Mr Chan has more than 30 years of experience in the financial services industry and worked for an international accounting firm and major international banks in London and Hong Kong in financial reporting and strategic management before joining the Bank in 2004.

#### **Mr TSANG Chiu Wing**

aged 59, General Manager, has been appointed as Deputy Chief Executive Officer and Chief Operating Officer of the Bank since March 2013 and May 2013 respectively, is in charge of information technology, and a number of operational departments. He is also a Director of various subsidiaries of the Bank. He holds a Master of Science degree in Electronic Commerce and Internet Computing from the University of Hong Kong, and is a member of the Institute of Chartered Accountants in England and Wales and a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr Tsang joined the Bank in 2000. He was an Executive Director of the Bank from August 2005 to December 2012. Before joining the Bank, he held senior positions in an international accounting firm and a major international bank in Hong Kong.

#### **Mrs NG Yu Kam Ping Alice**

aged 56, General Manager and Head of Personal Banking. She is also a Director of Card Alliance Company Limited, a wholly-owned subsidiary of the Bank. She holds a Master Degree of Business and Administration from the University of Adelaide, Australia. Mrs Ng is also a Certified Financial Planner (CFP<sup>CM</sup>), Associate of the Institute of Financial Services, United Kingdom (Aifs) and Associate of the Hong Kong Institute of Bankers (AHKIB<sup>TM</sup>). She possesses more than 30 years of experience in retail banking, and has held different senior positions with major international banks in managing retail and private banking teams. Mrs Ng has specialty in wealth management business development and has rich experience in operation control, quality assurance, cost control and project management. Mrs Ng joined the Bank in August 2014.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

as of 28 February 2017

### **Ms CHAN Yun Ling**

aged 50, General Manager and Head of Financial Markets since April 2015. She holds a Bachelor of Arts degree from the Chinese University of Hong Kong, and had pursued studies in France and the UK. With specialty in financial markets business, Ms Chan has worked in major financial hubs including Hong Kong, Tokyo, Singapore, Shanghai and Taiwan, in charge of financial markets related activities in various financial institutions.

### **Mr YIP Kui Yin Frederick**

aged 47, General Manager, has been appointed Co-head of Credit Risk after joining the Bank in September 2014 and appointed Head of Credit Risk Management in January 2016. Mr Yip holds a Master of Corporate Finance degree and a Bachelor of Arts degree in Business Studies from the Hong Kong Polytechnic University and has completed Oxford Strategic Leadership Programme from the Said Business School of the University of Oxford. He holds the Certificate in International Trade and Finance (CITF<sup>®</sup>) and is also a Certified Documentary Credit Specialist (CDCS<sup>®</sup>). Since 1997, Mr Yip has held managerial positions with a number of major international and Chinese banks. Mr Yip has more than 19 years of experience in credit risk management and has been appointed to join various overseas training and conferences.

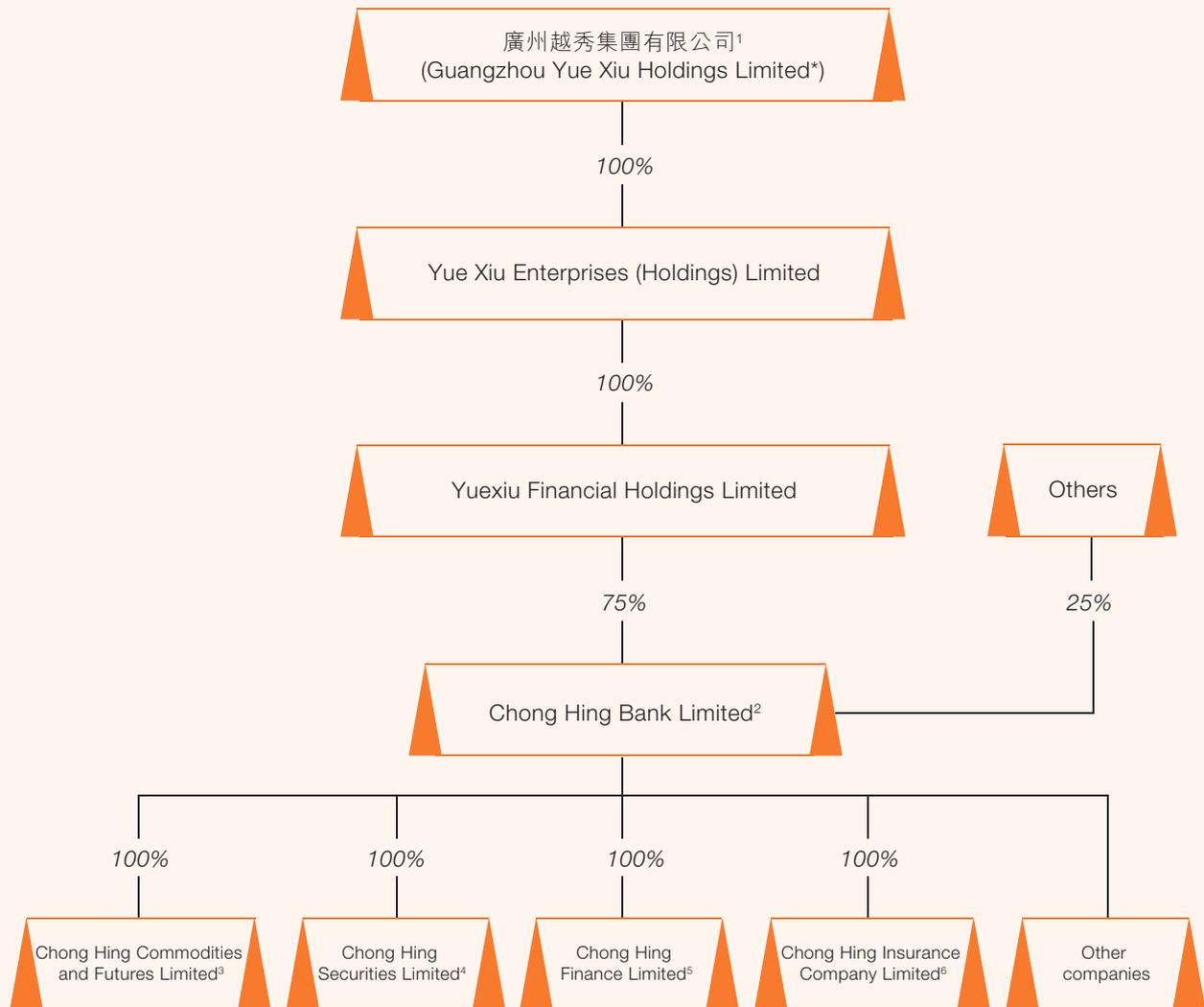
### **Ms LAI Wing Nga**

aged 52, General Manager, has been appointed Company Secretary and Head of Corporate Affairs of the Bank since August 2015. Ms Lai has had over 20 years of working experience in the corporate secretarial and governance areas of sizable listed companies and financial institutions. Prior to joining the Bank, Ms Lai was the company secretary of AIA Group Limited from April 2010 to July 2015, which is a company listed on the Stock Exchange (Stock Code: 01299). She was the company secretary of Standard Chartered Bank (Hong Kong) Limited from April 2005 to March 2010 and before that was the company secretary of Industrial and Commercial Bank of China (Asia) Limited from April 2000 to April 2005. Ms Lai obtained a master of business degree from the University of Newcastle in Australia. She also obtained a postgraduate diploma in corporate finance from the Hong Kong Polytechnic University. Ms Lai is a fellow of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the UK.

Note: The directorships held by the Senior Management in the subsidiaries of the Bank (where applicable) are set out in the "List of names of the directors of Chong Hing Bank Limited and its subsidiaries" posted on the Bank's website ([www.chbank.com/en/about-ch-bank/investor-relations/directors-list/index.shtml](http://www.chbank.com/en/about-ch-bank/investor-relations/directors-list/index.shtml)).

# ABRIDGED CORPORATE STRUCTURE

as of 28 February 2017



<sup>1</sup> Wholly state-owned enterprise under the supervision of the State-owned Assets Supervision and Administration Commission of the Guangzhou Municipal People's Government

<sup>2</sup> Listed on The Stock Exchange of Hong Kong Limited

<sup>3</sup> Registered with The Hong Kong Futures Exchange Limited as a participant

<sup>4</sup> Registered with The Stock Exchange of Hong Kong Limited as a participant

<sup>5</sup> Licensed under the Banking Ordinance as a deposit-taking company

<sup>6</sup> Licensed under the Insurance Companies Ordinance as an insurance company

\* for identification purpose only

## SHAREHOLDERS' CALENDAR

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as of 28 February 2017

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22 August 2016	Interim results for the first half of 2016 announced
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21 September 2016	Interim cash dividend for 2016 of HK\$0.15 per share paid
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28 February 2017	Final results for the year of 2016 announced
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12 to 17 May 2017 (both days inclusive)	Register of Members will be closed for the purpose of ascertaining entitlements to attend and vote at the 2017 Annual General Meeting
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18 May 2017	2017 Annual General Meeting will be held
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24 to 26 May 2017 (both days inclusive)	Register of Members will be closed for the purpose of ascertaining entitlements to receive the final cash dividend for 2016
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5 June 2017	If approved by Shareholders at the 2017 Annual General Meeting, the final cash dividend for 2016 of HK\$0.39 per share will be payable to Shareholders whose names appear on the Register of Members of the Bank on 26 May 2017
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**Mr Zhang Zhaoxing***Chairman*

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 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



**Mrs Leung Ko May Yee Margaret SBS, JP**  
*Deputy Chairman, Managing Director and Chief Executive*

### 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.

## MANAGING DIRECTOR'S STATEMENT

### 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
	<b>As of 31 December 2016 HK\$'000</b>	<b>As of 31 December 2015 HK\$'000</b>	<b>Variance %</b>
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.

## MANAGING DIRECTOR'S STATEMENT

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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.

The image contains three promotional posters for Cheng Hing Bank's personal banking services:

- Left Poster:** Titled "創興「十全十美」賀新春" (Cheng Hing Bank Celebrates New Year with 'Ten Good Things'). It features a family holding a large '10' symbol. The text includes "新年精彩禮遇" (New Year Special Offers) and lists various benefits like "全新客戶迎新禮遇" (New Customer Welcome Offer) and "全新資金定期存款" (New Fixed Deposit). Contact information: 3768 6888, www.chbank.com.
- Middle Poster:** Titled "輕鬆交稅 貸存共賞" (Easy Tax, Loan and Deposit Rewards). It features a family with balloons and the text "「任享錢」稅務貸款" (Enjoy Money Tax-Savings Loan). It highlights "實際年利率 低至 1.23%" (Actual Annual Interest Rate as low as 1.23%) and "貸款額高達月薪12倍" (Loan amount up to 12 times monthly salary). Contact information: 3768 6899, www.chbank.com.
- Right Poster:** Titled "抓緊投資機遇 盡享理財優勢" (Seize Investment Opportunities, Enjoy Wealth Management Advantages). It features a couple with fruit and financial charts. The text includes "創興投資理財" (Cheng Hing Investment and Wealth Management) and the bank's logo.

The Bank aims to provide one-stop banking services and comprehensive wealth management services to valued personal customers.

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.

## MANAGING DIRECTOR'S STATEMENT

- 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.



*A customer luncheon was held in November 2016 to share with customers the Bank's 2017 market outlook and to introduce our one-stop cross-border solution on capital management, cash management and hedging.*

## Mainland Operations

In 2016, the Bank continued its expansion into the Mainland and opened 2 branches and 1 sub-branch. 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.



Guangzhou Branch



Hengqin Sub-Branch



Shenzhen Branch

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.

## MANAGING DIRECTOR'S STATEMENT

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.



*In June 2016, the Bank participated in the annual China (Guangzhou) International Finance Expo for the third consecutive year. During the Expo, the Bank showcased a range of products and services.*

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.

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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 Securities was one of the first local securities brokers to participate in the “Shenzhen-Hong Kong Stock Connect”.*

### **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 in 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 in 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.



*Tai Wo Plaza Branch in Tai Po*



*Cheung Fat Estate Branch in Tsing Yi*



*Tin Chak Estate Branch in Tin Shui Wai*

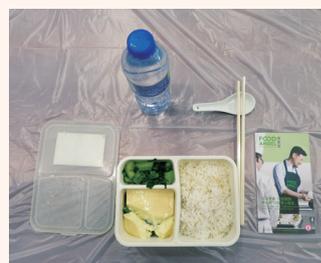
As a company that bears the community at heart, Chong Hing Bank and its staff participated in various community, sports, cultural and charity activities in 2016:

- 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.



*In November 2016, the Bank’s staff visited Caritas Nursery School Kennedy Town and designed a series of games and activities for children.*



*In December 2016, the Bank and Food Angel jointly held a special activity “Share A Meal” that taught staff the importance of reducing food waste at source.*

## 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 this Annual Report.

## 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.



*The Bank's Nansha Sub-Branch won the third prize of the "2016 Guangdong Provincial Cross-Border Renminbi Business Competition" organised by the Guangzhou Branch of the PBoC.*

### 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".

## MANAGING DIRECTOR'S STATEMENT

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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

The Directors are pleased to present their annual report and the audited consolidated financial statements for the year ended 31 December 2016.

## PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Bank is engaged in the provision of banking and related financial services. The principal activities and other particulars of its principal subsidiaries are set out in note 22 to the consolidated financial statements.

Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance (the "CO"), including a fair review of the business and a description of the principal risks and uncertainties facing the Bank and its subsidiaries (the "Group"), particulars of important events affecting the Group that have occurred since the end of the financial year 2016 (if any), as well as indication of likely future development in the Group's business are set out in the sections headed "Chairman's Statement", "Managing Director's Statement" and "Notes to the Consolidated Financial Statements" contained in this Annual Report. Discussions on the environmental policies and performance, compliance by the Group with the relevant laws and regulations that have a significant impact on the Group and an account of the key relationships of the Group with its stakeholders are contained in the "2016 Environmental, Social and Governance Report" (the "ESG Report"), which is an online report available on the websites of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Bank. The abovementioned sections and the ESG Report form part of this Report.

## BUSINESS PERFORMANCE

The Group's total operating income (net of interest expense and fee and commission expense) is analysed and reported by significant business classes as follows:

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Corporate and retail banking	<b>1,723,027</b>	1,575,026
Financial markets activities	<b>687,200</b>	498,738
Securities dealing business	<b>115,029</b>	186,156
Others	<b>149,040</b>	31,794
	<b>2,674,296</b>	2,291,714

The corporate and retail 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 fully 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.

### MAJOR CUSTOMERS

The Directors believe that the five largest customers of the Group accounted for less than 30% of the total of interest income and other operating income of the Group for the year.

### RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2016 are set out in the consolidated income statement and the consolidated statement of comprehensive income on pages 75 and 76.

An interim cash dividend of HK\$0.15 per share was paid to the shareholders during the year. The Board has recommended the payment of a final cash dividend for the year ended 31 December 2016 of HK\$0.39 per share (2015: HK\$0.37 per share) to the shareholders whose names appear on the register of members on 26 May 2017.

### DISTRIBUTABLE RESERVES

The distributable reserves are shown in note 41 to the consolidated financial statements.

### PRINCIPAL PROPERTIES

The Group's investment properties were revalued during the year. The net increase in fair value arising on the revaluation, which has been credited directly to the consolidated income statement, amounted to HK\$2,026,000. Details of the investment properties of the Group and the Bank are set out in note 25 to the consolidated financial statements.

Details of the movements in the property and equipment of the Group and the Bank during the year are set out in note 26 to the consolidated financial statements.

### SHARE CAPITAL

Details of the share capital of the Bank are set out in note 32 to the consolidated financial statements. There was no movement in the share capital of the Bank during the year.

### 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.

### EQUITY-LINKED AGREEMENTS

Other than the share option scheme as set out in note 35 to the consolidated financial statements, no equity-linked agreements were entered into by the Bank during the year or subsisted at the end of the year. No options have been granted under the said scheme since its adoption in 2012.

### DEBENTURES ISSUED

On 19 February 2016, the Bank received approval from the People's Bank of China to issue Renminbi financial bonds (the "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 the Bank and the Panda bonds received a credit rating of AAA from China Lianhe Credit Rating Co., Ltd.

## DIRECTORS

The Directors of the Bank during the year and up to the date of this Report are:

### Executive Directors

Mrs LEUNG Ko May Yee Margaret SBS, JP	<i>(Deputy Chairman, Managing Director and Chief Executive)</i>
Mr ZONG Jianxin	<i>(Deputy Managing Director)</i>
Mr LAU Wai Man	<i>(Deputy Managing Director)</i>
Mr LIU Tit Shing Don	
<i>(Retired with effect from 13 May 2016)</i>	

### Non-executive Directors

Mr ZHANG Zhaoxing	<i>(Chairman)</i>
Mr ZHU Chunxiu	
Mr WANG Shuhui	
Mr LI Feng	
Mr CHOW Cheuk Yu Alfred BBS, JP	

### Independent Non-executive Directors

Mr CHIRANAKHORN Wanchai	<i>(Passed away on 23 January 2017)</i>
Mr CHENG Yuk Wo	
Mr MA Chiu Cheung Andrew	
Mr LEE Ka Lun	
Mr YU Lup Fat Joseph	

Article 100 of the Bank's Articles of Association stipulates that, among other things, one-third of the Directors for the time being, who have been longest in office since their last election, shall be subject to retirement by rotation and re-election at each annual general meeting. Accordingly, Messrs Lau Wai Man, Zhu Chunxiu, Wang Shuhui and Lee Ka Lun shall retire and offer themselves for re-election at the forthcoming annual general meeting to be held on 18 May 2017 (the "2017 AGM").

Details of the Directors to be re-elected at the 2017 AGM are set out in the circular to the shareholders sent together with this Annual Report.

No Director proposed for re-election at the 2017 AGM has a service contract with the Bank and/or any of its subsidiaries which is not determinable by the Bank within one year without payment of compensation (other than statutory compensation).

### STATUS OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Bank has received from each of the Independent Non-executive Directors (excluding Mr Chiranakhorn Wanchai who passed away on 23 January 2017) an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Bank still considers all the Independent Non-executive Directors to be independent.

## DIRECTORS' REPORT

### DIRECTORS OF SUBSIDIARIES

Listed below are the names of all the Directors who have served on the boards of the Bank's subsidiaries during the year and up to the date of this Report:

CHAN Hoi Kit Frederick	LAU Wai Man
CHAN Man Mei Michael	LEE Ka Shing
CHAN Tai On	LEUNG Chan Keung
CHIRANAKHORN Wanchai <sup>(1)</sup>	LEUNG Ko May Yee Margaret
CHOW Cheuk Yu Alfred	LIU Tit Shing Don <sup>(2)</sup>
CHOW Wai Ling Carol <sup>(2)</sup>	MA Wai Leung
CHU Shiu Man	TSANG Chiu Wing
CHU Wai Hung Kevin	WONG Wan Hong
CHUN Ka Wing	YAN Kin Pui George <sup>(2)</sup>
HUNG Shuk Yee <sup>(2)</sup>	YU Kam Ping Alice

Notes:

- (1) Mr Chiranakhorn Wanchai passed away on 23 January 2017.
- (2) He/She had resigned/ceased as a Director of the relevant subsidiary(ies) of the Bank.

A list setting out specifically the directorship of each individual subsidiary of the Bank is updated whenever there are directorate changes and is posted on the Bank's website ([www.chbank.com/en/about-ch-bank/investor-relations/directors-list/index.shtml](http://www.chbank.com/en/about-ch-bank/investor-relations/directors-list/index.shtml)).

### DIRECTORS' (INCLUDING THE CHIEF EXECUTIVE'S) INTERESTS AND SHORT POSITIONS

As of 31 December 2016, the interests and short positions of the Directors (including the Chief Executive) in the shares, underlying shares and debentures of the Bank and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO (the "Register"), or as otherwise notified to the Bank and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers under Appendix 10 to the Listing Rules (the "Model Code"), were as follows:

#### Interests in shares

Name of Director	Associated Corporation	Long/short position	Number of ordinary shares held			Total interests	Percentage of issued share capital <sup>(1)</sup>
			Personal interests	Spousal interests	Corporate interests		
Li Feng	Yuexiu Property Company Limited	Long	172,900	-	-	172,900	0.001
Lee Ka Lun	Yuexiu Property Company Limited	Long	3,200,000	-	-	3,200,000	0.026
Yu Lup Fat Joseph	Yuexiu Property Company Limited	Long	4,000,000	-	-	4,000,000	0.032

Note:

- (1) Based on 12,401,306,631 shares of Yuexiu Property Company Limited issued as at 31 December 2016.

Save as disclosed above, as of 31 December 2016, none of the Directors (including the Chief Executive) had or was deemed to have any other interests or short positions in any shares, underlying shares or debentures of the Bank or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the Register or as otherwise notified to the Bank and the Stock Exchange pursuant to the Model Code. Moreover, as of 31 December 2016, none of the Directors (including the Chief Executive), their spouses or children under 18 years of age was granted, or exercised, any right to subscribe for shares in or debentures of the Bank or any of its associated corporations (within the meaning of Part XV of the SFO).

At no time during the year was the Bank or any of its holding companies, its subsidiaries or its fellow subsidiaries a party to any arrangement to enable the Directors of the Bank to acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other body corporate, with the exception of the share option scheme as described under the heading "EQUITY-LINKED AGREEMENTS" of this Report.

### **DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE**

Other than those interests disclosed below under the heading "CONNECTED TRANSACTIONS", no transactions, arrangements and contracts of significance in relation to the Group's business to which the Bank or any of its holding companies, its subsidiaries or its fellow subsidiaries was a party and in which a Director of the Bank or an entity connected with a Director (within the meaning of Section 486 of the CO) had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

### **DIRECTORS' INTERESTS IN COMPETING BUSINESS**

Mrs Leung Ko May Yee Margaret ceased to act as Independent Non-executive Director of China Construction Bank Corporation with effect from 17 June 2016.

Save as disclosed above, none of the Directors is/was interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Bank.

### DISCLOSURE OF CHANGES IN DIRECTORS' INFORMATION

Changes in Directors' information since the date of the 2016 Interim Report which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules are set out below:

<b>Name of Director</b>	<b>Change</b>
Mrs LEUNG Ko May Yee Margaret SBS, JP <i>Executive Director</i>	<ul style="list-style-type: none"><li>Has renewed her service agreement with the Bank for a term of one year commencing from 14 February 2017 to 13 February 2018. Her emolument package under the new service agreement is comprised of annual base salary of HK\$12,800,000, discretionary bonus and other benefits</li></ul>
Mr LAU Wai Man <i>Executive Director</i>	<ul style="list-style-type: none"><li>Relinquished the role of Chairman of Chong Hing Insurance Company Limited with effect from 1 January 2017</li></ul>
Mr CHOW Cheuk Yu Alfred BBS, JP <i>Non-executive Director</i>	<ul style="list-style-type: none"><li>Re-designated as Non-executive Director of Chong Hing Insurance Company Limited with effect from 1 January 2017</li></ul>
Mr CHENG Yuk Wo <i>Independent Non-executive Director</i>	<ul style="list-style-type: none"><li>Appointed as Independent Non-executive Director of Miricor Enterprises Holdings Limited* (Stock Code: 08358) with effect from 19 December 2016</li></ul>

\* Listed on the Growth Enterprise Market of the Stock Exchange on 10 January 2017

The emoluments of the Directors of the Bank on a named basis are set out in note 42 to the consolidated financial statements.

Other than the information disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

### EMOLUMENT POLICY

The Bank has set up the Remuneration Committee, responsibilities of which include reviewing and approving the performance-based remuneration packages payable to Directors and Senior Management, if any, by reference to the Bank's corporate goals and objectives.

### PERMITTED INDEMNITY

Pursuant to the Bank's Articles of Association, every Director or other officer of the Bank shall be entitled to be indemnified out of the assets of the Bank against any liability (to the extent permitted by the CO) incurred by them or any of them as the holder of any such office or appointment to a person other than the Bank or any of its holding companies, its subsidiaries or its fellow subsidiaries. The Bank has taken out insurance against any liability associated with defending any proceedings which may be brought against the Directors and other officers of the Bank.

### SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS

As of 31 December 2016, the register required to be kept under Section 336 of the SFO showed that the following parties had interests and short positions in the shares and underlying shares of the Bank:

#### Interests in shares

Name	Long/short position	Capacity	Number of ordinary shares	Percentage of issued share capital <sup>(1)</sup>
Yuexiu Financial Holdings Limited <sup>(2)</sup>	Long	Beneficial owner	489,375,000	75
Yue Xiu Enterprises (Holdings) Limited	Long	Interest of a controlled corporation	489,375,000	75
廣州越秀集團有限公司 (Guangzhou Yue Xiu Holdings Limited*)	Long	Interest of a controlled corporation	489,375,000	75

Notes:

- (1) Based on 652,500,000 shares of the Bank issued as at 31 December 2016.
- (2) Yuexiu Financial Holdings Limited is wholly-owned by Yue Xiu Enterprises (Holdings) Limited ("Yuexiu"), and Yuexiu is wholly-owned by 廣州越秀集團有限公司 (Guangzhou Yue Xiu Holdings Limited\*).

\* for identification purpose only

Save as disclosed above, the Bank had not been notified of any other interests and short positions in its shares and underlying shares as of 31 December 2016 which were required to be recorded in the register kept under Section 336 of the SFO.

### PUBLIC FLOAT

As at the date of this Report, the Bank has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Bank and within the knowledge of the Directors of the Bank.

### CONNECTED TRANSACTIONS

i. The connected transactions between the Group and Guangzhou Yue Xiu Holdings Limited and its associates (the "Yue Xiu Group") during the year under review were as follows:

- A. The Bank handled routine banking transactions for the members of the Yue Xiu Group. Services provided by the Bank included cheque clearing, accepting deposits, extending credit facilities, foreign exchange transactions, remittances and other banking and financial services. Such transactions were conducted on normal commercial terms and in the ordinary and usual course of business of the Bank, and are exempt from the relevant disclosure requirements under Chapter 14A of the Listing Rules.
- B. As set out in the Bank's announcement dated 29 November 2016, the Bank and Yuexiu Property Company Limited ("Yuexiu Property") (an associate of Yue Xiu Enterprises (Holdings) Limited) entered into a foreign exchange transactions framework agreement (the "FX Framework Agreement") on 29 November 2016 which governs the foreign exchange transactions (the "FX Transactions") to be entered into between the Group and Yuexiu Property and its subsidiaries (the "Yuexiu Property Group"). The term of the FX Framework Agreement commenced on 29 November 2016 and shall end on 31 December 2018 (both dates inclusive). The FX Transactions between the Group and the Yuexiu Property Group will adopt the prevailing market prices or rates normally applicable to similar transactions conducted with independent third parties.

Messrs Zhang Zhaoxing, Zhu Chunxiu, Li Feng, Lee Ka Lun and Yu Lup Fat Joseph, being common directors of the Bank and Yuexiu Property on the date of the FX Framework Agreement, abstained from voting on the resolutions approving the FX Framework Agreement and the FX Transactions. Save as disclosed above, none of the Directors has any material interest in the FX Framework Agreement and the FX Transactions.

As of 31 December 2016, the aggregate absolute amount of fair value at inception of the FX Transactions recorded as assets/liabilities was HK\$6,207,712.62, which was within the annual cap of HK\$13 million for the financial year 2016.

- C. As set out in the Bank's announcement dated 17 June 2016, the Bank and Guangzhou Yue Xiu Holdings Limited ("Yuexiu Holdings") entered into a foreign exchange and financial markets transactions framework agreement (the "Framework Agreement") on 17 June 2016 which governs the foreign exchange transactions and financial markets transactions (the "FX and FM Transactions") to be entered into between the Group and Yuexiu Holdings and its non-listed subsidiaries (the "Yuexiu Holdings Private Group"). The term of the Framework Agreement commenced from the date of the Framework Agreement and shall end on 31 December 2018 (both dates inclusive). The FX and FM Transactions between the Group and the Yuexiu Holdings Private Group will adopt the prevailing market prices or rates normally applicable to similar transactions conducted with independent third parties.

Messrs Zhang Zhaoxing, Zhu Chunxiu and Wang Shuhui, being common directors of the Bank and Yuexiu Holdings on the date of the Framework Agreement, abstained from voting on the resolutions approving the Framework Agreement and the FX and FM Transactions. Save as disclosed above, none of the Directors has any material interest in the Framework Agreement and the FX and FM Transactions.

As set out in the Bank's announcement dated 13 July 2016, the annual caps for the financial years 2016, 2017 and 2018 in respect of the FX and FM Transactions were revised. As of 31 December 2016, the aggregate absolute amount of fair value at inception of the FX and FM Transactions recorded as assets/liabilities was HK\$5,511,256.78, which was within the revised annual cap of HK\$35 million for the financial year 2016.

- D. As set out in the Bank's announcement dated 30 November 2015, the Bank and Guangzhou City Construction & Development Co. Ltd. ("Guangzhou City Construction") (an associate of Yue Xiu Enterprises (Holdings) Limited) entered into a tenancy agreement (the "Tenancy Agreement") on 30 November 2015 for the lease of Rooms 01-16, 50/F Yuexiu Financial Tower, 28 Zhujiang East Road, Tianhe District, Guangzhou, the People's Republic of China (the "Property") for its Guangzhou Branch at a monthly rent of RMB627,578 from 1 December 2015 to 30 November 2016, RMB665,233 from 1 December 2016 to 30 November 2017 and RMB705,147 from 1 December 2017 to 30 November 2018. The Bank was entitled to a rent concession period from 1 December 2015 to 29 February 2016 (the "Rent Concession Period") for rent concession of RMB209,192 from 1 December 2015 to 31 January 2016 and RMB209,194 from 1 February 2016 to 29 February 2016. If the Tenancy Agreement is terminated before its expiry date for reasons not related to Guangzhou City Construction, the Bank will no longer be entitled to such rent concession and the original rent (i.e. RMB627,578) will apply in respect of the Rent Concession Period.

On 30 November 2015, the Bank and Guangzhou Yue Xiu City Construction Jones Lang LaSalle Property Services Co., Ltd. (an associate of Yue Xiu Enterprises (Holdings) Limited) entered into a property management agreement for the provision of management services in relation to the Property at a monthly management fee of RMB99,568.

- E. As set out in the Bank's announcement dated 23 June 2014, the Bank and Guangzhou Yue Xiu City Construction International Finance Centre Co., Ltd. ("Yue Xiu City Construction International Finance") (an associate of Yue Xiu Enterprises (Holdings) Limited) entered into a tenancy agreement (the "Tenancy Agreement") on 23 June 2014 for the lease of Unit 103, 1/F Podium, Guangzhou International Finance Centre, House 160, 5 Zhujiang West Road, Tianhe District, Guangzhou, the People's Republic of China and Unit 203, 2/F Podium, Guangzhou International Finance Centre, House 260, 5 Zhujiang West Road, Tianhe District, Guangzhou, the People's Republic of China (the "Property") at a monthly rent of RMB233,068 from 1 July 2014 to 30 June 2016 and RMB244,722 from 1 July 2016 to 30 June 2017. The Bank was entitled to a rent concession in the total amount of RMB699,204 for the period from 1 July 2014 to 31 October 2014. If the Tenancy Agreement is terminated by the Bank before the expiry of the tenancy, the Bank is required to pay back the same amount to Yue Xiu City Construction International Finance.

On 23 June 2014, the Bank and Guangzhou Yue Xiu City Construction Jones Lang LaSalle Property Services Co., Ltd. (an associate of Yue Xiu Enterprises (Holdings) Limited) entered into a property management agreement for the provision of management services in relation to the Property at a monthly management fee of RMB34,720.

- ii. The connected transactions between the Bank and its Directors and their associates during the year under review were as follows:

The Bank handled routine banking transactions for its Directors and their associates, including cheque clearing, accepting deposits, extending credit facilities, foreign exchange transactions, remittances and other banking and financial services. Such transactions were conducted under terms and conditions normally applicable to customers of comparable standing, and are exempt from the relevant disclosure requirements under Chapter 14A of the Listing Rules.

The transactions described in sub-section (i) (comprising items A to E) and sub-section (ii) above are collectively referred to as the "Continuing Connected Transactions" entered into by the Group.

The Bank's external auditor was engaged to report on the Continuing Connected Transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing its findings and conclusions in respect of the Continuing Connected Transactions in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Bank to the Stock Exchange. The Independent Non-executive Directors have reviewed the Continuing Connected Transactions and the auditor's letter and have confirmed that those transactions have been entered into in the ordinary and usual course of business of the Group, on normal commercial terms, and in accordance with the respective agreements governing such transactions on terms that are fair and reasonable and in the interests of shareholders of the Bank as a whole.

### MANAGEMENT CONTRACTS

Save for the service contracts, no other contracts concerning the management and/or administration of the whole or any substantial part of the business of the Bank were entered into or subsisting during the year.

### DONATIONS

During the year, the Group made charitable and other donations amounting to approximately HK\$16,000 (2015: HK\$37,000).

### STATEMENT OF COMPLIANCE

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

### CORPORATE GOVERNANCE

Details of the Bank's corporate governance practices are set out in the "Corporate Governance Report" in this Annual Report.

### AUDITOR

Messrs Deloitte Touche Tohmatsu retired as the Bank's auditor at the conclusion of the Bank's annual general meeting held on 8 May 2014, and Messrs PricewaterhouseCoopers was appointed to fill the vacancy and was re-appointed as the Bank's auditor at the respective annual general meetings of the Bank held in 2015 and 2016.

Messrs PricewaterhouseCoopers shall retire and, being eligible, offer itself for re-appointment at the 2017 AGM.

On behalf of the Board

**Zhang Zhaoxing**

*Chairman*

Hong Kong, 28 February 2017

# CORPORATE GOVERNANCE REPORT

as of 28 February 2017

## CORPORATE GOVERNANCE PRACTICES

Chong Hing Bank Limited (the “Bank”) is an authorised institution supervised by the Hong Kong Monetary Authority (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 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 (“SPM”) issued by the HKMA to its corporate governance structure and practices.

Throughout the year ended 31 December 2016, the Bank complied with all the applicable code provisions set out in the Corporate Governance 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 of the Bank (“AGM”) in accordance with the Bank’s Articles of Association (the “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 of Directors, 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.

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 under Appendix 10 to the Listing Rules (the “Model Code”). 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.

## BOARD OF DIRECTORS

### Roles and Responsibilities

The Board is ultimately responsible for the sustainable performance of the Bank and its subsidiaries (the “Bank Group”), including the consistent achievement of business plans and compliance with statutory and corporate obligations. It is the ultimate decision-making body for all matters considered material to the Bank Group and operates under defined terms of reference. The Board is also responsible for laying down strategic directions of the Bank Group and overseeing their implementation by Senior Management, reviewing the operational and financial performance, and providing oversight to ensure that effective systems of risk management and internal control are in place.

While the Board delegates the day-to-day operations and administration of the Bank's business to Senior Management, specific matters are reserved for the Board's consideration and decision under its terms of reference, including but not limited to the Bank Group's long-term objectives and strategies, annual business plan and budget, capital planning and management policies, annual and interim financial reporting, major acquisitions and disposals, overall risk management strategy and framework, and corporate governance matters covering the development, implementation and monitoring of the corporate governance policies and practices.

During the year under review, the Board conducted a robust review of the Bank Group's corporate governance framework and updated its Terms of Reference and other Board Committees' Terms of Reference to reflect best practices. The Board also adopted various policies as recommended by the Audit Committee, Risk Committee, Remuneration Committee and Executive Committee and reviewed the Bank's compliance with the Corporate Governance Code and the SPMs issued by the HKMA including the necessary disclosures in its reports to the shareholders of the Bank (the "Shareholders").

## Chairman and Chief Executive

The roles of the Chairman and the Chief Executive of the Bank are separate, with a clear division of responsibilities as set out in the Board's Terms of Reference.

The Chairman of the Board, who is a Non-executive Director, is responsible for the leadership and effective running of the Board and for ensuring that decisions of the Board are taken on a sound and well-informed basis and in the best interest of the Bank Group.

The Chief Executive, who is an Executive Director, is responsible for implementing the strategies and policies as established by the Board, including all day-to-day operations and administration, within the framework of the Bank Group's policies, reserved powers and routine reporting requirements.

## Board Composition

As of 31 December 2016, the Board was made up of 13 members, comprising three Executive Directors, five Non-executive Directors and five Independent Non-executive Directors. There is a strong independent element on the Board that ensures the independence and objectivity of the decisions of the Board, as well as the thoroughness and impartiality of the Board's oversight of the management.

The composition of the Board is well balanced with each Director having sound board level experience and a diverse range of business, banking and professional expertise relevant to the business operations and development of the Bank Group. Biographies of the Directors, which include relationships with the members of the Board, Senior Management and substantial shareholders (as defined in the Listing Rules) of the Bank, are set out in the "Biographical Details of Directors and Senior Management" section on pages 5 to 12 of this Annual Report.

# CORPORATE GOVERNANCE REPORT

as of 28 February 2017

The Bank has received from each of the Independent Non-executive Directors (excluding Mr Chiranakhorn Wanchai who passed away on 23 January 2017) an annual confirmation of his independence. Following the assessment of the independence of the Independent Non-executive Directors in accordance with the guidelines set out in Rule 3.13 of the Listing Rules, the Board confirmed that all Independent Non-executive Directors continue to be independent.

All Directors are expressly identified by reference to their roles and functions and whether they are Executive Directors, Non-executive Directors and Independent Non-executive Directors in all corporate communications of the Bank that disclose their names. An updated list of the Directors (including their roles and functions) is available on the websites of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and the Bank.

## Appointment and Re-election of Directors

The Bank adopts a formal procedure in the selection of new Directors and nomination of retiring Directors for re-election by the Shareholders at general meetings.

The prospective director will first be assessed by the Nomination Committee, taking into account the balance of skills, knowledge, experience and diversity on the Board. Upon receiving the recommendation from the Nomination Committee, the proposed appointment will be considered and approved by the Board after due deliberation.

In accordance with the requirement under the Banking Ordinance, approval from the HKMA will be obtained for the appointment of new Directors.

All new Directors are subject to re-election by the Shareholders at the next AGM. None of the Non-executive Directors of the Bank was appointed for a specific term; however, all Directors are subject to retirement by rotation at the AGM at least once every three years in accordance with the Articles of Association. The retiring Directors shall be eligible for re-election.

## Board Process

Board meetings shall be held at least four times a year and no less than once every quarter. Additional Board meetings will be held as and when warranted.

Notice of meetings will be given to all Directors at least 14 days before each regular meeting to give them an opportunity to attend. Meeting agenda and accompanying board papers are sent to all Directors a week before the intended date of a Board meeting.

The Board has a standing agenda of items to ensure that matters relating to overall strategies, business plans, interim and annual results, corporate governance review, risk management and compliance are covered in its meetings at appropriate intervals.

Apart from those regular financial and business performance reports submitted to the Board for deliberation at the regular meetings, the Management provides monthly updates to the Board members with information on the Bank's latest financial performance and any material variance from its annual business plan to enable them to discharge their responsibilities. Management also submits to the Board members regular reports regarding auditor's and regulators' findings and recommendations as well as loans and advances to connected parties for regular review and monitoring, where appropriate.

During the year under review, there were six Board meetings, all of which were convened in accordance with the Articles of Association and attended by the Directors either in person or through electronic means of communication. In addition to the formal Board meetings, the Chairman has regular gatherings with Directors, occasionally without the presence of the Executive Directors and Senior Management, to consider issues in an informal setting. During 2016, a total of 10 Board lunches and dinners were held, and the Chairman held a meeting that was attended only by Non-executive Directors and Independent Non-executive Directors.

All Directors are entitled to have access to board papers and related materials. Where queries are raised by Non-executive Directors, steps will be taken to respond as promptly and fully as possible. Any concerns raised or dissenting views expressed by the Directors in respect of any matter discussed at a Board meeting will be reflected clearly in the minutes. Full minutes are being kept by the Company Secretary and such minutes are open for inspection at any time during office hours on reasonable notice by any Director.

All Directors are entitled to seek independent professional advice for the purpose of discharging their duties at the Bank's expense.

Non-executive Directors have devoted sufficient time and attention to the affairs of the Bank.

The Bank has put in place procedures to deal with Directors' conflict of interest. Directors are required to declare their direct/indirect interests, if any, in any proposed transactions to be considered by the Board and, where appropriate, they should abstain from voting on the proposed transactions and should not be counted in the quorum.

Appropriate Directors' and Officers' liability insurance cover has been arranged to indemnify the Directors and Officers against liabilities arising out of corporate activities. The coverage and the sum insured for 2016/2017 was reviewed and renewed.

# CORPORATE GOVERNANCE REPORT

as of 28 February 2017

## Attendance Records

The attendance records of individual Directors at the Board, Board Committee meetings and 2016 AGM held in 2016 are as follows:

Names of Directors	2016							2016 AGM
	Number of Meetings Attended/Required Meetings to Attend							
	Board	Audit Committee	Transactions Committee	Executive Committee	Nomination Committee	Remuneration Committee	Risk Committee	
<b>Connected Party</b>								
<b>Chairman and Non-executive Director</b>								
Mr ZHANG Zhaoxing	5/6	-	-	-	1/1	5/5	-	0/1
<b>Executive Directors</b>								
Mrs LEUNG Ko May Yee Margaret	6/6	-	-	12/12	-	-	4/4	1/1
Mr ZONG Jianxin	6/6	-	-	9/12	-	-	-	1/1
Mr LAU Wai Man	6/6	-	-	12/12	-	-	-	1/1
Mr LIU Tit Shing Don (Note)	2/2	-	-	4/4	-	-	-	1/1
<b>Non-executive Directors</b>								
Mr ZHU Chunxiu	5/6	-	-	-	1/1	-	4/4	0/1
Mr WANG Shuhui	4/6	2/4	-	-	-	-	-	1/1
Mr LI Feng	5/6	-	-	-	-	-	2/4	0/1
Mr CHOW Cheuk Yu Alfred	6/6	-	5/5	-	-	5/5	4/4	1/1
<b>Independent Non-executive Directors</b>								
Mr CHIRANAKHORN Wanchai	6/6	-	-	-	1/1	5/5	-	0/1
Mr CHENG Yuk Wo	6/6	4/4	5/5	-	1/1	-	-	1/1
Mr MA Chiu Cheung Andrew	6/6	4/4	5/5	-	-	5/5	-	1/1
Mr LEE Ka Lun	6/6	4/4	-	-	1/1	-	-	1/1
Mr YU Lup Fat Joseph	6/6	4/4	-	-	-	5/5	4/4	1/1

Note: Mr Liu retired as Executive Director and ceased to act as Deputy Chief Executive Officer of the Bank with effect from 13 May 2016.

## Board Effectiveness

During the year ended 31 December 2016, the Board conducted an annual review of its effectiveness by way of an evaluation survey (the "Survey") and received responses from all Directors. The scope of the Survey required Directors to consider the performance and effectiveness of the Board and its Board Committees including the composition, structure, dynamics, operation and diversity. The overall feedback was positive and encouraging. The evaluation revealed that the Board and all the Board Committees continue to perform well with a strong composition and operate to a high standard.

### Induction and Ongoing Development

The Bank provides each Director with personalized induction, training and development. On appointment, each new Director receives a comprehensive and tailored induction covering, among others, information about the Bank Group's operations and business, the roles and responsibilities of the Board and its key Board Committees, the Bank's governance structure and practices, and the ambit of the internal audit and risk management functions.

On an ongoing basis, all Directors are provided with briefings and trainings in order to keep them continually updated on the Bank Group's business and the latest developments of the Listing Rules and other applicable laws, rules and regulations to ensure the continued enhancement of their knowledge and skills. Such briefings and trainings are provided at the Bank's expense.

During the year, the Bank organized various trainings for the Directors which covered such topics as IFRS 9 "Financial Instruments", Financial Technology, Five-Year Strategic Plan of the Bank and Update on the Bank's Mainland China Business.

All Directors are required to provide their training records to the Bank on an annual basis. The training received by the Directors during the year under review is summarized as follows:

Names of Directors	Regulatory Updates	Articles/Seminars/ Conferences relevant to the Bank's business and corporate governance
<b>Chairman and Non-executive Director</b>		
Mr ZHANG Zhaoxing	√	√
<b>Executive Directors (Note)</b>		
Mrs LEUNG Ko May Yee Margaret	√	√
Mr ZONG Jianxin	√	√
Mr LAU Wai Man	√	√
<b>Non-executive Directors</b>		
Mr ZHU Chunxiu	√	√
Mr WANG Shuhui	√	√
Mr LI Feng	√	√
Mr CHOW Cheuk Yu Alfred	√	√
<b>Independent Non-executive Directors</b>		
Mr CHIRANAKHORN Wanchai	√	√
Mr CHENG Yuk Wo	√	√
Mr MA Chiu Cheung Andrew	√	√
Mr LEE Ka Lun	√	√
Mr YU Lup Fat Joseph	√	√

Note: The training records of Mr Liu Tit Shing Don, who retired as Executive Director and ceased to act as Deputy Chief Executive Officer of the Bank with effect from 13 May 2016, are not included therein.

# CORPORATE GOVERNANCE REPORT

as of 28 February 2017

## Policy Statement on Board Diversity

The Bank recognizes and embraces the benefits of having a Board composed of a diverse range of experience, which is an essential element in supporting the attainment of the Bank's strategic objectives and achieving sustainable commercial success of the Bank.

Board diversity has been considered from various aspects in designing the Board's composition, including gender, age, cultural and educational background, industry or related experience, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

The diverse culture helps promote critical thinking and foster constructive debate, thereby enabling the Board to provide strategic direction to the management and to ensure the decision-making process is fair and balanced. All of these are essential in achieving a sustainable and balanced development of the Bank Group.

This policy statement is not intended to, and does not, either enlarge or diminish the responsibilities of the Directors under the Articles of Association and such other relevant laws, rules, regulations, codes, guidelines, practice notes, circulars and the like. This policy statement is, however, intended to serve as a source of guiding principles for Directors to take appropriate actions to achieve the aims of board diversity as outlined above. The Board will review and, where appropriate, revise from time to time this policy statement in light of experience, evolving standards of corporate governance and any other changing circumstances.

## Company Secretary

All Directors have access to the advice and services of the Company Secretary. The Company Secretary is responsible for ensuring the Board policies and procedures are followed and for facilitating information flows and communications among Directors as well as with Shareholders and Management.

The Company Secretary's biography is set out in the "Biographical Details of Directors and Senior Management" section on page 12 of this Annual Report. During the year of 2016, the Company Secretary undertook over 15 hours of professional training to update her skills and knowledge.

## BOARD COMMITTEES

The Board has delegated its authorities to various committees, namely the Audit Committee, the Connected Party Transactions Committee, the Executive Committee, the Nomination Committee, the Remuneration Committee and the Risk Committee which operate under defined Terms of Reference. Composition and Terms of Reference of the Board Committees are reviewed and updated regularly to ensure that they remain appropriate and in line with the Bank Group's business and changes in governance practices.

Terms of Reference of the respective Board Committees are available on the websites of the Stock Exchange and the Bank.

Each Board Committee has been provided with sufficient resources to discharge its duties.

## Audit Committee

The Audit Committee currently consists of five members, including three Independent Non-executive Directors and two Non-executive Directors.

Under its Terms of Reference, the Audit Committee is required, among other things, to make recommendations to the Board on the appointment, reappointment and removal of the external auditor, to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with the applicable standards, to review any engagement of external auditor for the provision of non-audit services, to review the half-year and annual reports and accounts before submission to the Board, to receive audit reports and review the external auditor's management letter, to review the HKMA's on-site examination reports and bring major findings to the attention of the Board, and to assess and consider the adequacy and effectiveness of the Bank Group's systems of internal control, financial reporting and controls, risk management and regulatory compliance.

Four committee meetings were held in 2016 and the attendance records of the Audit Committee members are set out on page 50 of this Annual Report. The major work performed by the Audit Committee during the year included:

- (i) met with the external auditor and the Bank's senior executives in charge of Finance and Capital Management to discuss the financial statements for the year ended 31 December 2015 and for the six months ended 30 June 2016;
- (ii) reviewed and discussed with the external auditor to ensure that the Bank Group's financial statements had been prepared in accordance with the accounting principles generally accepted in Hong Kong;
- (iii) reviewed the independence and objectivity of the external auditor and the scope of audit services;
- (iv) reviewed the audit fees payable to the external auditor and recommended to the Board for approval;
- (v) met and discussed with the external auditor on the audit strategy and assessment of the sufficiency of the internal control of the Bank Group;
- (vi) reviewed the internal control issues and the internal audit function of the Bank Group, covering the annual audit plan, the staffing and resources of Internal Audit Department, the audit findings and recommendations raised in the internal audits undertaken, and the implementation status of related audit recommendations;
- (vii) reviewed the updated internal audit policy and internal audit manual and recommended to the Board for approval;
- (viii) reviewed the audit plan for the substantial upgrade of the Bank's information technology system which had commenced in 2016; and
- (ix) reviewed and updated its Terms of Reference.

# CORPORATE GOVERNANCE REPORT

as of 28 February 2017

## Auditors' Remuneration

The remuneration paid and payable to the Bank Group's auditor, PricewaterhouseCoopers, for 2016 amounted to:

	<i>HK\$'000</i>
Audit services and interim review	5,134
Tax service	157
Other service	<u>3,079</u>
Total	<u>8,370</u>

## Connected Party Transactions Committee

The Connected Party Transactions Committee currently consists of five members, including one Non-executive Director, two Independent Non-executive Directors, the Chief Financial Officer and the Chief Risk Officer of the Bank.

Under its Terms of Reference, the Connected Party Transactions Committee is responsible for reviewing the robustness of the Bank's control framework to ensure proper compliance with all legal and regulatory requirements, Listing Rules together with accounting requirements (promulgated in Hong Kong and other jurisdictions) as may be applicable and approving significant connected transactions.

Five committee meetings were held in 2016 and the attendance records of the three Connected Party Transactions Committee members who are also Directors are set out on page 50 of this Annual Report.

During the year, the Connected Party Transactions Committee reviewed and recommended to the Board for approval various connected transactions between the Bank Group and the members of Guangzhou Yue Xiu Holdings Limited, including the granting of credits and loans, and the entering into foreign exchange transactions and/or financial markets transactions framework agreements.

## Executive Committee

The Executive Committee currently consists of eight members, including three Executive Directors and other senior executives of the Bank.

The Executive Committee exercises its powers, authorities and discretions as delegated by the Board to manage the day-to-day operations of the Bank Group in accordance with its Terms of Reference and such other policies and directives as the Board may determine from time to time.

The Executive Committee has established the Asset and Liability Management Committee, the Disciplinary Committee, the Information Technology Committee and the Risk Management Committee with defined Terms of Reference that are in line with best practices. The above specialized sub-committees report directly to the Executive Committee and are responsible for overseeing assets and liabilities, staff disciplinary-related issues, overall information technology strategy as well as major risk and compliance issues of the Bank Group.

12 committee meetings were held in 2016 and the attendance records of the Executive Directors are set out on page 50 of this Annual Report.

## Nomination Committee

The Nomination Committee currently consists of five members, including three Independent Non-executive Directors and two Non-executive Directors.

Under its Terms of Reference, the Nomination Committee is responsible for, among others, reviewing and making recommendations to the Board on the structure, size and composition of the Board and identifying potential candidate suitably qualified to become director of the Bank.

One committee meeting was held in 2016 and the attendance records of the Nomination Committee members are set out on page 50 of this Annual Report. The primary duties performed by the Nomination Committee during the year included:

- (i) recommended to the Board on the re-designation of Directors' roles for Mrs Leung Ko May Yee Margaret, Mr Zong Jianxin and Mr Lau Wai Man with a view to enhancing the governance structure of the Bank;
- (ii) recommended to the Board on the appointment of Chief Auditor of the Bank;
- (iii) reviewed the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and its committees and made recommendations to the Board;
- (iv) reviewed the efficiency and effectiveness of the functioning of the Board and its committees;
- (v) reviewed and confirmed the independence of the Independent Non-executive Directors of the Bank; and
- (vi) nominated candidates to stand for re-election as Directors by Shareholders at the 2016 AGM.

## Remuneration Committee

### *Authority and Responsibility*

The Bank has established a Remuneration Committee with specific Terms of Reference to entrust it with the authority and responsibilities for, among others, making recommendation and reviewing the Remuneration Policy of the Bank Group by taking into account the pay and conditions across the Bank Group's individual remuneration packages for Directors, Senior Management and Key Personnel as well as those in positions of significant influence and those having an impact on the Bank Group's risk profile; ensuring that the reward frameworks and decisions shall be developed in a manner to encourage employee behavior that supports the Bank Group's risk tolerance, risk management framework and long-term financial soundness, as well as to support and reinforce the achievement of the Bank Group's vision and strategy; and ensuring that no individual Director, Chief Executive or any of their associates will be involved in deciding his/her own remuneration.

The Remuneration Committee currently comprises five members, including three Independent Non-executive Directors and two Non-executive Directors.

# CORPORATE GOVERNANCE REPORT

as of 28 February 2017

## **Remuneration Structure**

The Remuneration Committee considers it appropriate for the remuneration system of the Bank Group to be mainly fixed cash-based with controlled scale of performance-related bonus which not only conforms with the risk appetite and aligns with the long-term value creation and time horizon of risk of the Bank Group to grow steadily and prudently by encouraging long-term performance rather than short-term risk taking, but also motivates, recognises, rewards and retains both outstanding individual contribution and sound team performance. The proportion and amount of fixed and variable remuneration shall vary according to an employee's seniority, role and responsibilities within the Bank Group, also the market benchmarking and trend.

## **Performance Management and Award of Variable Remuneration**

The Bank Group uses a Balanced Scorecard approach to measure and manage performance at the levels of the Bank Group, business/functional units and individual employees. The Board approves the key performance indicators and the corresponding target levels of the Bank Group with reference to corporate goals and objectives at the beginning of financial year and when necessary. The targets of the Bank Group will be cascaded down under the Balanced Scorecard Framework whereby the performance will be assessed from the dimensions of financial, customer, internal process and people management.

Each dimension of the scorecard is comprised of a set of key performance indicators to assess the performance according to the specific areas of responsibility of the Bank Group, business/functional units and individual employees; both financial and non-financial performance indicators are required to ensure a balanced evaluation, except those risk control unit/personnel whose performance should be evaluated by their performance objectives and independent of the performance of the business areas which they oversee.

To put the principle of aligning performance and remuneration with risk into practice, on top of the mentioned performance indicators, a risk modifier is in place and incorporated into the performance management system to take into account any risk factors and compliance event and its impact as a final adjustment over and above the performance of the Bank Group, business/functional units and individual employees.

The size of the variable remuneration bonus pool of the Bank Group is determined according to the risk adjusted performance results approved by the Board and is subject to the Board's discretion, considering all necessary factors. The allocation of variable remuneration to each business/functional unit and an individual employee are based on the overall performance of the Bank Group, the relevant business/functional unit, as well as the performance of the individual employee.

Poor performance (either financial or non-financial) will result in a reduction or elimination of variable remuneration at any level. Adverse performance in non-financial factors, where appropriate, should override outstanding financial achievements. The overall performance (including compliance and risk control factors) of a business/functional unit or an individual employee – as opposed to solely its/his/her financial performance – can therefore be assessed. This ultimately helps mitigate risk to the Bank Group and align with its long-term value creation.

To ensure independence, the remuneration of risk control personnel should be determined in accordance with their performance objectives and is commensurate with their key role in the Bank Group. To avoid possible undue influence from business units, risk control personnel are compensated in a manner that is independent of the performance of the business unit which they oversee.

### **Deferral Arrangements**

The award of variable remuneration to employee is subject to deferment in such a manner as determined by the Remuneration Committee. Deferral of the payment of a portion of variable remuneration will allow employees' performance, including the associated risks, to be observed and validated over a period of time before the payment is actually made. In general, the overall level of their variable remuneration as a multiple of their fixed salary is subject to deferment. Deferral period can last for three years the longest.

The award of deferred remuneration is subject to a minimum vesting period and pre-defined vesting conditions as determined by the Remuneration Committee and communicated to all relevant employees. Deferred remuneration is awarded in such a manner so as to align employees' variable awards with long-term value creation and the time horizons of risk. The future performance (both financial and non-financial) of the Bank Group, relevant business/functional units, and individual employees are taken into consideration when determining vesting conditions. In circumstances where it is later established that any performance measurement for a particular year was based on data that is later proven to have been manifestly misstated, or it is later established that the relevant employee has committed fraud, malfeasance, or a violation of internal control policies, any unvested portions of the deferred variable remuneration (relating to that particular year in question) should be forgone, either in part or in whole, as determined by the Remuneration Committee.

### **External Remuneration Consultant**

Appointed by the Board, the Remuneration Committee is authorised to obtain professional advice as it deems appropriate and is responsible for the selection and appointment of consultants to advise it on all aspects of remuneration.

To ensure the suitability and competitiveness of the remuneration, the Bank Group appointed Willis Towers Watson for independent consultation in the area of market remuneration data and benchmarking for both Hong Kong and Mainland China employees.

### **Summary of Work**

Five committee meetings were held in 2016 and the attendance records of the Remuneration Committee members are set out on page 50 of this Annual Report. The works performed by the Remuneration Committee during the year included:

- (i) reviewed the performance indicators of the corporate scorecard of the Bank for 2015 and 2016 and the actual/estimated achievement of targets, and considered the proposal for the 2016 bonus pool available for distribution and recommended to the Board for approval;
- (ii) reviewed the salary adjustment proposal for 2016 and the variable bonus payment for 2015 for the Executive Directors, Senior Management and Key Personnel and made recommendations to the Board;
- (iii) reviewed the Bank-level fixed pay adjustment proposal for 2016 and 2017 and recommended to the Board for approval;
- (iv) reviewed the Bank's remuneration mechanism, including the remuneration philosophy of the Bank and the enhancement proposal, and recommended to the Board for approval;
- (v) conducted an annual review of the Bank's Remuneration Policy with the relevant changes made and recommended to the Board for approval; and

## CORPORATE GOVERNANCE REPORT

as of 28 February 2017

- (vi) received the report on the independent review conducted by Willis Towers Watson of the Bank's remuneration system and practices against the CG-5 Guideline on a Sound Remuneration System (the "CG-5 Guideline") issued by the HKMA.

The emolument payable to Directors will depend on their respective contractual terms under employment contracts, if any, and the recommendations made by the Remuneration Committee. Details of the Directors' emolument are set out in note 42 to the Consolidated Financial Statements. According to the CG-5 Guideline and defined in the Remuneration Policy of the Bank Group, Senior Management refers to Executive Directors and the three Chief Functional Officer; Key Personnel refers to individual employees whose duties or activities involve the assumption of material risk or the taking on of material exposures on behalf of the Bank Group. There are currently six and seven employees categorised as Senior Management and Key Personnel respectively. The aggregate payouts for these senior executives for 2015 and 2016 are shown in the table below in accordance with the disclosure requirement under paragraph 3.2.3 of the CG-5 Guideline issued by the HKMA on 12 March 2015.

The remuneration for the Senior Management and Key Personnel for the years ended 31 December 2015 and 2016, which was entirely paid in cash, is as follows:

Senior Management	Year ended 31 December 2016		Year ended 31 December 2015 (Restated in 2016)	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	Non-deferred	Deferred	Non-deferred	Deferred
Fixed remuneration:	35,390	–	36,200	–
– Cash	35,390	–	36,200	–
– Shares and share-linked instrument	N/A	N/A	N/A	N/A
– Others	N/A	N/A	N/A	N/A
Number of beneficiaries	7	–	11	–
Variable remuneration:	6,930	940	6,875	776
– Cash	6,930	940	6,875	776
– Shares and share-linked instrument	N/A	N/A	N/A	N/A
– Others	N/A	N/A	N/A	N/A
– Vested	–	776	–	–
– Unvested	–	–	–	–
– Awarded	–	–	–	–
– Paid out	–	–	–	–
– Reduced through performance adjustments	–	–	–	–
Number of beneficiaries	5	2	8	1

# CORPORATE GOVERNANCE REPORT

as of 28 February 2017

Key Personnel	Year ended 31 December 2016		Year ended 31 December 2015 (Restated in 2016)	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	Non-deferred	Deferred	Non-deferred	Deferred
Fixed remuneration:	18,025	–	14,953	–
– Cash	18,025	–	14,953	–
– Shares and share-linked instrument	N/A	N/A	N/A	N/A
– Others	N/A	N/A	N/A	N/A
Number of beneficiaries	8	–	8	–
Variable remuneration:	3,182	328	1,767	–
– Cash	3,182	328	1,767	–
– Shares and share-linked instrument	N/A	N/A	N/A	N/A
– Others	N/A	N/A	N/A	N/A
– Vested	–	–	–	–
– Unvested	–	–	–	–
– Awarded	–	–	–	–
– Paid out	–	–	–	–
– Reduced through performance adjustments	–	–	–	–
Number of beneficiaries	6	2	5	0

	Year ended 31 December 2016 HK\$'000	Year ended 31 December 2015 HK\$'000
Guaranteed Bonus	0	3,295
Number of beneficiaries	0	17
Sign-on Awards/Buy-out Payment	100	1,634
Number of beneficiaries	1	2
Severance Payment/Long Service Payment	521	301
Number of beneficiaries	2	1

The Remuneration Committee will continue to review and enhance the Bank Group's Remuneration Policy in accordance with the principles and spirit of the CG-5 Guideline, with particular attention paid to risk adjustments to performance assessment; also alongside the development of labor market, especially in the financial services sector, to evaluate and refine the remuneration provision so as to ensure that the rewards are competitive for the retention of talents.

# CORPORATE GOVERNANCE REPORT

as of 28 February 2017

## Risk Committee

The Risk Committee currently consists of five members, including three Independent Non-executive Directors and two Non-executive Directors.

Under its Terms of Reference, the Risk Committee is required, among other things, to advise the Board on the overall risk appetite/tolerance and risk management strategies of the Bank Group, and to oversee senior management's implementation of those strategies that are established and approved by the Board and aligned with the Bank's overall business objectives. In performing its role, the Risk Committee is supported by the Bank's Risk Management Committee and its specialized sub-committees.

Four committee meetings were held in 2016 and the attendance records of the Risk Committee members are set out on page 50 of this Annual Report. The major duties performed by the Risk Committee during the year included:

- (i) reviewed the overall risk management strategies and risk appetite/tolerance statement(s) of the Bank Group and recommended to the Board for approval;
- (ii) reviewed and assessed regularly the adequacy and effectiveness of the Bank Group's risk management framework, internal control systems and risk management policies, procedures and systems, and monitored their effective operation, implementation and maintenance;
- (iii) reviewed the establishment proposal for, and subsequently monitored the implementation progress of, the risk management module under the substantial upgrade of the Bank's information technology system which had commenced in 2016;
- (iv) reviewed the updated Business Continuity Planning Policy of the Bank and recommended to the Board for approval;
- (v) provided oversight on the independence of staff members responsible for implementing risk management systems and controls;
- (vi) reported significant risk management issues to the Board as set out in its Terms of Reference; and
- (vii) reviewed and updated its Terms of Reference.

During the year under review, the Committee held meetings with the risk management function and the Bank's Chief Risk Officer separately without the Executive Directors present. The Committee also met with the representatives of the HKMA to maintain a regular dialogue with the regulator and to keep posted of the HKMA's general views of its supervisory focus.

## ACCOUNTABILITY AND AUDIT

### Financial Reporting

The Board is responsible for presenting a balanced, clear and comprehensible assessment of the Bank Group's performance, financial results and prospects to Shareholders and other stakeholders in a timely manner. The annual and interim results and other discloseable financial information of the Bank are published in accordance with the requirements of the Listing Rules and other applicable regulations and industry best practice.

Management provides the Board with sufficient explanation and information to enable it to make an informed assessment of the Bank Group's financial and other information put before it for approval.

The Directors also receive monthly financial and business updates with information on the Bank's latest financial performance and any material variance from its annual business plan to enable them to discharge their duties and responsibilities.

The Directors acknowledge their responsibility for preparing the Bank's consolidated financial statements and ensuring that the preparation of the Bank's consolidated financial statements is in accordance with the relevant requirements and applicable standards. As at 31 December 2016, the Directors were not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern.

The statement of the Bank's external auditor concerning its reporting responsibilities on the Bank's consolidated financial statements and the key audit matters identified in its audit are set out in the "Independent Auditor's Report" on pages 65 to 72 of this Annual Report.

### Risk Management and Internal Control

The Board acknowledges that it is responsible for the Bank Group's risk management and internal control systems and reviewing their effectiveness. Although such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and to provide reasonable but not absolute assurance against material misstatement or loss, the Bank is committed to establishing and maintaining appropriate and effective risk management and internal control systems so as to safeguard Shareholders' investment and the Bank's assets.

The Bank's risk governance framework is substantiated by the clearly defined three lines of defence which are independent from each other. In short, the first line of defence is provided by the business units where risks are taken. The second line of defence is provided by the risk management and compliance functions that are responsible for overseeing the Bank's risk-taking activities and ensuring compliance with laws and regulations. The third line of defence is provided by the Internal Audit Department which is responsible for providing assurance on the effectiveness of the Bank's risk management framework.

The risk management and internal control systems of the Bank Group comprise comprehensive policies and standards under a well-established organisational structure:

- Policies and procedures have been designed for safeguarding assets against unauthorised use or disposition; for maintaining proper accounting records; for ensuring the reliability of financial information used within the business or for publication; and for ensuring compliance with applicable laws, rules and regulations. Systems and procedures are also in place to identify, evaluate, manage and report on the major types of risks, including credit, liquidity, market, operational, legal and reputational risks. All these policies and systems are regularly reviewed to reflect changes in markets, products and best practices.

# CORPORATE GOVERNANCE REPORT

as of 28 February 2017

- Areas of responsibilities of each business/functional unit are clearly defined to ensure effective checks and balances. Each unit is responsible for the assessment of individual types of risks arising under its areas of responsibilities, the management of the risks in accordance with the established risk management procedures, and the reporting on such risk management issues.
- Specialised committees are established for the oversight and monitoring of major risk areas. Regular risk management reports prepared by relevant business and functional units are submitted to the Asset and Liability Management Committee, the Risk Management Committee, the Executive Committee and the Risk Committee, and ultimately to the Board for oversight and monitoring of the respective types of risks on an ongoing basis. The Bank's risk management policies and major control limits are reviewed and recommended by the relevant specialised committees to the Board for approval, and are monitored and reviewed regularly according to established policies and procedures.
- The Internal Audit Department's role as the third line of defence is independent of the first and second lines of defence, with the Bank's Chief Auditor reporting directly to the Audit Committee. Pursuant to a risk-based approach, the Internal Audit Department conducts independent and objective assessment of the design and implementation of the risk management and control mechanisms of the Bank's business and functional units in order to identify any inadequacy. Results of audit work are reported regularly to the Audit Committee.
- The Bank has established a whistleblowing policy which encourages employees to raise concerns, in confidence, about possible improprieties in any matter related to the Bank. The Bank treats all information received confidentially and protects the identity and the interests of all whistleblowers.

The Board has, through the Audit Committee and the Risk Committee, monitored the performance of the Bank Group's risk management and internal control systems on an ongoing basis and also completed the 2016 annual review of their effectiveness, which covered such material aspects as financial, operational and compliance controls. The Board has received a confirmation from management on the effectiveness of the Bank Group's risk management and internal control systems and is satisfied that such systems, including the resources, staff qualifications and experience, training programmes and budget of the Bank Group's accounting, internal audit and financial reporting functions, are effective and adequate.

## COMMUNICATIONS WITH SHAREHOLDERS

### Effective Communication

The Bank recognizes the importance of communication and undertakes to maintain an ongoing dialogue with the Shareholders through general meetings, press releases, announcements and corporate communications such as annual report, interim report and circulars. The Board is committed to the timely disclosure of information. The latest information regarding the Bank's activities, announcements, circulars, press releases and corporate communications is made available on the Bank's website at [www.chbank.com](http://www.chbank.com) in a timely manner. The shareholders' calendar containing important dates for shareholders is set out on page 14 of this Annual Report for the Shareholders' reference.

A Shareholders' Communication Policy was adopted by the Board and such policy will be reviewed on a regular basis to ensure its effectiveness. Shareholders and other stakeholders may at any time send their enquires and concerns to the Board by addressing them to the Chief Financial Officer by post to the Bank's registered office at Ground Floor, Chong Hing Bank Centre, 24 Des Voeux Road Central, Hong Kong or by email to [info@chbank.com](mailto:info@chbank.com).

## General Meetings

The Bank aims at maintaining an ongoing dialogue with the Shareholders and, in particular, using AGMs or other general meetings as a forum for effective communication with the Shareholders. The Chairman of the Board and Chairmen of the Board Committees are available to answer questions from the Shareholders in relation to the performance of the Bank at the AGMs. In addition, the external auditor of the Bank is invited to attend the AGMs to answer questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and the auditor's independence. Separate resolutions are proposed at general meetings on each substantial issue, including the election and re-election (as the case may be) of individual Directors.

The Bank held its 2016 AGM on 13 May 2016. Poll results in respect of the resolutions proposed at the 2016 AGM were published on the websites of the Stock Exchange and the Bank on the same day.

The 2017 AGM will be held on 18 May 2017, and the relevant details are set out in the circular to the Shareholders sent together with this Annual Report.

## Voting Procedures at General Meetings

All resolutions put to vote at the general meetings (other than on procedural and administrative matters) must be taken by poll. At each general meeting, an explanation of the detailed procedures of conducting a poll will be provided to the Shareholders, and questions from the Shareholders regarding voting by poll will also be answered to ensure that Shareholders are familiar with such procedures. The poll results will be posted on the websites of the Stock Exchange and the Bank on the same day following the general meeting.

## Shareholders' Rights

### 1. General Meeting

Shareholder(s) may request to call a general meeting. If such request is made by Shareholder(s) representing 5% of the total voting rights of all the Shareholders having a right to vote at general meetings, such general meeting must be called. Such request, either in hard copy form or in electronic form and being authenticated by the person or persons making it, must be deposited at the registered office of the Bank at Ground Floor, Chong Hing Bank Centre, 24 Des Voeux Road Central, Hong Kong or sent by email to [info@chbank.com](mailto:info@chbank.com) for the attention of the Company Secretary. Shareholder(s) shall make reference to the provisions under Sections 566 to 568 of the Companies Ordinance for requesting to call a general meeting.

# CORPORATE GOVERNANCE REPORT

as of 28 February 2017

## 2. **Putting Forward a Resolution at an Annual General Meeting**

Pursuant to Section 615 of the Companies Ordinance, a request to put forward a resolution which may properly be moved at an AGM may be submitted by Shareholder(s) representing at least 2.5% of the total voting rights of all the Shareholders who have a right to vote on the resolution at the AGM to which the request relates, or by at least 50 Shareholders who have a right to vote on the resolution at the AGM to which the request relates. Such request must identify the resolution of which notice is to be given, be either in hard copy form or in electronic form, be authenticated by the person or persons making it, and be received by the Bank not later than six weeks before the AGM to which the request relates or, if later, the time at which notice is given of that AGM. The request must be deposited at the registered office of the Bank at Ground Floor, Chong Hing Bank Centre, 24 Des Voeux Road Central, Hong Kong or sent by email to [info@chbank.com](mailto:info@chbank.com) for the attention of the Company Secretary. Shareholder(s) should make reference to Sections 580 and 615 of the Companies Ordinance for the relevant procedures to put forward a resolution at an AGM.

## 3. **Proposing a Person for Election as a Director**

Shareholders can propose a person (other than a retiring Director or himself/herself) for election as a director at a general meeting of the Bank. Relevant procedures are available on the Bank's website at [www.chbank.com](http://www.chbank.com).

## **Investor Relations and Information Disclosure**

The Bank has put in place a Disclosure Policy for the disclosure of material information (including inside information) relating to its businesses, state of affairs, profit or loss and capital adequacy ratio to its stakeholders and the public in compliance with the disclosure obligations required by the Listing Rules, the Banking Ordinance, the Securities and Futures Ordinance and other applicable laws, rules and regulations.

The Disclosure Policy sets out the procedures and internal controls for the handling and dissemination of such information in a timely manner so as to enable the stakeholders and the public to appraise the latest position of the Bank Group. The Disclosure Policy and its effectiveness are subject to review on a regular basis according to the established procedures.

## **CONSTITUTIONAL DOCUMENTS**

At the 2016 AGM held on 13 May 2016, Shareholders passed a special resolution to approve the adoption of a new set of Articles of Association so as to be aligned with the current legal framework. The latest version of the Articles of Association of the Bank is available on the websites of the Stock Exchange and the Bank.

By Order of the Board

**Lai Wing Nga**

*Company Secretary*

Hong Kong, 28 February 2017

## TO THE MEMBERS OF CHONG HING BANK LIMITED

(Incorporated in Hong Kong with limited liability)

### Opinion

#### *What we have audited*

The consolidated financial statements of Chong Hing Bank Limited (the “Bank”) and its subsidiaries (the “Group”) set out on pages 75 to 208, which comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

#### *Our opinion*

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

## INDEPENDENT AUDITOR'S REPORT

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### **Basis for Opinion**

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSAAs”) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Independence**

We are independent of the Group in accordance with the HKICPA’s Code of Ethics for Professional Accountants (“the Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code.

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Valuation and impairment allowances of advances to customers
- Valuation and impairment assessment of debt securities
- Goodwill impairment assessment of Chong Hing Insurance

**Key Audit Matter****How our audit addressed the Key Audit Matter****Valuation and impairment allowances of advances to customers**

As at 31 December 2016, the Group had individual impairment allowances and a collective impairment allowance amounting to HK\$40 million and HK\$251 million respectively. The calculations of both individual and collective impairment allowances are inherently judgemental for the Bank.

The individual impairment allowances calculation is judgemental because it requires the determination of when an impairment event has occurred and then to estimate the expected future cash flows related to that specific loan.

The collective impairment allowance is calculated using a collective impairment assessment model which requires significant management judgement to determine the assumptions used in the key parameters (including loss factor, macro-economic factor and emergence period factor) and also management overlays applied.

The disclosures about the key sources of estimation uncertainty are set out in note 5(a), and the impairment allowances movement of advances to customers are detailed in note 21 of the consolidated financial statements.

We tested controls over management's identification of non-performing loans, which include controls over regular credit review, and compilation and review of early warning list.

We evaluated, on a sample basis, the level of individual impairment allowances recorded for specific loans by challenging management on the judgement applied in the expected future cash flows estimation and re-performing the mathematical accuracy of management's discounted cash flow calculation.

We evaluated the consistency in the application of the collective impairment assessment model and the key parameters. We also tested, on a sample basis, the accuracy and completeness of input data via re-performance. We further evaluated the management judgement applied in determining the assumptions used in the key parameters and management overlays by comparing them to evidence obtained through external sources, our industry knowledge and market experience.

Based on the procedures we performed, we considered the individual impairment allowances of HK\$40 million and collective impairment allowance of HK\$251 million to be supported by available evidence.

## Key Audit Matter

## How our audit addressed the Key Audit Matter

### Valuation and impairment assessment of debt securities

The Group's debt securities comprise of available-for-sale debt securities measured at fair value, and held-to-maturity securities measured at amortised cost less any identified impairment, are classified as level 2 in the fair value hierarchy (measured based on quotes from market makers or alternative pricing sources supported by observable inputs) for financial instruments.

As at 31 December 2016, the Group had available-for-sale debt securities with a carrying amount of HK\$24,072 million and held-to-maturity securities with a carrying amount of HK\$5,564 million classified as level 2 financial instruments.

We focused on the above debt securities due to the size of the balances and the inherent judgement involved in identifying suitable pricing sources to determine the fair value of these debt securities for valuation and/or impairment assessment.

The impairment assessment of available-for-sale debt securities and held-to-maturity securities are performed by comparing the amortised cost with the fair value of the financial instruments and observing other objective evidence, including market conditions and length of time for the deterioration in value. We also focused on such impairment assessment for which management considered the change in credit condition of individual counterparties to be judgemental.

The disclosures about key sources of estimation uncertainty, the valuation and impairment assessment of the above debt securities are detailed in note 5(b), 7, and 19 of the consolidated financial statements.

We tested controls adopted by management over the fair valuation of available-for-sale debt securities in respect of validation of pricing data from external sources, and management's assessment on valuation fluctuations.

We selected, on a sample basis, the fair value measurement of available-for-sale debt securities to evaluate the valuation of these financial instruments. For the selected sample of available-for-sale debt securities, we obtained the external quotes applied and assessed the quality of the quotes used (in terms of consistency and range) to determine the fair value. Fair value of held-to-maturity securities for impairment assessment purpose are assessed using the methodology mentioned above.

We evaluated, on a sample basis, the impairment assessments performed by management for available-for-sale debt securities and held-to-maturity securities by comparing the amortised cost and fair value of the debt securities and assessing the reasonableness of the change in credit condition and relevance of other factors considered by management in the impairment assessment.

Based on the procedures we performed, we found the fair value measurement and management's conclusion on impairment assessment to be supported by available evidence.

## Key Audit Matter

## How our audit addressed the Key Audit Matter

### Goodwill impairment assessment of Chong Hing Insurance

As at 31 December 2016, the Group had goodwill of HK\$40 million relating to the acquisition of Chong Hing Insurance Company Limited ("Chong Hing Insurance"), after recognising an impairment loss of HK\$11 million for the year ended 31 December 2016.

Management adopts a value-in-use calculation, which is higher than fair value less costs to sell, in measuring the recoverable amount for impairment assessment of Chong Hing Insurance. This impairment assessment inherently involves significant judgement with respect to the long term growth rate, discount rate and underlying cash flows, in particular short term growth rates applied on the gross written premium of the business.

An impairment loss shall be recognised in the consolidated income statement when the recoverable amount, calculated using the value-in-use method as explained above, is less than the carrying amount.

The disclosures about critical judgements, and the impairment assessment of Chong Hing Insurance are detailed in note 5(c) and 36 of the consolidated financial statements.

We assessed the reasonableness of methodology used and relevance of assumptions used by the Bank's management to estimate the recoverable amount. This includes comparing the short term growth rate against the budget approved by the Board of the Bank and other key assumptions applied such as long term growth rate and discount rate applied with comparable market information.

For the estimation of recoverable amount, we verified the mathematical accuracy of the underlying calculation and evaluated management's assessment of the fair value less costs to sell.

We considered the sensitivity of the recoverable amount to possible variations in those key assumptions, including the short and long term growth rates and discount rate. The results are within the range of our expectation.

Our assessment has been discussed with and considered by management and the Audit Committee.

## INDEPENDENT AUDITOR'S REPORT

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### Other Information

The directors of the Bank are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of Directors and the Audit Committee for the Consolidated Financial Statements

The directors of the Bank are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

### Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

## INDEPENDENT AUDITOR'S REPORT

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We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ms. Ng, Wai Ying.

**PricewaterhouseCoopers**  
*Certified Public Accountants*

Hong Kong, 28 February 2017

75	<b>Consolidated Income Statement</b>	
76	<b>Consolidated Statement of Comprehensive Income</b>	
77	<b>Consolidated Statement of Financial Position</b>	
78	<b>Consolidated Statement of Changes in Equity</b>	
80	<b>Consolidated Statement of Cash Flows</b>	
82	<b>Notes to the Consolidated Financial Statements</b>	
82	1. General	
82	2. Application of new and revised Hong Kong Financial Reporting Standards (“HKFRSs”)	
84	3. New and revised HKFRSs issued but not yet effective	
85	4. Significant accounting policies	
106	5. Critical accounting judgements and key sources of estimation uncertainty	
109	6. Segment information	
116	7. Financial risk management	
154	8. Financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements	
162	9. Net interest income	
163	10. Net fee and commission income	
164	11. Net trading income	
165	12. Other operating income	
166	13. Operating expenses	
167	14. Taxation	
168	15. Dividends	
168	16. Earnings per share – basic and diluted	
168	17. Cash and short-term funds	
169	18. Derivative financial instruments	
171	19. Investments in securities	
174	20. Transfer of financial assets	
175	21. Advances and other accounts	
178	22. Subsidiaries	
179	23. Interests in associates	
180	24. Assets held for sale	
181	25. Investment properties	
183	26. Property and equipment	
186	27. Prepaid lease payments for land	

## FINANCIAL STATEMENTS – CONTENTS

186	28. Financial assets sold under repurchase agreements
187	29. Deposits from customers
187	30. Certificates of deposit and debt securities issued
187	31. Loan capital
188	32. Share capital
188	33. Additional equity instruments
189	34. Deferred taxation
190	35. Share option scheme
191	36. Intangible assets
192	37. Contingent liabilities and commitments
194	38. Retirement benefits scheme
199	39. Related party transactions
201	40. Capital management
202	41. Statement of financial position and reserve movement of the Bank
206	42. Benefits and interests of directors
208	43. Immediate and ultimate holding companies
208	44. Comparative amounts

### **Unaudited Supplementary Financial Information**

209	1. Major specialised committees
210	2. Management of risks
211	3. Capital adequacy ratios, leverage ratio and liquidity ratios
213	4. Other financial information
213	5. Segmental information
214	6. Advances to customers – by industry sectors
215	7. Advances to customers – by geographical areas
216	8. International claims
217	9. Currency risk
218	10. Overdue and rescheduled assets
220	11. Mainland activities exposures
222	12. Capital charge for credit, market and operational risks
224	13. Risk management
231	14. Basis of consolidation

# CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2016

	Notes	2016 HK\$'000	2015 HK\$'000
			(Restated)
Interest income		3,001,170	3,018,604
Interest expense		(956,370)	(1,239,769)
Net interest income	9	2,044,800	1,778,835
Fee and commission income		344,494	387,444
Fee and commission expenses		(84,910)	(81,427)
Net fee and commission income	10	259,584	306,017
Net trading income	11	230,059	63,615
Other operating income	12	139,853	143,247
Operating expenses	13	(1,227,552)	(1,113,757)
Operating profit before impairment allowances		1,446,744	1,177,957
Net reversal (charge) of impairment allowances on loans and advances	21	40,198	(22,748)
Operating profit after impairment allowances		1,486,942	1,155,209
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 other investments	19	160,729	70,304
Net gains on disposal of and fair value adjustments on investment properties	25	2,026	106,737
Impairment loss on available-for-sale securities		(11,071)	(200)
Impairment loss on goodwill	36	(11,000)	–
Share of profits of associates		31,617	31,827
Profit before taxation		1,684,000	1,419,390
Taxation	14	(264,296)	(226,254)
Profit for the year			
– Attributable to equity owners of the Bank		1,419,704	1,193,136
Earnings per share – basic and diluted	16	HK\$1.94	HK\$2.06

The notes on pages 82 to 208 form an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2016

	2016 HK\$'000	2015 HK\$'000
Profit for the year	1,419,704	1,193,136
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	497	13,435
Other comprehensive expense for the year (net of tax)	(123,148)	(123,761)
Total comprehensive income for the year	1,296,556	1,069,375
Total comprehensive income attributable to:		
Equity owners of the Bank	1,296,556	1,069,375

The notes on pages 82 to 208 form an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2016

	Notes	2016 HK\$'000	2015 HK\$'000
<b>Assets</b>			
Cash and short-term funds	17	30,521,281	21,431,894
Placements with banks maturing between one to twelve months		1,616,540	7,751,110
Derivative financial instruments	18	424,845	577,651
Financial assets at fair value through profit or loss	19	241	271
Available-for-sale securities	19	24,164,028	22,800,023
Held-to-maturity securities	19	5,563,683	8,686,530
Advances and other accounts	21	74,081,605	65,386,648
Tax recoverable		3,128	–
Assets held for sale	24	2	–
Interests in associates	23	262,565	247,901
Investment properties	25	282,927	264,222
Property and equipment	26	633,604	627,777
Prepaid lease payments for land	27	2,201	2,269
Deferred tax assets	34	4,672	10,744
Intangible assets	36	210,729	50,606
<b>Total assets</b>		<b>137,772,051</b>	127,837,646
<b>Liabilities</b>			
Deposits and balances of banks		2,696,681	5,728,313
Financial assets sold under repurchase agreements	28	9,845,753	3,322,683
Deposits from customers	29	102,880,629	99,392,364
Certificates of deposit	30	812,329	351,962
Derivative financial instruments	18	553,614	844,778
Other accounts and accruals		1,243,889	1,124,688
Current tax liabilities		356,298	135,457
Debt securities issued	30	1,663,774	–
Loan capital	31	1,792,267	1,819,591
Deferred tax liabilities	34	13,245	10,069
<b>Total liabilities</b>		<b>121,858,479</b>	112,729,905
<b>Equity attributable to owners of the Bank</b>			
Share capital	32	5,435,904	5,435,904
Additional equity instruments	33	2,312,030	2,312,030
Reserves		8,165,638	7,359,807
<b>Total equity</b>		<b>15,913,572</b>	15,107,741
<b>Total liabilities and equity</b>		<b>137,772,051</b>	127,837,646

The notes on pages 82 to 208 form an integral part of these consolidated financial statements.

Approved and authorised for issue by the Board of Directors on 28 February 2017 and signed on its behalf by:

**Zhang Zhaoxing**  
Chairman

**Leung Ko May Yee Margaret**  
Deputy Chairman, Managing Director and Chief Executive

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2016

	Note	Additional		Goodwill	Investment revaluation reserve	Land and building revaluation reserve	General reserve	Translation reserve	Regulatory reserve	Retained profits	Total
		Share capital	equity instruments								
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>At 1 January 2016</b>		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	15	-	-	-	-	-	-	-	-	(97,875)	(97,875)
Final dividend paid	15	-	-	-	-	-	-	-	-	(241,425)	(241,425)
Earmark of retained profits as regulatory reserve		-	-	-	-	-	-	-	76,000	(76,000)	-
<b>At 31 December 2016</b>		5,435,904	2,312,030	(182)	169,620	174,247	1,388,500	(183,255)	739,000	5,877,708	15,913,572

The notes on pages 82 to 208 form an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2016

	Note	Share capital HK\$'000	Additional equity instruments HK\$'000	Goodwill HK\$'000	Investment revaluation reserve HK\$'000	Land and building revaluation reserve HK\$'000	General reserve HK\$'000	Translation reserve HK\$'000	Regulatory reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
<b>At 1 January 2015</b>		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	15	-	-	-	-	-	-	-	-	(91,350)	(91,350)
Final dividend paid	15	-	-	-	-	-	-	-	-	(178,350)	(178,350)
Earmark of retained profits as regulatory reserve		-	-	-	-	-	-	-	90,000	(90,000)	-
<b>At 31 December 2015</b>		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 82 to 208 form an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2016

	2016 HK\$'000	2015 HK\$'000
		(Restated)
<b>OPERATING ACTIVITIES</b>		
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)
<b>NET CASH GENERATED FROM OPERATING ACTIVITIES</b>	<b>6,495,851</b>	<b>5,365,189</b>

# CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2016

	2016 HK\$'000	2015 HK\$'000
		(Restated)
<b>INVESTING ACTIVITIES</b>		
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
<b>NET CASH GENERATED FROM (USED IN) INVESTING ACTIVITIES</b>	<b>2,354,768</b>	<b>(14,282,676)</b>
<b>FINANCING ACTIVITIES</b>		
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)
<b>NET CASH GENERATED FROM FINANCING ACTIVITIES</b>	<b>1,180,562</b>	<b>3,192,879</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>10,031,181</b>	<b>(5,724,608)</b>
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>	<b>19,022,227</b>	<b>24,746,835</b>
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	<b>29,053,408</b>	<b>19,022,227</b>
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
	<b>29,053,408</b>	<b>19,022,227</b>

The notes on pages 82 to 208 form an integral part of these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 1. GENERAL

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.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) - continued

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 3. NEW AND REVISED HKFRSs ISSUED BUT NOT YET EFFECTIVE

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

- HKFRS 9 “Financial instruments”, addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of HKFRS 9 was issued in July 2014. It replaces the guidance in HKAS 39 that relates to the classification and measurement of financial instruments. HKFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity’s business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in HKAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. HKFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the “hedged ratio” to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under HKAS 39. The standard is effective for the accounting period beginning on or after 1 January 2018 and early adoption is permitted. The Group is assessing HKFRS 9’s full impact.
- HKFRS 15 “Revenue from contracts with customers” deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces HKAS 18 “Revenue” and HKAS 11 “Construction contracts” and related interpretations. The standard is effective for the accounting period beginning on or after 1 January 2018 and earlier application is permitted. The Group is assessing the impact of HKFRS 15.
- HKFRS 16 “Leases” addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from HKFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces HKAS 17 ‘Leases’, and related interpretations.

## 4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below. These policies have been consistently applied in all years presented, unless otherwise stated.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 4. SIGNIFICANT ACCOUNTING POLICIES - continued

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank and its subsidiaries. Control is achieved when the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated income statement from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

### Investments in subsidiaries

Investments in subsidiaries are stated in the Bank's statement of financial position at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Bank on the basis of dividends received or receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

## 4. SIGNIFICANT ACCOUNTING POLICIES - continued

### Intangible assets

#### Goodwill

Goodwill arising on an acquisition of a business represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment losses are allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment losses for goodwill is recognised directly in the consolidated income statement. An impairment losses recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of gain or loss on disposal.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 4. SIGNIFICANT ACCOUNTING POLICIES - continued

### Computer software

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the group are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use or sell it;
- There is an ability to use or sell the software product;
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed fifteen years.

### Interests in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

## 4. SIGNIFICANT ACCOUNTING POLICIES - continued

### Interests in associates - continued

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in the income statement in the period in which the investment is acquired.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment losses with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment losses recognised forms part of the carrying amount of the investment. Any reversal of that impairment losses are recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Investments in associates are stated in the Bank's statement of financial position at cost less provision for impairment losses. The results of associates are accounted for by the Bank on the basis of dividends received or receivable.

### Interest income and expenses

Interest income and expense for all interest-bearing financial instruments are recognised within "interest income" and "interest expense" in the income statement using the effective interest method.

Interest income and expenses are recognised on a time-proportion basis by reference to the principal outstanding and at the effective interest rate applicable. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability on initial recognition. The calculation includes significant fees and transaction costs that are an integral part of the effective interest rate, and premiums or discounts.

Once an impairment loss of a financial asset has been recognised, subsequent interest income is recognised using the rate of interest used to discount the future cash flows measuring the impairment losses.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 4. SIGNIFICANT ACCOUNTING POLICIES - continued

### Non-interest income revenue recognition

#### *Fees and commission income*

Fees and commission income that are integral to the effective interest rate on a financial asset are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed.

#### *Dividends*

Dividend income from investments including financial assets at fair value through profit or loss is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

#### *Service income*

Service income (including safe deposit box rentals and other banking services income) is recognised when services are provided.

### Property and equipment

Property and equipment including land and buildings, which mainly comprise branches and offices are stated in the statements of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property and equipment over their estimated useful lives after taking into account their estimated residual value, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gains or losses arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Leasehold land classified as finance lease commences amortisation from the time when the land interest becomes available for its intended use. Amortisation on leasehold land classified as finance lease and depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives.

Property and equipment will be reclassified to investment property when it is evidenced by end of owner occupation and commencement of an operating to another party.

## 4. SIGNIFICANT ACCOUNTING POLICIES - continued

### Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs of disposal.

### Investment properties

Investment properties are properties held to earn rentals or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values representing open market value determined at each reporting date by external valuers. Gains or losses arising from changes in the fair value of investment property are included in the income statement for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposals. Any gains or losses arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the period in which the item is derecognised.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 4. SIGNIFICANT ACCOUNTING POLICIES - continued

### Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

#### *The Group as lessor*

Rental income from operating leases is recognised in the income statement on a straight-line basis over the term of the relevant lease.

#### *The Group as lessee*

Operating lease payments are recognised as an expense on a straight-line basis over the term of the lease.

#### *Leasehold land and building*

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “prepaid lease payments for land” in the statements of financial position and is released over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model.

### Foreign currencies

#### *Functional and presentation currency*

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. The consolidated financial statements are presented in thousands of units of Hong Kong Dollars (HK\$'000), which is the Bank's functional currency and the Group's presentation currency.

## 4. SIGNIFICANT ACCOUNTING POLICIES - continued

### Foreign currencies - continued

#### Transactions and balances

Foreign currency transactions that are transactions denominated, or that require settlement, in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary items denominated in foreign currency are translated with the closing rate as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at exchange rates at statement of financial position dates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

All foreign exchange gains and losses recognised in the income statement are presented net in the income statement within the corresponding item. Foreign exchange gains and losses on other comprehensive income items are presented in other comprehensive income within the corresponding item.

In the case of changes in the fair value of monetary assets denominated in foreign currency classified as available-for-sale, a distinction is made between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in the income statement, and other changes in the carrying amount, except impairment, are recognised in other comprehensive income.

Translation differences on non-monetary financial instruments, such as equity securities classified as held for trading, are reported as part of the fair value gain or loss. Translation differences on non-monetary financial instruments, such as equity securities classified as available-for-sale securities, are included in other comprehensive income.

#### Group companies and oversea branches

The results and financial position of all the Group's entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange differences are recognised in other comprehensive income.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 4. SIGNIFICANT ACCOUNTING POLICIES - continued

### Retirement benefit costs

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

For defined retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out regularly such that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the end of reporting period.

Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained profits and will not be reclassified to the income statement. Past service cost is recognised in the income statement in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorised as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements), recognised in the income statement;
- net interest expense or income, recognised in the income statement; and
- remeasurement, recognised in the other comprehensive income.

The net retirement benefit liability/asset recognised in the statements of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

### Bonus plans

Liabilities for bonus plans due wholly within twelve months after the end of the reporting period are recognised when the Group has a present or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

## 4. SIGNIFICANT ACCOUNTING POLICIES - continued

### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from “profit before taxation” as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and interest in associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax liabilities and deferred tax assets for such investment properties are measured in accordance with the above general principles set out in HKAS 12 (i.e. based on the expected manner as to how the properties will be recovered).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 4. SIGNIFICANT ACCOUNTING POLICIES - continued

### Taxation - continued

Current and deferred tax is recognised in the income statement, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### Financial instruments

Financial assets and financial liabilities are recognised in the statements of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or issue of financial liabilities at fair value through profit or loss are recognised immediately in the income statement.

### Financial assets

The Group's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

### Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

## 4. SIGNIFICANT ACCOUNTING POLICIES - continued

### Financial instruments - continued

#### Financial assets - continued

##### *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss have two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition.

A financial asset is classified as held for trading if:

- it has been incurred principally for the purpose of selling in the near future; or
- on initial recognition, it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated at fair value through profit or loss.

Financial assets at fair value through profit or loss are measured at fair values, with changes in fair values arising from remeasurement recognised directly in the income statement in the period in which they arise. The net gains or losses exclude any interest earned on the financial assets and are included in interest income in the income statement.

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables including cash and short-term funds, placements with and advances to banks and other financial institutions, interest receivable, bills receivable, trade bills and other advances to customers, other accounts and amounts due from subsidiaries are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 4. SIGNIFICANT ACCOUNTING POLICIES - continued

### Financial instruments - continued

#### Financial assets - continued

##### *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group's management has the positive intention and ability to hold to maturity other than those that meet the definition of loans and receivables. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

##### *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Equity and debt securities held by the Group that are classified as available-for-sale financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of available-for-sale monetary financial assets relating to interest income calculated using the effective interest method and dividends on available-for-sale equity investments are recognised in the income statement. Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to the income statement (see the accounting policy in respect of impairment of financial assets below).

Dividends on equity instruments classified as available-for-sale are recognised in the income statement when the Group's right to receive the dividends is established.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment of financial assets below).

## 4. SIGNIFICANT ACCOUNTING POLICIES - continued

### Financial instruments - continued

#### *Impairment of financial assets*

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, default or delinquency in interest or principal payments; or
- it is probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

For financial asset carried at amortised cost, such as advances to customers, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis.

Individual impairment allowances are assessed by a discounted cash flow method for loans and advances that are individually significant and have objective evidence of impairment. The individual impairment allowances are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 4. SIGNIFICANT ACCOUNTING POLICIES - continued

### Financial instruments - continued

#### Impairment of financial assets - continued

Individually insignificant advances or advances where no objective evidence of impairment exists for an individually assessed financial assets are assessed for collective impairment by considering the historical loss experience of advances with similar credit risk characteristics adjusted for current conditions.

For financial assets carried at amortised cost, the amount of the impairment losses recognised is the difference between the financial asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment losses is measured as the difference between the financial asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced through the use of an allowance account. When the financial assets are considered to be uncollectible, the amounts are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the income statement.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decrease and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment losses are reversed through the income statement to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

When an available-for-sale financial asset carried at fair value is considered to be impaired, cumulative losses previously recognised in other comprehensive income are reclassified to the income statement in the period in which the impairment takes place.

Impairment losses on available-for-sale equity investments carried at fair value will not be reversed through the income statement in subsequent periods. Any increase in fair value subsequent to impairment losses are recognised directly in other comprehensive income and accumulated in investment valuation reserve. For available-for-sale debt investments, impairment losses are subsequently reversed through the income statement if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment losses.

## 4. SIGNIFICANT ACCOUNTING POLICIES - continued

### Financial instruments - continued

#### Financial liabilities and equity instruments

##### Financial liabilities

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or equity instruments in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

##### Equity instruments

Equity instruments (including ordinary shares and additional equity instruments) are any contracts that evidence a residual interests in the assets of a group entity after deducting all of its liabilities. Equity instruments issued by the Bank are recognised at the proceeds received, net of direct issuance costs.

##### Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

##### Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss have two subcategories, including financial liabilities held for trading and those designated at fair value through profit or loss on initial recognition.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- on initial recognition, it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial liabilities at fair value through profit or loss are measured at fair values, with changes in fair values arising from remeasurement recognised directly in the income statement in the period in which they arise. The net gains or losses exclude any interest paid on the financial liabilities and are included in interest expense in the income statement.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 4. SIGNIFICANT ACCOUNTING POLICIES - continued

### Financial instruments - continued

#### Financial liabilities and equity instruments - continued

##### *Other financial liabilities*

Other financial liabilities are initially measured at fair value, net of transaction costs. Other financial liabilities, including deposits and balances of banks and other financial institutions, financial assets sold under repurchase agreements, deposits from customers, other accounts and accruals, amounts due to subsidiaries, certificates of deposit and loan capital are subsequently measured at amortised cost using the effective interest method.

##### *Offsetting financial instruments*

Financial assets and financial liabilities are offset and the net amount reported in the statements of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the financial asset and settle the financial liability simultaneously. The legal enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Bank or the counterparty.

##### *Derivative financial instruments and hedging*

Derivatives are initially recognised at fair values at the date derivative contracts are entered into and are subsequently remeasured to their fair values at the end of each reporting period. The resulting gains or losses are recognised in the income statement immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the income statement depends on the nature of hedge relationship.

##### *Embedded derivatives*

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair values with changes in fair values recognised in the income statement.

## 4. SIGNIFICANT ACCOUNTING POLICIES - continued

### Financial instruments - continued

#### *Hedge accounting*

The Group designates certain derivatives as hedges of the fair value of available-for-sale securities and fixed-rate subordinated note (fair value hedges).

At the inception of the hedging relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting the changes in fair values of the hedged item.

#### *Fair value hedges*

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the income statement immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the fair value of the hedged item attributable to the hedged risk are recognised in the income statement in the line item relating to the hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting.

#### *Financial guarantee contracts*

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for losses it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of obligation under the contract, as determined in accordance with HKAS 37 "Provisions, contingent liabilities and contingent assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the revenue recognition standard.

Any increase in the liability relating to guarantees is reported in the income statement.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 4. SIGNIFICANT ACCOUNTING POLICIES - continued

### Financial instruments - continued

#### *Derecognition*

The Group derecognises financial assets only when the contractual rights to the cash flows from the financial assets expire, or when it transfers the financial assets and substantially all the risks and rewards of ownership of the financial asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred financial asset, the Group continues to recognise the financial asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the financial asset's carrying amount and the sum of the consideration received and receivable and the cumulative gains or losses that had been recognised in other comprehensive income and accumulated in equity is recognised in the income statement.

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in the income statement. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

The Group derecognises financial liabilities when, and only when the Group's obligations specified in the relevant contract are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the income statement.

#### *Repurchase agreements*

Financial assets sold subject to repurchase agreements continue to be recognised and recorded in the statement of financial position. The corresponding liability is included in the financial assets sold under repurchase agreements.

The difference between purchase and sale price is recognised as interest expense in the income statement over the life of the agreements using the effective interest method.

## 4. SIGNIFICANT ACCOUNTING POLICIES - continued

### Financial instruments - continued

#### Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

#### Impairment of non-financial assets (other than goodwill)

At the end of the reporting period, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment losses, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised immediately in the income statement.

Where impairment losses subsequently reverse, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment losses been recognised for the asset in prior years. A reversal of impairment losses is recognised as income immediately.

#### Cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash, balances with banks and other financial institutions, money at call and short notice, placements with and deposits of banks and other financial institutions as well as exchange fund bills.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

#### (a) Impairment allowances on loans and advances

The Group establishes, through charges against profit, impairment allowances in respect of estimated incurred losses in loans and advances. The allowances consist of individual impairment allowances and collective impairment allowances. The overall impairment allowances represent the aggregate amount by which management considers necessary to write down its loan portfolio in order to state it in the statements of financial position at its estimated net recoverable value.

In determining individual impairment allowances, management considers objective evidence of impairment. When a loan is impaired, an individual impairment allowance is assessed by a discounted cash flow method, measured at the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The quantum of the allowance is also impacted by the collateral value and this, in turn, may be discounted in certain circumstances to recognise the impact of forced sale or quick liquidation.

In determining collective impairment allowances, management uses estimates based on historical loss experience on a collective basis for loans and advances with similar credit risk characteristics to assess the impairment loss. More details are set out in note 7.

Details of the impairment allowance movements are disclosed in note 21.

## 5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY - continued

### Key sources of estimation uncertainty - continued

#### (b) Fair value of derivatives and other financial instruments

The management of the Group uses its judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments and structured products with embedded derivatives, assumptions are made based on quoted market rates adjusted for specific features of the instruments.

Details of the assumptions used are disclosed in note 7.

#### (c) Estimated impairment of goodwill

According to HKAS 36 "Impairment of Assets", impairment losses are made when the carrying amount of an asset exceeds its recoverable amount, which is calculated at the higher of the fair value less costs to sell and value in use.

Management has reviewed goodwill for impairment by comparing the carrying amount and 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 five-year financial budgets approved by 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. Key assumptions include the expected growth in revenues and selection of discount rates.

Details of the recoverable amount calculation are disclosed in note 36.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY - continued

### Critical judgements in applying the entity's accounting policies

The following are the critical judgements, apart from those involving estimations, that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

#### *Deferred taxation on investment properties*

For the purposes of measuring deferred tax liabilities or deferred tax assets arising from investment properties that are measured using the fair value model, the directors have reviewed the Group's investment property portfolios in Hong Kong and the Government of the People's Republic of China (the "PRC") and concluded that the Group's investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time. Therefore, in measuring the Group's deferred taxation on investment properties, the directors have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is not rebutted. As a result, the Group has not recognised any deferred taxes on changes in fair value of investment properties located in Hong Kong as the Group is not subject to any income taxes on disposal of these investment properties.

#### *Deferred taxation in respect of temporary differences attributed to the accumulated profits of the PRC branch*

The directors have determined that the Bank is able to control the timing of the reversal of the temporary differences attributable to accumulated profits of the PRC branch amounting to HK\$455,797,000 (2015: HK\$453,011,000) and that it is probable that the temporary differences will not reverse in the foreseeable future. Accordingly, deferred taxation relating to such temporary differences is not provided.

#### *Held-to-maturity investments*

The Group classified certain non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires judgement. In making this judgement, the Group evaluates its intention and ability to hold these investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances, for example, selling an insignificant amount close to maturity, it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value instead of amortised cost.

Details of these assets are set out in note 19.

## 6. 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 6. SEGMENT INFORMATION - continued

### (a) Operating segments - continued

(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	1,041,737	673,546	47,196	243,255	-	2,005,734
Unallocated corporate expenses						(353,351)
Share of profits of associates						31,617
Profit before taxation						1,684,000

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 6. SEGMENT INFORMATION - continued

### (a) Operating segments - continued

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

#### Operating segment assets and liabilities as at 31 December 2016

	Corporate and personal banking HK\$'000	Financial markets activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Consolidated HK\$'000
<b>Assets</b>					
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
Consolidated total assets					137,772,051
<b>Liabilities</b>					
Segment liabilities	103,641,993	17,452,642	139,485	119,599	121,353,719
Unallocated corporate liabilities					504,760
Consolidated total liabilities					121,858,479

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 6. SEGMENT INFORMATION - continued

### (a) Operating segments - continued

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

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

	Corporate and personal banking HK\$'000	Financial markets activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
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

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 6. SEGMENT INFORMATION - continued

### (a) Operating segments - continued

(ii) Operating segment information for the year ended 31 December 2015 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	1,845,858	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 (Note 1)	522,865	-	-	-	(522,865)	-
Inter-segment interest expense (Note 1)	-	(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 (Note 2)	(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	845,339	447,743	112,442	239,334	-	1,644,858
Unallocated corporate expenses						(257,295)
Share of profits of associates						31,827
Profit before taxation						1,419,390

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 6. SEGMENT INFORMATION - continued

### (a) Operating segments - continued

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

#### Operating segment assets and liabilities as at 31 December 2015

	Corporate and personal banking HK\$'000	Financial markets activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Consolidated HK\$'000
<b>Assets</b>					
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					127,837,646
<b>Liabilities</b>					
Segment liabilities	100,094,959	12,128,623	106,770	104,524	112,434,876
Unallocated corporate liabilities					295,029
Consolidated total liabilities					112,729,905

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

	Corporate and personal banking HK\$'000	Financial markets activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 6. SEGMENT INFORMATION - continued

### (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	Profit before taxation	Capital expenditure during the year	Total assets	Total liabilities	Total contingent liabilities and commitments	Non-current assets
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
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
<b>Total</b>	<b>2,674,296</b>	<b>1,684,000</b>	<b>253,512</b>	<b>137,772,051</b>	<b>121,858,479</b>	<b>25,588,157</b>	<b>1,391,960</b>

	2015						
	Total operating income	Profit before taxation	Capital expenditure during the year	Total assets	Total liabilities	Total contingent liabilities and commitments	Non-current assets
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
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
<b>Total (Restated)</b>	<b>2,291,714</b>	<b>1,419,390</b>	<b>72,185</b>	<b>127,837,646</b>	<b>112,729,905</b>	<b>18,639,482</b>	<b>1,192,709</b>

*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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 7. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to variety of financial risks and the activities involve analysis, evaluation, acceptance and management of some degree of risk or a combination of risks. The Group's aim is therefore to achieve an appropriate balance between risk and return, and to minimise potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adhere to limits by means of reliable and up-to date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk management functions are carried out by the Asset and Liability Management Committee (the "ALCO") under policies approved by the Board of Directors of the Bank (the "Board") and the Risk Management Committee (the "RMC"). The ALCO identifies, evaluates and mitigates financial risks in close co-operation with the Group's operating units. The Board and the RMC provide written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment. The most important types of risks from the use of financial instruments are credit risk, market risk and liquidity risk. Market risk includes currency risk, interest rate risk and price risk.

### Categories of financial instruments

	2016 HK\$'000	2015 HK\$'000
<b>Financial assets</b>		
Fair value through profit or loss	425,086	577,922
Available-for-sale securities	24,164,028	22,800,023
Held-to-maturity securities	5,563,683	8,686,530
Loans and receivables (including cash and cash equivalents)	106,219,426	94,569,652
<b>Financial liabilities</b>		
Fair value through profit or loss	553,614	844,778
Amortised cost ( <i>Note</i> )	120,935,322	111,739,601

*Note:* Loan capital of HK\$1,792,267,000 (2015: HK\$1,819,591,000) was carried at amortised cost with adjustment of fair value hedge as at 31 December 2016.

## 7. FINANCIAL RISK MANAGEMENT - continued

### Credit risk

The Group takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Impairment allowances are made for losses that have been incurred at the end of the reporting period. Significant changes in the economy, or in the health of a particular industry segment, could result in losses that are different from those provided for at the end of the reporting period. Management therefore carefully manages its exposure to credit risk.

### *Management of credit risk*

The Group's lending policies have been formulated on the basis of its own experience, the Hong Kong Banking Ordinance, the Hong Kong Monetary Authority guidelines and other statutory requirements (in the case of branches outside Hong Kong and subsidiaries, the relevant local laws and regulations).

The Group has delegated selected individuals with the credit approval authority. These individuals consist of Chief Risk Officer, Head of Credit Risk Management and experienced credit risk officers of the Group. The Chief Risk Officer has the overall responsibility for the management of credit risk through formulating credit policies, overseeing the credit quality of the Group's loan portfolio, ensuring an independent and objective assessment of credit risk, controlling exposure to selected industries, counterparties, countries and portfolio types etc. and providing advice and guidance to business units on various credit-related issues.

Credit officers perform independent reviews and approvals of credit applications by ensuring that a credit proposal meets underwriting standards of the Group and complies with relevant rules and regulations. Approval from the senior executive approvers, comprising Executive Directors and senior executives of the Group, is required as and when the requested amount of a credit application exceeds the highest delegated authority of a credit officer.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are typically monitored on a revolving basis and are subject to periodic reviews. Limits on the level of credit risk by product, industry sector and by country are approved annually by the management.

Exposure to credit risk is managed through regular reviews of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 7. FINANCIAL RISK MANAGEMENT - continued

### Credit risk - continued

#### Risk mitigation policies

Some specific control and mitigation measures are outlined below:

#### (a) Collateral

The Group implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential and commercial properties;
- Charges over business assets such as premises, inventory and accounts receivable; or
- Charges over financial instruments such as debt securities and equities.

In addition, in order to minimise the credit losses, the Group will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Estimates of fair value of collateral are based on the fair value of collateral determined using valuation techniques commonly used for the corresponding assets at the time of borrowing, and also updated at facility reviews. When a loan is identified as impaired, the corresponding fair value of collateral of that loan is updated by reference to market value such as recent transaction price of properties.

#### (b) Other risk mitigations

The Group uses guarantees as credit risk mitigations. Whilst the Group may accept guarantees from any counterparty, it sets a threshold internally for considering guarantors to be eligible for credit risk mitigation.

#### (c) Credit-related commitments

The primary purpose of credit-related commitments (such as guarantee and letters of credit) is to ensure that funds are available to a customer as required, and these commitments carry the same credit risk as loans.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the amount of such loss may be reduced by unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

## 7. FINANCIAL RISK MANAGEMENT - continued

### Credit risk - continued

#### *Risk mitigation policies - continued*

##### **(d) Financial markets transactions**

The Group maintains strict control limits on net open derivatives positions (i.e. the difference between purchase and sale contracts), by both amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group, which in relation to derivatives is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Group requires margin deposits from counterparties.

##### **(e) Master netting arrangements**

To mitigate credit risk, the Group enters into master netting arrangements with counterparties whenever possible. Netting arrangements provide that, if an event of default occurs, all outstanding transactions with the counterparty will be terminated and all amounts outstanding will be settled on a net basis. Except for the event of default, all outstanding transaction with the counterparty are settled on a gross basis and generally do not result in offsetting the assets and liabilities in the statement of financial position.

#### *Impairment and provisioning policies*

Impairment allowances on individually assessed amounts recognised for financial reporting purposes and only for losses that have been incurred at the end of each reporting period based on objective evidence of impairment.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 7. FINANCIAL RISK MANAGEMENT - continued

### Credit risk - continued

#### Impairment and provisioning policies - continued

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	Collective impairment allowances	Individual impairment allowances	Loans and advances secured by collateral	Gross impaired advances
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Note 1)	
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 (Note 2)	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 (Note 3)	3,362,930	5,148	746	2,401,894	746
	47,861,895	185,078	18,329	34,392,604	22,787
Trade finance	2,585,427	8,028	21,408	886,960	25,466
Loans for use outside Hong Kong	20,241,833	58,113	–	4,247,662	–
	70,689,155	251,219	39,737	39,527,226	48,253

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 7. FINANCIAL RISK MANAGEMENT - continued

### Credit risk - continued

#### Impairment and provisioning policies - continued

	31 December 2015				
	Gross loans and advances HK\$'000	Collective impairment allowances HK\$'000	Individual impairment allowances HK\$'000	Loans and advances secured by collateral HK\$'000 (Note 1)	Gross impaired advances HK\$'000
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 (Note 2)	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 (Note 3)	2,217,239	3,657	867	1,779,564	867
	42,435,172	211,383	13,214	32,037,937	13,239
Trade finance	5,651,328	4,696	9,680	740,892	9,680
Loans for use outside Hong Kong	15,513,512	34,415	794	4,980,269	2,308
	63,600,012	250,494	23,688	37,759,098	25,227

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 7. FINANCIAL RISK MANAGEMENT - continued

### Credit risk - continued

#### *Impairment and provisioning policies - continued*

The Group's policy requires the review of individual financial assets that are above materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred losses at the end of the reporting period on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses the fair value of collateral held and the anticipated receipts for that individual account.

The Group adopted the policy as detailed in note 4 in assessing whether objective evidence of impairment existed.

Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous assets that are individually below materiality thresholds; and (ii) losses that have been incurred but have not yet been identified by considering the historical loss experience in portfolios of similar credit risk characteristics. The management has also made judgement as to whether the current economic and credit conditions are such that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience.

#### *Concentration of risks of financial assets with credit risk exposure*

Concentration of credit risk exists when changes in geographical or industry factors similarly affect counterparties whose aggregate credit exposure is material in relation to the Group's total exposures.

An analysis of geographical and industry sector concentration of the Group's and the Bank's financial assets that best represent the maximum exposure to credit risk is disclosed below.

The geographical locations of the financial assets are determined by the locations of the counterparties with the ultimate credit exposures.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 7. FINANCIAL RISK MANAGEMENT - continued

### Credit risk - continued

#### Concentration of risks of financial assets with credit risk exposure - continued

##### Geographical locations

	Hong Kong HK\$'000	Asia Pacific excluding Hong Kong HK\$'000 (Note 1)	Others HK\$'000 (Note 2)	Total HK\$'000
<b>At 31 December 2016</b>				
Short-term funds	4,930,437	22,690,312	2,376,696	29,997,445
Placements with banks	11,569	1,604,971	–	1,616,540
Derivative financial instruments	196,302	98,090	130,453	424,845
Available-for-sale debt securities	5,877,797	9,585,972	8,608,499	24,072,268
Held-to-maturity securities	2,480,165	1,549,961	1,533,557	5,563,683
Advances and other accounts	58,169,313	15,563,510	348,782	74,081,605
	<b>71,665,583</b>	<b>51,092,816</b>	<b>12,997,987</b>	<b>135,756,386</b>
<b>At 31 December 2015</b>				
Short-term funds	6,900,987	12,220,651	1,909,663	21,031,301
Placements with banks	14,215	7,349,350	387,545	7,751,110
Derivative financial instruments	170,587	239,603	167,461	577,651
Available-for-sale debt securities	8,878,951	8,938,510	4,759,073	22,576,534
Held-to-maturity securities	5,122,912	1,997,757	1,565,861	8,686,530
Advances and other accounts	51,801,808	13,280,740	304,100	65,386,648
	<b>72,889,460</b>	<b>44,026,611</b>	<b>9,093,703</b>	<b>126,009,774</b>

Notes: 1. The countries reported in "Asia Pacific excluding Hong Kong" mainly included the Mainland China, Japan, Australia and other Asian countries.

2. The countries reported in "Others" mainly included Canada, United States and other European countries.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 7. FINANCIAL RISK MANAGEMENT - continued

### Credit risk - continued

#### Concentration of risks of financial assets with credit risk exposure - continued

##### Industry sectors

	Banks and other financial institutions HK\$'000	Central governments and central banks HK\$'000	Public sector entities HK\$'000	Corporate entities HK\$'000	Others HK\$'000	Total HK\$'000
<b>At 31 December 2016</b>						
Short-term funds	24,780,764	5,216,681	-	-	-	29,997,445
Placements with banks	1,616,540	-	-	-	-	1,616,540
Derivative financial instruments	365,779	-	-	59,066	-	424,845
Available-for-sale debt securities	7,702,819	4,006,693	-	12,362,756	-	24,072,268
Held-to-maturity securities	941,530	4,645	39,234	4,578,274	-	5,563,683
Advances and other accounts	2,441,605	738,069	125	53,684,467	17,217,339	74,081,605
	<b>37,849,037</b>	<b>9,966,088</b>	<b>39,359</b>	<b>70,684,563</b>	<b>17,217,339</b>	<b>135,756,386</b>
<b>At 31 December 2015</b>						
Short-term funds	13,311,629	7,719,558	-	-	114	21,031,301
Placements with banks	7,751,110	-	-	-	-	7,751,110
Derivative financial instruments	572,875	-	-	4,485	291	577,651
Available-for-sale debt securities	10,854,160	1,762,697	-	9,959,677	-	22,576,534
Held-to-maturity securities	3,986,232	16,183	39,802	4,644,313	-	8,686,530
Advances and other accounts	5,521,111	320,577	497,035	43,266,543	15,781,382	65,386,648
	<b>41,997,117</b>	<b>9,819,015</b>	<b>536,837</b>	<b>57,875,018</b>	<b>15,781,787</b>	<b>126,009,774</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 7. FINANCIAL RISK MANAGEMENT - continued

### Credit risk - continued

#### Maximum exposure to credit risk before collateral held or other credit enhancements

Maximum exposure to credit risk relating to assets in the statements of financial position are as follows:

	2016 HK\$'000	2015 HK\$'000
Short-term funds	29,997,445	21,031,301
Placements with banks	1,616,540	7,751,110
Derivative financial instruments	424,845	577,651
Available-for-sale debt securities	24,072,268	22,576,534
Held-to-maturity securities	5,563,683	8,686,530
Advances and other accounts	74,081,605	65,386,648
	<b>135,756,386</b>	126,009,774

Maximum exposure to credit risk relating to items unrecorded in the statements of financial position are as follows:

	2016 HK\$'000	2015 HK\$'000
Direct credit substitutes	805,429	868,445
Trade-related contingencies	596,068	225,216
Undrawn formal standby facilities, credit lines and other commitments excluding those that are unconditionally cancellable without prior notice	17,277,667	10,544,013
	<b>18,679,164</b>	11,637,674

The above tables represent a worst case scenario of credit risk exposures to the Group as at 31 December 2016 and 31 December 2015, without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 7. FINANCIAL RISK MANAGEMENT - continued

### Credit risk - continued

#### Credit quality

Credit quality of loans and advances to customers, excluding interest receivable, are summarised as follows:

	2016 HK\$'000	2015 HK\$'000
Neither past due nor impaired	70,490,490	63,132,864
Past due but not impaired	150,412	441,921
Impaired	48,253	25,227
	70,689,155	63,600,012
Less: Allowances for impairment	(290,956)	(274,182)
	70,398,199	63,325,830

(i) Loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Group which is also the classification system required to be adopted for reporting to the Hong Kong Monetary Authority.

	Overdrafts	Instalment loans	Term loans	Syndication loans	Foreign currency loans	Trade finance	Personal loans and tax loans	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>At 31 December 2016</b>									
<b>GRADES:</b>									
Pass	1,222,787	22,125,983	26,522,250	14,372,740	2,062,018	2,373,736	278,244	875,850	69,833,608
Special mention	69,362	77,614	71,053	-	34,118	63,315	34	-	315,496
Substandard or below	6,303	325,083	10,000	-	-	-	-	-	341,386
Total	1,298,452	22,528,680	26,603,303	14,372,740	2,096,136	2,437,051	278,278	875,850	70,490,490
<b>At 31 December 2015</b>									
<b>GRADES:</b>									
Pass	1,709,353	21,157,099	20,682,168	11,704,444	651,810	6,031,144	216,608	748,121	62,900,747
Special mention	70,303	67,116	28,000	-	46,505	7,646	155	-	219,725
Substandard or below	7,944	4,315	-	-	-	-	133	-	12,392
Total	1,787,600	21,228,530	20,710,168	11,704,444	698,315	6,038,790	216,896	748,121	63,132,864

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 7. FINANCIAL RISK MANAGEMENT - continued

### Credit risk - continued

#### Credit quality - continued

- (ii) Loans and advances past due but not impaired

Gross amount of loans and advances by class of customers that were past due but not impaired were as follows:

	Overdrafts	Instalment loans	Term loans	Trade finance	Personal loans and tax loans	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>At 31 December 2016</b>							
Past due up to 30 days	2,457	7,944	-	73,381	141	-	83,923
Past due from 31 to 90 days	-	28,704	21,970	-	629	1,924	53,227
Past due more than 90 days	6,267	6,995	-	-	-	-	13,262
<b>Total</b>	<b>8,724</b>	<b>43,643</b>	<b>21,970</b>	<b>73,381</b>	<b>770</b>	<b>1,924</b>	<b>150,412</b>
Fair value of collateral	32,522	168,232	28,978	77,888	-	-	307,620
Loans and advances secured by collateral (Note)	8,725	43,412	21,970	66,903	-	-	141,010
<b>At 31 December 2015</b>							
Past due up to 30 days	5,775	22,705	-	-	289	-	28,769
Past due from 31 to 90 days	51	15,586	33,000	4,430	1,238	1,655	55,960
Past due more than 90 days	17,582	205,621	93,100	40,889	-	-	357,192
<b>Total</b>	<b>23,408</b>	<b>243,912</b>	<b>126,100</b>	<b>45,319</b>	<b>1,527</b>	<b>1,655</b>	<b>441,921</b>
Fair value of collateral	112,938	661,667	178,779	87,583	621	-	1,041,588
Loans and advances secured by collateral (Note)	23,357	243,817	93,100	45,318	231	-	405,823

Collateral is mainly properties and fixed deposits.

Note: The amount of loans and advances secured by collateral is determined as the lower of the market value of collateral or outstanding loan principal.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

### 7. FINANCIAL RISK MANAGEMENT - continued

#### Credit risk – continued

#### Credit quality – continued

- (iii) Loans and advances individually impaired

#### Loans and advances to customers

The breakdown of the gross amount of individually impaired loans and advances by class of customers are as follows:

	Overdrafts HK\$'000	Instalment loans HK\$'000	Term loans HK\$'000	Trade finance HK\$'000	Personal loans and tax loans HK\$'000	Others HK\$'000	Total HK\$'000
<b>At 31 December 2016</b>							
Individually impaired loans	10,584	11,836	2,300	23,167	97	269	48,253
Fair value of collateral	3,097	1,682	–	4,371	–	–	9,150
Loans and advances secured by collateral (Note)	3,097	1,682	–	4,371	–	–	9,150
<b>At 31 December 2015</b>							
Individually impaired loans	6,178	8,942	–	9,680	237	190	25,227
Fair value of collateral	–	12,412	–	–	–	–	12,412
Loans and advances secured by collateral (Note)	–	2,308	–	–	–	–	2,308

Collateral is mainly properties and fixed deposits.

Note: The amount of loans and advances secured by collateral is determined as the lower of the market value of collateral or outstanding loan principal.

- (iv) Placements with and advances to banks

As at 31 December 2016 and 31 December 2015, the advances to banks are neither past due nor impaired and unsecured.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 7. FINANCIAL RISK MANAGEMENT - continued

### Credit risk – continued

#### Debt securities

Financial investments by rating agency designation

The following tables present analysis of financial securities, other than loans and advances, held by the Group and the Bank by rating agency designation at the end of the reporting period, based on Moody's ratings. Financial securities not rated by Moody's are treated as unrated ones.

	Available-for-sale debt securities HK\$'000	Held-to- maturity securities HK\$'000	Total HK\$'000
<b>At 31 December 2016</b>			
Aaa	3,774,980	–	3,774,980
Aa1 to Aa3	3,640,615	1,059,526	4,700,141
A1 to A3	9,352,816	845,536	10,198,352
Lower than A3	4,065,312	1,096,508	5,161,820
Unrated	3,238,545	2,562,113	5,800,658
<b>Total</b>	<b>24,072,268</b>	<b>5,563,683</b>	<b>29,635,951</b>
<b>At 31 December 2015</b>			
Aaa	1,140,836	–	1,140,836
Aa1 to Aa3	2,319,000	1,975,307	4,294,307
A1 to A3	12,251,828	1,975,299	14,227,127
Lower than A3	3,233,039	2,137,331	5,370,370
Unrated	3,631,831	2,598,593	6,230,424
<b>Total</b>	<b>22,576,534</b>	<b>8,686,530</b>	<b>31,263,064</b>

#### Repossessed collateral

During the years indicated, the Group obtained assets by taking possession of collateral held as security, as follows:

	2016 HK\$'000	2015 HK\$'000
<b>Types of assets</b>		
Others	2,500	13,730

Repossessed assets are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 7. FINANCIAL RISK MANAGEMENT - continued

### Market risk

Market risk is the risk of losses in assets, liabilities and off-balance sheet positions arising from movements in market rates and prices, including foreign exchange rates, interest rates, commodity prices, and equity prices etc.

Market risk exposures are separated into trading and non-trading portfolios. Trading portfolios comprise positions arising from market-making and warehousing of customer derived positions. Market risk arising from trading portfolio is at acceptable level, as the Group maintains controllable positions of financial instruments leading to foreign exchange and interest rate exposures.

Non-trading portfolios comprise positions that primarily arise from the interest rate management of our retail and commercial banking assets and liabilities, financial investments designated as available-for-sale and held-to-maturity, and exposures arising from our daily risk management operations.

### Market risk management

Market risk is measured in terms of value at risk ("VaR"), which is used to estimate potential losses on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence;

It is monitored using measures including the net interest income and the sensitivity of foreign exchange which are applied to the market risk positions within each risk type; and

It is managed using risk limits approved by the Group. These limits are allocated across business lines and to the Group's legal entities.

The Group has established standards, policies and procedures to control and monitor the market risk and Risk Management Committee provides management oversight for the risk.

The Group uses derivatives to mitigate market risk caused by price fluctuation in interest rate and foreign exchange rate.

Stress tests are carried out to provide an indication of the potential losses under extreme market conditions. The stress test results are regularly reviewed by senior management and the Board. The Bank adopts scenario-based approach in stress-testing.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 7. FINANCIAL RISK MANAGEMENT - continued

### Market risk - continued

#### Currency risk

The assets and liabilities of the Group are mainly denominated in United States dollar (“USD”), Renminbi (“RMB”) and Hong Kong dollar (“HKD”). The Group adopts a policy of predominately matching the assets with liabilities in the same currency, effectively reducing the foreign currency exchange rate exposure. Limits are set to ensure that the net foreign currency exposure is kept to an acceptable level. The Group uses foreign exchange spot and forward contracts to manage its foreign currency risk. Most of the foreign exchange forward contracts have maturities of less than one year after the balance sheet date and the Group does not have significant foreign exchange risk.

The following tables indicate the concentration of currency risk at the end of each reporting periods:

	HK\$ HK\$'000	US\$ HK\$'000	MOP HK\$'000	RMB HK\$'000	Others HK\$'000 (Note)	Total HK\$'000
<b>At 31 December 2016</b>						
<b>Assets</b>						
Cash and short-term funds	7,958,188	12,679,708	139,047	9,078,151	666,187	30,521,281
Placements with banks	503,215	-	-	1,113,325	-	1,616,540
Derivative financial instruments	240,806	180,264	-	3,775	-	424,845
Financial assets at fair value through profit or loss	241	-	-	-	-	241
Available-for-sale securities	78,333	16,091,125	-	4,574,307	3,420,263	24,164,028
Held-to-maturity securities	945,501	3,087,342	-	1,246,322	284,518	5,563,683
Advances to customers	55,144,510	9,313,483	8,162	6,180,648	42,352	70,689,155
Advances to banks	-	496,256	-	-	-	496,256
Other financial assets	505,131	829,882	6,302	1,542,668	12,211	2,896,194
<b>Total financial assets</b>	<b>65,375,925</b>	<b>42,678,060</b>	<b>153,511</b>	<b>23,739,196</b>	<b>4,425,531</b>	<b>136,372,223</b>
<b>Liabilities</b>						
Deposits and balances of banks	991,886	699,559	-	1,001,767	3,469	2,696,681
Financial assets sold under repurchase agreements	-	8,307,200	-	-	1,538,553	9,845,753
Deposits from customers	67,400,777	11,946,482	97,612	18,295,979	5,139,779	102,880,629
Certificates of deposit	580,325	232,004	-	-	-	812,329
Derivative financial instruments	174,721	375,155	-	3,738	-	553,614
Debt securities issued	-	-	-	1,663,774	-	1,663,774
Loan capital	-	1,792,267	-	-	-	1,792,267
Other financial liabilities	779,482	320,494	1,076	120,769	22,068	1,243,889
<b>Total financial liabilities</b>	<b>69,927,191</b>	<b>23,673,161</b>	<b>98,688</b>	<b>21,086,027</b>	<b>6,703,869</b>	<b>121,488,936</b>
<b>Net position – total financial assets and liabilities</b>	<b>(4,551,266)</b>	<b>19,004,899</b>	<b>54,823</b>	<b>2,653,169</b>	<b>(2,278,338)</b>	<b>14,883,287</b>

Note: Currencies included in “Others” mainly represented Australian dollars and New Zealand dollars.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 7. FINANCIAL RISK MANAGEMENT - continued

### Market risk - continued

#### Currency risk - continued

	HK\$ HK\$'000	US\$ HK\$'000	MOP HK\$'000	RMB HK\$'000	Others HK\$'000 (Note)	Total HK\$'000
<b>At 31 December 2015</b>						
<b>Assets</b>						
Cash and short-term funds	7,751,116	4,377,523	76,982	7,851,932	1,374,341	21,431,894
Placements with banks	422,715	3,239,876	–	3,605,163	483,356	7,751,110
Derivative financial instruments	445,414	128,654	–	3,583	–	577,651
Financial assets at fair value through profit or loss	271	–	–	–	–	271
Available-for-sale securities	2,623,014	12,029,647	–	6,249,720	1,897,642	22,800,023
Held-to-maturity securities	1,141,480	5,556,638	–	1,642,594	345,818	8,686,530
Advances to customers	49,903,349	7,120,061	15,925	6,301,226	259,451	63,600,012
Other financial assets	490,660	553,943	3,622	724,267	14,144	1,786,636
<b>Total financial assets</b>	<b>62,778,019</b>	<b>33,006,342</b>	<b>96,529</b>	<b>26,378,485</b>	<b>4,374,752</b>	<b>126,634,127</b>
<b>Liabilities</b>						
Deposits and balances of banks	2,837,116	1,274,746	–	1,587,050	29,401	5,728,313
Financial assets sold under repurchase agreements	–	2,267,287	–	219,829	835,567	3,322,683
Deposits from customers	61,324,987	12,286,482	43,646	20,249,304	5,487,945	99,392,364
Certificates of deposit	351,962	–	–	–	–	351,962
Derivative financial instruments	552,659	288,536	–	3,583	–	844,778
Loan capital	–	1,819,591	–	–	–	1,819,591
Other financial liabilities	678,075	190,176	673	243,715	12,049	1,124,688
<b>Total financial liabilities</b>	<b>65,744,799</b>	<b>18,126,818</b>	<b>44,319</b>	<b>22,303,481</b>	<b>6,364,962</b>	<b>112,584,379</b>
<b>Net position – total financial assets and liabilities</b>	<b>(2,966,780)</b>	<b>14,879,524</b>	<b>52,210</b>	<b>4,075,004</b>	<b>(1,990,210)</b>	<b>14,049,748</b>

Note: Currencies included in "Others" mainly represented Australian dollars and New Zealand dollars.

The Group entered into a number of foreign currency forward contracts to manage the currency risk exposure, details of which are set out in note 18.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 7. FINANCIAL RISK MANAGEMENT - continued

### Market risk - continued

#### Currency risk - continued

##### Foreign currency sensitivity analysis

The Group mainly exposes to US dollars, Renminbi and Macau Pataca. The following table illustrates sensitivity measure of the currency risk exposure given  $\pm 1$  and  $\pm 5$  (2015:  $\pm 1$  and  $\pm 5$ ) per cent change in exchange rate of US dollars/Renminbi/Macau Pataca against Hong Kong dollar.

	Change in currency rate					
	US Dollars		Renminbi		Macau Pataca	
	Appreciate +1%	Depreciate -1%	Appreciate + 5%	Depreciate -5%	Appreciate +1%	Depreciate -1%
Hong Kong dollars equivalents (HK\$'000)						
<b>2016</b>						
Profit after tax	21,456	(21,456)	(96,812)	96,812	1	(1)
Other comprehensive income (after tax)	-	-	141,517	(141,517)	485	(485)

	Change in currency rate					
	US Dollars		Renminbi		Macau Pataca	
	Appreciate +1%	Depreciate -1%	Appreciate + 5%	Depreciate -5%	Appreciate +1%	Depreciate -1%
Hong Kong dollars equivalents (HK\$'000)						
<b>2015</b>						
Profit after tax	19,607	(19,607)	2,857	(2,857)	31	(31)
Other comprehensive income (after tax)	-	-	36,155	(36,155)	485	(485)

Numbers in bracket mean decrease.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 7. FINANCIAL RISK MANAGEMENT - continued

### Market risk - continued

#### Interest rate risk

Interest rate risk is referred to the risk to the Bank's financial condition resulting from adverse movements in interest rates. This consists of repricing risk, basis risk, option risk and yield curve risk. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movement arises.

Interest rate risks comprise those originating from both trading and non-trading portfolio. The Group's interest rate risk exposure is mainly contributed by non-trading portfolio. The Group manages interest rate risks within the limits approved by the RMC and under the monitoring of both ALCO and RMC. Limits are set on the level of mismatch of interest rate repricing that may be undertaken, which is monitored regularly. For trading portfolio, additional limits on interest rate sensitivities (also known as DV01) and stop loss are being enforced on daily basis.

The Group maintains controllable interest rate positions on its trading portfolio, in addition to certain interest rate contracts entered into for the management of Group's own risk with securities that are classified as trading. Interest rate risk arises primarily from the timing differences in the re-pricing of and the different bases of pricing interest-bearing assets, liabilities and off-balance-sheet positions. Interest rate risk is regularly monitored by regular sensitivity analysis of the net re-pricing gap and of different scenarios of pricing bases of assets and liabilities grouped with reference to their next contractual repricing date or maturity date.

The tables below summarise the Group's interest rate risk exposure by the maturity profile of its assets and liabilities. For debt securities designated for available-for-sale, the exposure shown below has considered the interest rate swaps entered by the Group to manage interest rate risk of the securities.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 7. FINANCIAL RISK MANAGEMENT - continued

### Market risk - continued

#### Interest rate risk - continued

	Up to 3 months HK\$'000	3 - 12 months HK\$'000	1 - 5 years HK\$'000	Over 5 years HK\$'000	Non-interest bearing HK\$'000	Total HK\$'000
<b>At 31 December 2016</b>						
<b>Assets</b>						
Cash and short-term funds	28,480,703	1,446,576	-	-	594,002	30,521,281
Placements with banks	799,236	817,304	-	-	-	1,616,540
Derivative financial instruments	127,267	58,779	-	-	238,799	424,845
Financial assets at fair value through profit or loss	-	-	-	-	241	241
Available-for-sale securities	16,893,455	7,164,230	14,583	-	91,760	24,164,028
Held-to-maturity securities	2,925,453	2,606,094	30,136	-	2,000	5,563,683
Advances to customers	65,294,378	3,448,346	999,597	444,880	501,954	70,689,155
Advances to banks	496,256	-	-	-	-	496,256
Other financial assets	870,767	828,795	-	-	1,196,632	2,896,194
<b>Total financial assets</b>	<b>115,887,515</b>	<b>16,370,124</b>	<b>1,044,316</b>	<b>444,880</b>	<b>2,625,388</b>	<b>136,372,223</b>
<b>Liabilities</b>						
Deposits and balances of banks	1,849,097	833,238	-	-	14,346	2,696,681
Financial assets sold under repurchase agreements	8,677,987	1,167,766	-	-	-	9,845,753
Deposits from customers	80,189,211	12,272,947	56,707	-	10,361,764	102,880,629
Certificates of deposit	422,089	390,240	-	-	-	812,329
Derivative financial instruments	236,259	144,301	-	-	173,054	553,614
Debt securities issued	-	1,663,774	-	-	-	1,663,774
Loan capital	-	1,792,267	-	-	-	1,792,267
Other financial liabilities	95,262	48,207	-	-	1,100,420	1,243,889
<b>Total financial liabilities</b>	<b>91,469,905</b>	<b>18,312,740</b>	<b>56,707</b>	<b>-</b>	<b>11,649,584</b>	<b>121,488,936</b>
<b>Net position - total financial assets and liabilities</b>	<b>24,417,610</b>	<b>(1,942,616)</b>	<b>987,609</b>	<b>444,880</b>	<b>(9,024,196)</b>	<b>14,883,287</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

### 7. FINANCIAL RISK MANAGEMENT - continued

#### Market risk - continued

#### Interest rate risk - continued

	Up to 3 months HK\$'000	3 – 12 months HK\$'000	1 – 5 years HK\$'000	Over 5 years HK\$'000	Non-interest bearing HK\$'000	Total HK\$'000
<b>At 31 December 2015</b>						
<b>Assets</b>						
Cash and short-term funds	20,123,665	807,318	–	–	500,911	21,431,894
Placements with banks	2,478,636	5,272,474	–	–	–	7,751,110
Derivative financial instruments	50,709	84,543	–	–	442,399	577,651
Financial assets at fair value through profit or loss	–	–	–	–	271	271
Available-for-sale securities	13,408,216	9,145,346	–	22,972	223,489	22,800,023
Held-to-maturity securities	5,858,499	2,784,156	41,875	–	2,000	8,686,530
Advances to customers	61,231,293	1,896,220	203,306	–	269,193	63,600,012
Other financial assets	728,787	37,827	–	–	1,020,022	1,786,636
<b>Total financial assets</b>	<b>103,879,805</b>	<b>20,027,884</b>	<b>245,181</b>	<b>22,972</b>	<b>2,458,285</b>	<b>126,634,127</b>
<b>Liabilities</b>						
Deposits and balances of banks	5,592,845	127,509	–	–	7,959	5,728,313
Financial assets sold under repurchase agreements	3,322,683	–	–	–	–	3,322,683
Deposits from customers	85,755,680	5,563,333	41,297	–	8,032,054	99,392,364
Certificates of deposit	161,981	189,981	–	–	–	351,962
Derivative financial instruments	139,424	156,018	–	–	549,336	844,778
Loan capital	–	1,819,591	–	–	–	1,819,591
Other financial liabilities	54,627	37,827	–	–	1,032,234	1,124,688
<b>Total financial liabilities</b>	<b>95,027,240</b>	<b>7,894,259</b>	<b>41,297</b>	<b>–</b>	<b>9,621,583</b>	<b>112,584,379</b>
<b>Net position – total financial assets and liabilities</b>	<b>8,852,565</b>	<b>12,133,625</b>	<b>203,884</b>	<b>22,972</b>	<b>(7,163,298)</b>	<b>14,049,748</b>

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 7. FINANCIAL RISK MANAGEMENT - continued

### Market risk – continued

#### Interest rate risk – continued

##### Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to floating interest rates at the end of the reporting period and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. A 100 basis points change in upwards and 10 basis points change in downwards are used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rates.

	2016		2015	
	Change in basis points		Change in basis points	
	+100	-10	+100	-10
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit after tax	134,056	(28,807)	69,578	(19,906)

Numbers in bracket mean decrease.

#### Price risk

The Group is exposed to price risk arising from its listed investments in equity securities. Except for those classified as held for trading, the Group does not actively trade these investments. The sensitivity analysis below is determined based on 10% changes in the price of the underlying investments.

##### Price sensitivity

	2016		2015	
	Change in price		Change in price	
	+10%	-10%	+10%	-10%
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit after tax	20	(20)	23	(23)
Other comprehensive income (after tax)	4,943	(4,943)	15,795	(15,795)

Numbers in bracket mean decrease.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 7. FINANCIAL RISK MANAGEMENT - continued

### Liquidity risk

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

### Management of liquidity risk

#### Principal objective

The principal objective of the Group's liquidity risk management framework is to maintain a conservative level of liquid funds on a daily basis so that the Group has sufficient cash flows to meet its current obligations when they fall due in the ordinary course of business, to make new loans and investments as opportunities arise and to satisfy statutory liquidity maintenance ratio requirements. The Group has enhanced its liquidity risk management framework by conducting cash flow analysis to ensure that the Group has adequate liquidity and funding capacity to meet its normal business operations and to withstand a prolonged period of liquidity stress in accordance with the requirements set out in the Supervisory Policy Manual LM-2 "Sound Systems and Controls for Liquidity Risk Management" ("SPM LM-2") revised by the HKMA in November 2016. This also provides a foundation to other risk management tools including stress-testing and contingency funding plan.

#### Organisation structure

The Group adopts a liquidity risk management model that incorporates both centralised and decentralised elements based on thorough consideration of the organisational structure and major business characteristics of the Group as well as regulatory policies. The Head Office is ultimately responsible for managing the Group's overall liquidity risk, while the branches outside Hong Kong in Macau and Mainland China manage their own liquidity risk pursuant to the Head Office's policies within authorised scope through submission of monthly management accounts and daily cash flow positions to Head Office.

Risk management functions are carried out by the ALCO and the RMC established by the Board. The ALCO identifies, evaluates and mitigates liquidity risk in close co-operation with the Group's operating units. The Board and the RMC provide written principles for overall risk management, as well as written policies covering specific areas, including liquidity risk. In addition, the Internal Audit Department performs independent reviews periodically to ensure the risk management functions are carried out effectively.

The management of the Group's liquidity risk is governed by the Liquidity Risk Management Policy which is reviewed by the ALCO and the RMC, approved by the Board, the RC and the EXCO. Key features of liquidity position, appropriate limits and triggers are set in the Liquidity Risk Management Policy. The ALCO and the RMC are delegated by the EXCO to oversee the Group's liquidity risk management. They are responsible for monitoring and controlling of the Group's liquidity position through ongoing and periodic review of different liquidity metrics, including but not limited to the statutory liquidity maintenance ratios, the maturity mismatch of assets and liabilities, loan-to-deposit ratios, normal and stressed cash flow projections and inter-bank transactions. The Group uses various management information systems developed in-house to prepare and compile regular management reports to facilitate the liquidity risk management duties.

The Treasury Department is responsible for the Group's intraday and day-to-day management of cash flow and liquidity positions while The Finance Division is responsible for the identification, measurement and monitoring of liquidity risk exposures, conducting liquidity cost analysis and stress-testing, handling regulatory reporting in relation to liquidity risk and coordinating the regular forecast of loans and deposits, liquidity maintenance ratio, liquidity and funding statements. Depending on the level of severity, any breach in policies will be reported by these units to the ALCO and/or the RMC, whilst seeking their advices or instructions on mitigating measures.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 7. FINANCIAL RISK MANAGEMENT - continued

### Liquidity risk - continued

#### Management of liquidity risk - continued

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables below have been drawn up based on the contractual maturities of the undiscounted financial liabilities including interest that will accrue, with reference to their respective contractual interest rate, and for those variable rate instruments, by using the appropriate prevailing market rates as at the end of the reporting period as stated in their contracts.

	Repayable on demand HK\$'000	Repayable within 1 month HK\$'000	Repayable 1 month but within 3 months HK\$'000	Repayable 3 months but within 1 year HK\$'000	Repayable 1 year but within 5 years HK\$'000	Repayable after 5 years HK\$'000	Total HK\$'000
<b>Liabilities adjusted with interest payable</b>							
<b>At 31 December 2016</b>							
Deposits and balances of banks	9,033	1,022,328	841,581	835,044	-	-	2,707,986
Financial assets sold under repurchase agreements	-	43,412	8,652,452	1,177,071	-	-	9,872,935
Deposits from customers	45,383,453	23,329,408	23,520,134	10,852,003	55,439	-	103,140,437
Certificates of deposit	-	192,692	232,620	394,320	-	-	819,632
Debt securities issued	-	-	-	-	1,728,629	-	1,728,629
Loan capital	-	-	-	104,679	2,058,687	-	2,163,366
Other financial liabilities	458,917	102,904	145,283	297,284	13,970	-	1,018,358
<b>Total undiscounted financial liabilities</b>	<b>45,851,403</b>	<b>24,690,744</b>	<b>33,392,070</b>	<b>13,660,401</b>	<b>3,856,725</b>	<b>-</b>	<b>121,451,343</b>
<b>Liabilities adjusted with interest payable</b>							
<b>At 31 December 2015</b>							
Deposits and balances of banks	7,259	3,133,907	2,474,810	128,143	-	-	5,744,119
Financial assets sold under repurchase agreements	-	256,413	3,072,014	-	-	-	3,328,427
Deposits from customers	39,629,751	25,076,448	29,396,600	5,625,995	41,385	-	99,770,179
Certificates of deposit	-	-	163,950	191,651	-	-	355,601
Loan capital	-	-	-	104,637	2,162,501	-	2,267,138
Other financial liabilities	339,940	50,649	166,085	259,777	17,039	-	833,490
<b>Total undiscounted financial liabilities</b>	<b>39,976,950</b>	<b>28,517,417</b>	<b>35,273,459</b>	<b>6,310,203</b>	<b>2,220,925</b>	<b>-</b>	<b>112,298,954</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 7. FINANCIAL RISK MANAGEMENT - continued

### Liquidity risk - continued

#### Management of liquidity risk - continued

The following tables detail the Group's expected maturity for its derivative financial instruments. The tables have been drawn up based on the undiscounted net cash inflows (outflows) on the derivative financial instruments that settle on a net basis and the undiscounted gross inflows and (outflows) on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the end of the reporting period.

	Less than		3 months		Over	Total
	1 month	1 - 3 months	to 1 year	1 - 5 years	5 years	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>At 31 December 2016</b>						
Derivatives settled net						
Interest rate contracts						
- (Outflows)/inflows	(33,260)	(22,205)	(120,466)	(653,501)	(308,312)	(1,137,744)
Derivatives settled gross						
Exchange rate contracts						
- Inflows	22,231,243	12,246,793	12,474,202	-	-	46,952,238
- Outflows	(22,211,203)	(12,247,625)	(12,483,180)	-	-	(46,942,008)
	20,040	(832)	(8,978)	-	-	10,230
<b>At 31 December 2015</b>						
Derivatives settled net						
Interest rate contracts						
- (Outflows)/inflows	(21,389)	25,453	(138,426)	(469,636)	(315,886)	(919,884)
Derivatives settled gross						
Exchange rate contracts						
- Inflows	11,803,725	13,024,645	25,235,754	387,545	-	50,451,669
- Outflows	(11,740,125)	(12,883,977)	(25,236,453)	(387,545)	-	(50,248,100)
	63,600	140,668	(699)	-	-	203,569

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 7. FINANCIAL RISK MANAGEMENT - continued

### Liquidity risk - continued

#### Management of liquidity risk - continued

The dates of the contractual amounts of the Group's commitments and contingencies unrecorded in the statements of financial position that commit them to extending credit to customers and other facilities and financial guarantees are set out in note 37 to the consolidated financial statements and summarised in the table below:

	No later than 1 year HK\$'000
<b>At 31 December 2016</b>	
Direct credit substitutes	805,429
Trade-related contingencies	596,068
Undrawn formal standby facilities, credit lines and other commitments excluding those that are unconditionally cancellable without prior notice	17,277,667
	<b>18,679,164</b>
<b>At 31 December 2015</b>	
Direct credit substitutes	868,445
Trade-related contingencies	225,216
Undrawn formal standby facilities, credit lines and other commitments excluding those that are unconditionally cancellable without prior notice	10,544,013
	<b>11,637,674</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 7. FINANCIAL RISK MANAGEMENT - continued

### Liquidity risk - continued

#### Sources of liquidity risk

Liquidity risk can arise from both sides of the on-balance sheet and the off-balance sheet transactions. The major sources of liquidity risk include the maturity mismatches between the Group's assets and liabilities, withdrawal of customers' deposits and drawing of loans by customers. The Group manages liquidity risk by conducting cash flow analysis arising from on-and off-balance sheet items over an appropriate set of time horizons under normal business conditions and stress scenarios on a daily and monthly basis respectively to identify liquidity needs.

The Group's liquidity risk management process also includes the use of liquidity metrics against which statutory and internal limits are set and observed, the design and implementation of early warning indicators of which exceptions should be reported, and the allocation of liquidity costs. The last line of defense is to ensure that the Group has funding capacity supported by good reputation and liquidity cushion.

The Group also measures and manages liquidity risk arising from off-balance sheet exposures and contingent funding obligations such as loan commitments, derivatives and contingent liabilities. Such exposures are subject to the limits set and are also factored into the Group's stress-testing. The Group does not engage in any transactions, such as securitisation, which give rise to the need of providing liquidity support.

#### Funding strategies

The Group has strong capital base and stable customer deposits which form its main funding sources. Funding diversification is achieved internally through surveillance on large depositors and externally by maintaining its access to the interbank market, issuance of certificates of deposit and through financial assets sold under repurchase agreements and swap markets. All of these are part of the Group's funding strategy.

The Group's branches outside Hong Kong are mainly self-funded through acquiring customer deposits and maintaining its access to the local interbank market. Nevertheless, it is the Group's policy that the Head Office is to support their liquidity needs when necessary. The funding to branches outside Hong Kong is subject to preset limits so as to encourage them to source their own funding in the local markets.

#### Liquidity cushion

In order to address and mitigate market liquidity risk, the Group maintains a sufficient cushion of high quality readily liquefiable assets ("HQRLA") which can be sold or used as collateral to provide liquidity even under periods of stress. The Group deploys funds in good credit quality debt securities with deep and liquid markets to ensure short term funding requirements can be covered within prudent limits. The Group periodically obtains liquidity from a proportion of these HQRLA through secured borrowing to test the usability of these assets. Liquidity sources and contingency funding plan are maintained to identify early warning indicators of stress conditions, provide strategic liquidity to meet unexpected and material cash outflows and to describe remedial actions to be taken under crisis scenarios.

## 7. FINANCIAL RISK MANAGEMENT - continued

### Liquidity risk - continued

#### Liquidity cushion - continued

The Group maintains a cushion of HQRLA which can be sold or used as collateral to provide liquidity even under periods of stress. The eligible assets are mainly debt securities which the Group is free of any restrictions to sell or collateralise them. The eligible assets are not exposed to wrong way risk, there are active markets and their credit risk and market risk are relatively low. Structured products and concentrated positions are not allowed in order to ensure the ease and certainty of valuation. For the liquidity cushion as a whole, there is an appropriate mix of eligible assets to ensure a high degree of diversification by limiting the exposure to each single credit. The liquidity cushion also contains a significant proportion of government issued debt securities with 0% risk-weight (under the Basel II standardised approach for credit risk) to minimise risks.

The size of the liquidity cushion should be sufficient for the Group to meet its intraday payment obligations and to cover the day-to-day liquidity needs under both normal and stress market conditions. The Group is not subject to particular collateral arrangements or requirements in contracts if there is a credit rating downgrade of entities within the Group.

The table below shows the estimated value (nominal amount before assumed haircuts) of the liquid assets used for the purposes of liquidity cushion.

Internal Categorisation	Cash to be Recognised	Asset Classes	Eligibility Criteria
Level 1	Within one month	Debt securities issued by central governments or central banks	0% Risk-weight
Level 2A	Within one month	Debt securities issued by public sector entities or non-financial corporate entities	20% Risk-weight
Level 2B	Within one month	Debt securities issued by non-financial corporate entities which are single-A rated	50% Risk-weight

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 7. FINANCIAL RISK MANAGEMENT - continued

### Liquidity risk - continued

#### Liquid assets of the Group

Internal Categorisation	At 31 December 2016 HK\$'000	At 31 December 2015 HK\$'000
Level 1	5,273,589	3,254,129
Level 2A	1,171,583	757,882
Level 2B	4,537,060	4,497,858

The Group's liquidity framework defines the asset classes that can be assessed locally as high quality and realisable within one month. ALCO approves the size and composition of the liquidity cushion in accordance with the Liquidity Risk Management Policy.

Details of liquidity cushion are set out in the Liquidity Risk Management Policy which is reviewed by the ALCO and the RMC, approved by the EXCO and the RC and reported to the Board on an annual basis.

#### Stress-testing

The Group supplements the analysis of various types of risks with stress-testing. Stress-testing is a risk management tool for estimating risk exposures under stress conditions arising from extreme but plausible market or macroeconomic movements. Finance Division performs stress-testing on a monthly basis in accordance with the principles stated in SPM LM-2 and the Supervisory Policy Manual IC-5 "Stress-testing" ("SPM IC-5") published by the HKMA in May 2012, and when necessary, may carry out special stress-testing in accordance with regulatory requirements and changes in the external operating environment. The stress-test results are regularly reviewed by the ALCO and the RMC, approved by the EXCO and reported to the Board.

In performing the stress-testing on liquidity risk, the Group adopts the cash flow analysis which has taken into consideration of various macroscopic and microscopic factors in line with the characteristics and complexity of the Group's businesses. Both on- and off-balance sheet items with applicable hypothetical, historical and behavioral assumptions are considered to address both funding and market liquidity risks. Four stress scenarios, namely the institution-specific crisis, the modified institution-specific crisis, the general market crisis and the combined crisis are adopted with minimum survival periods defined according to SPM LM-2. With reference to the stress-testing results, the Group identifies potential vulnerabilities on its liquidity position under stress market conditions and formulates the contingency funding plan that sets out remedial actions for dealing with liquidity problems (e.g. conducting repo transactions or liquidation of assets held for liquidity risk management purpose).

## 7. FINANCIAL RISK MANAGEMENT - continued

### Liquidity risk - continued

#### Stress-testing - continued

The Group also performs reverse stress-testing in accordance with SPM IC-5. Reverse stress-testing is an iterative process assisting the Group to identify and assess extreme stress scenarios that can cause business failures (e.g. breaches of regulatory capital ratios, illiquidity and severe negative profitability). It is a process of working backwards from the event causing business failures and involves a mix of qualitative and quantitative analyses. The Group uses results of reverse stress-testing to strengthen resilience to liquidity stress and serve as early-warning triggers for the formulation of management actions and contingency funding plan to mitigate potential stresses and vulnerabilities which the Group might face.

#### Contingency funding plan

The Group distinguishes between different stages of a liquidity crisis that the Group may face, namely: Funding Stress, Liquidity Drain, Bank Run and recovery zone. The escalation is to reflect the worsening liquidity conditions. This includes the liquidity shortfalls estimated from stress- testing performed.

The Group's contingency funding plan, as stipulated in the Liquidity Risk Management Policy and the Procedures Manual for Contingency Funding Plan, details the Group's immediate action in order to react to emergency. It covers three major components: (1) Predefined conditions to activate the plan; (2) The Group's strategy and potential funding options to deal with different crisis scenarios; and (3) Practical action plans and procedures with clear responsibilities of management and its supporting teams. The ALCO would be called during liquidity crisis to ensure business continuity of the Group.

The Liquidity Risk Management Policy and the Procedures Manual for Contingency Funding Plan are reviewed and updated at least annually to cope with required changes and improvements.

To ensure the contingency funding plan remains practical and effective, drill test is conducted by the Group on an annual basis.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

### 7. FINANCIAL RISK MANAGEMENT - continued

#### Liquidity risk - continued

#### Analysis of assets and liabilities by remaining maturity

The maturity analysis of financial assets and liabilities shown on the statements of financial position, based on the remaining period at the end of the reporting period to the contractual maturity date is shown below:

	Repayable on demand HK\$'000	Repayable within 1 month (except those on demand) HK\$'000	Repayable after 1 month but within 3 months HK\$'000	Repayable after 3 months but within 1 year HK\$'000	Repayable after 1 year but within 5 years HK\$'000	Repayable after 5 years HK\$'000	Undated HK\$'000	Total HK\$'000
<b>At 31 December 2016</b>								
<b>Assets</b>								
Cash and short-term funds	4,001,611	24,396,062	677,032	1,446,576	-	-	-	30,521,281
Placements with banks	-	-	799,236	817,304	-	-	-	1,616,540
Derivative financial instruments	-	67,031	43,512	128,548	73,176	112,578	-	424,845
Financial assets at fair value through profit or loss	-	-	-	-	-	-	241	241
Available-for-sale securities	-	1,421,255	155,517	2,921,618	9,413,411	10,160,467	91,760	24,164,028
Held-to-maturity securities	-	852	366,795	1,409,437	3,287,859	498,740	-	5,563,683
Advances to customers	1,516,946	4,257,061	5,215,821	15,551,836	26,561,615	17,405,078	180,798	70,689,155
Advances to banks	-	-	-	389,251	107,005	-	-	496,256
Other financial assets	1,601,690	387,131	203,189	982,696	17,672	-	(296,184)	2,896,194
<b>Total financial assets</b>	<b>7,120,247</b>	<b>30,529,392</b>	<b>7,461,102</b>	<b>23,647,266</b>	<b>39,460,738</b>	<b>28,176,863</b>	<b>(23,385)</b>	<b>136,372,223</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 7. FINANCIAL RISK MANAGEMENT - continued

### Liquidity risk – continued

#### Analysis of assets and liabilities by remaining maturity – continued

	Repayable within 1 month Repayable on demand HK\$'000	Repayable (except those on demand) HK\$'000	Repayable after 1 month but within 3 months HK\$'000	Repayable after 3 months but within 1 year HK\$'000	Repayable after 1 year but within 5 years HK\$'000	Repayable after 5 years HK\$'000	Undated HK\$'000	Total HK\$'000
<b>At 31 December 2016</b>								
<b>Liabilities</b>								
Deposits and balances of banks	9,033	1,013,858	840,552	833,238	-	-	-	2,696,681
Financial assets sold under repurchase agreements	-	43,391	8,634,596	1,167,766	-	-	-	9,845,753
Deposits from customers	45,381,760	23,271,126	23,428,186	10,744,118	55,439	-	-	102,880,629
Certificates of deposit	-	190,085	232,004	390,240	-	-	-	812,329
Derivative financial instruments	-	41,774	29,086	103,717	115,615	263,422	-	553,614
Debt securities issued	-	-	-	-	1,663,774	-	-	1,663,774
Loan capital	-	-	-	-	1,792,267	-	-	1,792,267
Other financial liabilities	464,667	165,098	211,109	389,040	13,975	-	-	1,243,889
<b>Total financial liabilities</b>	<b>45,855,460</b>	<b>24,725,332</b>	<b>33,375,533</b>	<b>13,628,119</b>	<b>3,641,070</b>	<b>263,422</b>	<b>-</b>	<b>121,488,936</b>
<b>Net position – total financial assets and liabilities</b>	<b>(38,735,213)</b>	<b>5,804,060</b>	<b>(25,914,431)</b>	<b>10,019,147</b>	<b>35,819,668</b>	<b>27,913,441</b>	<b>(23,385)</b>	<b>14,883,287</b>
Of which certificates of deposit included in:								
Available-for-sale securities	-	889,719	-	1,790,152	792,911	-	-	3,472,782
Held-to-maturity securities	-	853	-	84,196	56,085	-	-	141,134
	-	890,572	-	1,874,348	848,996	-	-	3,613,916
Of which debt securities included in:								
Available-for-sale securities	-	1,421,255	155,517	2,921,618	9,413,411	10,160,467	-	24,072,268
Held-to-maturity securities	-	852	366,795	1,409,437	3,287,859	498,740	-	5,563,683
	-	1,422,107	522,312	4,331,055	12,701,270	10,659,207	-	29,635,951

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

### 7. FINANCIAL RISK MANAGEMENT - continued

#### Liquidity risk – continued

#### Analysis of assets and liabilities by remaining maturity – continued

	Repayable within 1 month Repayable on demand HK\$'000	Repayable (except those on demand) HK\$'000	Repayable after 1 month but within 3 months HK\$'000	Repayable after 3 months but within 1 year HK\$'000	Repayable after 1 year but within 5 years HK\$'000	Repayable after 5 years HK\$'000	Undated HK\$'000	Total HK\$'000
<b>At 31 December 2015</b>								
<b>Assets</b>								
Cash and short-term funds	4,179,736	14,626,930	1,837,328	787,900	-	-	-	21,431,894
Placements with banks	-	-	2,478,636	5,272,474	-	-	-	7,751,110
Derivative financial instruments	-	66,353	176,049	199,997	94,301	40,951	-	577,651
Financial assets at fair value through profit or loss	-	-	-	-	-	-	271	271
Available-for-sale securities	-	276,757	2,286,540	6,605,075	6,978,460	6,429,702	223,489	22,800,023
Held-to-maturity securities	-	217,624	2,620,744	180,372	5,169,265	498,525	-	8,686,530
Advances to customers	2,022,570	9,397,795	5,152,563	10,697,068	19,662,127	15,959,528	708,361	63,600,012
Other financial assets	993,045	641,554	198,061	236,212	533	-	(282,769)	1,786,636
<b>Total financial assets</b>	<b>7,195,351</b>	<b>25,227,013</b>	<b>14,749,921</b>	<b>23,979,098</b>	<b>31,904,686</b>	<b>22,928,706</b>	<b>649,352</b>	<b>126,634,127</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 7. FINANCIAL RISK MANAGEMENT - continued

### Liquidity risk - continued

#### Analysis of assets and liabilities by remaining maturity - continued

	Repayable within 1 month Repayable on demand HK\$'000	Repayable (except those on demand) HK\$'000	Repayable after 1 month but within 3 months HK\$'000	Repayable after 3 months but within 1 year HK\$'000	Repayable after 1 year but within 5 years HK\$'000	Repayable after 5 years HK\$'000	Undated HK\$'000	Total HK\$'000
<b>At 31 December 2015</b>								
<b>Liabilities</b>								
Deposits and balances of banks	7,259	3,127,916	2,465,629	127,509	-	-	-	5,728,313
Financial assets sold under repurchase agreements	-	256,269	3,066,414	-	-	-	-	3,322,683
Deposits from customers	39,629,677	24,980,815	29,177,025	5,563,550	41,297	-	-	99,392,364
Certificates of deposit	-	-	161,981	189,981	-	-	-	351,962
Derivative financial instruments	-	26,517	67,194	460,131	62,044	228,892	-	844,778
Loan capital	-	-	-	-	1,819,591	-	-	1,819,591
Other financial liabilities	339,996	136,484	326,930	304,236	17,042	-	-	1,124,688
<b>Total financial liabilities</b>	<b>39,976,932</b>	<b>28,528,001</b>	<b>35,265,173</b>	<b>6,645,407</b>	<b>1,939,974</b>	<b>228,892</b>	<b>-</b>	<b>112,584,379</b>
<b>Net position - total financial assets and liabilities</b>	<b>(32,781,581)</b>	<b>(3,300,988)</b>	<b>(20,515,252)</b>	<b>17,333,691</b>	<b>29,964,712</b>	<b>22,699,814</b>	<b>649,352</b>	<b>14,049,748</b>
Of which certificates of deposit included in:								
Available-for-sale securities	-	276,756	1,993,340	4,498,395	496,164	-	-	7,264,655
Held-to-maturity securities	-	17,051	2,561,778	-	142,156	-	-	2,720,985
	-	293,807	4,555,118	4,498,395	638,320	-	-	9,985,640
Of which debt securities included in:								
Available-for-sale securities	-	276,757	2,286,540	6,605,075	6,978,460	6,429,702	-	22,576,534
Held-to-maturity securities	-	217,624	2,620,744	180,372	5,169,265	498,525	-	8,686,530
	-	494,381	4,907,284	6,785,447	12,147,725	6,928,227	-	31,263,064

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

### 7. FINANCIAL RISK MANAGEMENT - continued

#### Fair value of financial assets and financial liabilities

Except as detailed in the following tables, the directors of the Group consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

	Carrying amount		Fair value	
	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial assets				
– Held-to-maturity securities	5,563,683	8,686,530	5,645,930	8,760,760
Financial liabilities				
– Loan capital	1,792,267	1,819,591	1,735,717	1,873,249

The following tables give information about financial assets and financial liabilities which are not measured at fair values at the end of each reporting period, but for which the fair values are disclosed.

	Level 1	Level 2	Level 3	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>At 31 December 2016</b>				
Held-to-maturity securities				
– Certificates of deposit	–	141,456	–	141,456
– Other debt securities	–	5,504,474	–	5,504,474
Loan capital	–	1,735,717	–	1,735,717

#### At 31 December 2015

Held-to-maturity securities				
– Certificates of deposit	–	2,703,620	–	2,703,620
– Other debt securities	–	6,057,140	–	6,057,140
Loan capital	–	1,873,249	–	1,873,249

## 7. FINANCIAL RISK MANAGEMENT - continued

### Fair value of financial assets and financial liabilities – continued

Please refer to next section for the definition of fair value hierarchy.

The fair values of listed securities are determined with reference to quoted market bid prices from relevant stock exchanges.

The fair values of convertible bonds designated as financial assets at fair value through profit or loss, debt securities classified as available-for-sale securities, certificates of deposit and other debt securities classified as held-to-maturity securities and loan capital are determined based on indicative prices provided by the dealers and brokers. In addition, the Group makes comparison of the indicative prices with the prices obtained from pricing service providers and other service providers and with the values calculated using valuation models such as discounted cash flows method to substantiate the indicative prices of the debt securities. The key inputs used in the valuation models are the interest rate data, which are observable at the end of the reporting period. The objective of valuation models is to arrive at a fair value estimation that reflects the price of the financial instrument at the reporting date, which would have been determined by market participants acting at arm's length.

The fair values of foreign currency forward contracts are measured by comparing the contracted forward rates and the quoted forward exchange rates, which are observable at the end of the reporting period.

The fair values of interest rate swaps and cross-currency interest rate swaps are measured by the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates, which are observable at the end of the reporting period.

There were no changes in the Group's valuation techniques during the year.

### Fair value measurements recognised in the statements of financial position

Some of the Group's financial assets and financial liabilities are measured at fair values at the end of each reporting period. The following table and paragraph give information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation techniques and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 7. FINANCIAL RISK MANAGEMENT - continued

### Fair value measurements recognised in the statements of financial position - continued

	Fair value hierarchy			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
<b>At 31 December 2016</b>				
Financial assets held for trading	241	–	–	241
Available-for-sale securities				
Equity securities	59,199	–	275	59,474
Debt securities	–	24,072,268	–	24,072,268
Derivative financial assets not used for hedging	–	250,026	–	250,026
Derivative financial assets used for hedging	–	174,819	–	174,819
Derivative financial liabilities not used for hedging	–	(183,762)	–	(183,762)
Derivative financial liabilities used for hedging	–	(369,852)	–	(369,852)
<b>Total</b>	<b>59,440</b>	<b>23,943,499</b>	<b>275</b>	<b>24,003,214</b>
<b>At 31 December 2015</b>				
Financial assets held for trading	271	–	–	271
Available-for-sale securities				
Equity securities	189,156	–	359	189,515
Other debt securities	–	22,553,562	22,972	22,576,534
Derivative financial assets not used for hedging	–	448,997	–	448,997
Derivative financial assets used for hedging	–	128,654	–	128,654
Derivative financial liabilities not used for hedging	–	(555,674)	–	(555,674)
Derivative financial liabilities used for hedging	–	(289,104)	–	(289,104)
<b>Total</b>	<b>189,427</b>	<b>22,286,435</b>	<b>23,331</b>	<b>22,499,193</b>

There were no transfers between Levels 1, 2 and 3 in both years.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*for the year ended 31 December 2016*

### 7. FINANCIAL RISK MANAGEMENT - continued

#### Fair value measurements recognised in the statements of financial position – continued Reconciliation of Level 3 fair value measurements of financial assets

	<b>Available- for-sale securities HK\$'000</b>	<b>Total HK\$'000</b>
<b>Balance at 1 January 2015</b>	14,855	14,855
Total net gains recognised in the investment revaluation reserve	8,476	8,476
<b>Balance at 31 December 2015 and 1 January 2016</b>	<b>23,331</b>	<b>23,331</b>
Total net losses recognised in the investment revaluation reserve	(84)	(84)
Disposals	(22,972)	(22,972)
<b>Balance at 31 December 2016</b>	<b>275</b>	<b>275</b>

The majority of the Group's investments are valued based on quoted market information or observable market data. A small percentage, less than 0.01% (2015: 0.02%), of total assets recorded at fair values, are based on estimates and recorded as Level 3 investments. If the carrying amount of these investments would be increased (decreased) by 5%, the impact on other comprehensive income would be increased (decreased) by HK\$14,000 (2015: HK\$1,167,000) respectively.

Of the total net gains or losses for the year included in other comprehensive income, an amount of HK\$84,000 losses (2015: HK\$8,476,000 gains) relate to available-for-sale securities held at the end of the reporting period.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

### 8. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING, ENFORCEABLE MASTER NETTING ARRANGEMENTS AND SIMILAR AGREEMENTS

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Group's statements of financial position; or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statements of financial position.

The Group entered into International Swaps and Derivatives Association ("ISDA") Master Agreements and Global Master Repurchase Agreements ("GMRA") for derivatives and sale and repurchase agreements.

The Group's derivative transactions that are not transacted on an exchange are entered into under ISDA Master Agreements. The Group's sale and repurchase transactions are covered by GMRA with netting terms similar to those of ISDA Master Agreements. The ISDA Master Agreements and GMRA do not meet the criteria for offsetting in the statements of financial position. However, they create a right of set-off of different contracts that is enforceable only following an event of default, insolvency and bankruptcy of the Group or the counterparties. In such circumstances, all outstanding contracts under the agreements are terminated, the termination value is assessed and only a single net amount is due or payable in settlement of all contracts.

In addition, the Group received and pledged collateral in the form of cash in respect of its derivative transactions and sale and repurchase agreements. Such collateral is subject to the standard industry terms of ISDA Credit Support Annex or GMRA. Collateral received or pledged must be returned on maturity of the transactions.

Under the agreement of Continuous Net Settlement made between the Group and Hong Kong Securities Clearing Company Limited ("HKSCC"), money obligations receivable and payable with HKSCC on the same settlement date are settled on net basis.

The Group has a legally enforceable right to set off the trades receivable and payable with brokerage clients that are due to be settled on the same date and the Group intends to settle these balances on a net basis.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

### 8. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING, ENFORCEABLE MASTER NETTING ARRANGEMENTS AND SIMILAR AGREEMENTS - continued

Types of financial assets	Gross	Gross	Net	Related amounts		Net
	amounts of recognised financial liabilities	amounts of recognised financial liabilities offset in the consolidated statement of financial position	amounts of financial assets presented in the consolidated statement of financial position	not offset in the consolidated statement of financial position		
	Gross amounts of recognised financial assets	offset in the consolidated statement of financial position	consolidated financial position	Financial instruments	Cash/ financial collateral received	amounts
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
					(Note)	
<b>At 31 December 2016</b>						
Derivatives – interest rate swaps	184,632	–	184,632	(165,567)	(26,086)	(7,021)
Derivatives – foreign currency forward contracts	221,802	–	221,802	(103,189)	(117,465)	1,148
Available-for-sale debt securities	8,737,811	–	8,737,811	(8,158,443)	–	579,368
Held-to-maturity debt securities	1,656,879	–	1,656,879	(1,463,104)	–	193,775
Amounts due from HKSCC and brokerage clients	284,413	(24,845)	259,568	–	–	259,568
<b>Total</b>	<b>11,085,537</b>	<b>(24,845)</b>	<b>11,060,692</b>	<b>(9,890,303)</b>	<b>(143,551)</b>	<b>1,026,838</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

### 8. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING, ENFORCEABLE MASTER NETTING ARRANGEMENTS AND SIMILAR AGREEMENTS - continued

Types of financial liabilities	Gross		Net	Related amounts		
	amounts of recognised financial assets	offset in the consolidated statement of financial position	amounts of financial liabilities presented in the consolidated statement of financial position	not offset in the consolidated statement of financial position	Cash/ financial collateral pledged	Net amounts
	Gross amounts of recognised financial liabilities	offset in the consolidated statement of financial position	amounts of financial liabilities presented in the consolidated statement of financial position	Financial instruments	Cash/ financial collateral pledged	Net amounts
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>At 31 December 2016</b>						
Derivatives – interest rate swaps	376,536	-	376,536	(165,567)	(246,185)	(35,216)
Derivatives – foreign currency forward contracts	152,767	-	152,767	(103,189)	(82,642)	(33,064)
Financial assets sold under repurchase agreements	9,621,547	-	9,621,547	(9,621,547)	(235,736)	(235,736)
Amounts due to HKSCC and brokerage clients	159,521	(24,845)	134,676	-	-	134,676
<b>Total</b>	<b>10,310,371</b>	<b>(24,845)</b>	<b>10,285,526</b>	<b>(9,890,303)</b>	<b>(564,563)</b>	<b>(169,340)</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

### 8. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING, ENFORCEABLE MASTER NETTING ARRANGEMENTS AND SIMILAR AGREEMENTS - continued

Types of financial assets	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities offset in the consolidated statement of financial position	Net amounts of financial assets presented in the consolidated statement of financial position	Related amounts not offset in the consolidated statement of financial position	Cash/financial collateral received	Net amounts
	HK\$'000	HK\$'000	HK\$'000	Financial instruments HK\$'000	HK\$'000 (Note)	HK\$'000
<b>At 31 December 2015</b>						
Derivatives – interest rate swaps	132,237	–	132,237	(78,039)	(23,621)	30,577
Derivatives – foreign currency forward contracts	374,238	–	374,238	(272,566)	(58,984)	42,688
Available-for-sale debt securities	2,956,066	–	2,956,066	(2,805,533)	(14,163)	136,370
Held-to-maturity debt securities	534,753	–	534,753	(517,150)	(4,606)	12,997
Amounts due from HKSCC and brokerage clients	270,380	(33,268)	237,112	–	–	237,112
<b>Total</b>	<b>4,267,674</b>	<b>(33,268)</b>	<b>4,234,406</b>	<b>(3,673,288)</b>	<b>(101,374)</b>	<b>459,744</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

### 8. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING, ENFORCEABLE MASTER NETTING ARRANGEMENTS AND SIMILAR AGREEMENTS - continued

Types of financial liabilities	Gross	Gross	Net	Related amounts		Net
	amounts of	amounts of	amounts of	not offset in the		
	recognised	recognised	presented	consolidated statement		
	assets	assets	in the	of financial position		
	offset in the	offset in the	consolidated			
	consolidated	consolidated	statement of			
	statement of	statement of	financial	Financial	Cash/	Net
	financial	financial	position	instruments	financial	amounts
	liabilities	position	position		collateral	
	pledged					
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### 8. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING, ENFORCEABLE MASTER NETTING ARRANGEMENTS AND SIMILAR AGREEMENTS - continued

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the statements of financial position that are disclosed in the above tables are measured in the statements of financial position on the following basis:

- derivative financial assets and liabilities – fair value;
- financial assets sold under repurchase agreements – amortised cost;
- available-for-sale debt securities – fair value;
- held-to-maturity debt securities – amortised cost; and
- amounts due from or due to HKSCC and brokerage clients – amortised cost

The amounts which have been offset against the related recognised financial assets and financial liabilities in the Group's statements of financial position or subject to enforceable master netting arrangements or similar agreements are measured on the same basis as the recognised financial assets and financial liabilities except for available-for-sale debt securities, which are measured on different basis as the related financial assets sold under repurchase agreements. The directors of the Bank consider there are no material differences arising from the measuring differences.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

### 8. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING, ENFORCEABLE MASTER NETTING ARRANGEMENTS AND SIMILAR AGREEMENTS - continued

The tables below reconcile the net amounts of financial assets and financial liabilities presented in the Group's statements of financial position, as set out above, to the line items presented in the Group's statements of financial position.

<b>Types of financial assets</b>	<b>2016</b> <b>HK\$'000</b>	2015 HK\$'000
Derivatives – interest rate swaps	184,632	132,237
Derivatives – foreign currency forward contracts as stated above	221,802	374,238
	406,434	506,475
Derivative financial assets not in scope of offsetting disclosures	18,411	71,176
Total derivative financial assets stated in note 18	424,845	577,651
Available-for-sale debt securities as stated above	8,737,811	2,956,066
Available-for-sale securities not in scope of offsetting disclosures	15,426,217	19,843,957
Total available-for-sale securities stated in note 19	24,164,028	22,800,023
Held-to-maturity debt securities as stated above	1,656,879	534,753
Held-to-maturity securities not in scope of offsetting disclosures	3,906,804	8,151,777
Total held-to-maturity securities stated in note 19	5,563,683	8,686,530
Amount due from HKSCC and brokerage clients as stated above	259,568	237,112
Other accounts not in scope of offsetting disclosures	2,446,503	1,316,322
Total other accounts stated in note 21	2,706,071	1,553,434

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*for the year ended 31 December 2016*

### 8. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING, ENFORCEABLE MASTER NETTING ARRANGEMENTS AND SIMILAR AGREEMENTS - continued

<b>Types of financial liabilities</b>	<b>2016 HK\$'000</b>	<b>2015 HK\$'000</b>
Derivatives – interest rate swaps	376,536	295,442
Derivatives – foreign currency forward contracts as stated above	152,767	481,245
	<b>529,303</b>	776,687
Derivative financial liabilities not in scope of offsetting disclosures	24,311	68,091
Total derivative financial liabilities stated in note 18	<b>553,614</b>	844,778
Financial assets sold under repurchase agreements as stated above	9,621,547	3,322,683
Financial assets sold under repurchase agreements not in scope of offsetting disclosures	224,206	–
Financial assets sold under repurchase agreements stated in note 28	<b>9,845,753</b>	3,322,683
Amounts due to HKSCC and brokerage clients as stated above and included in other accounts	134,676	92,022
Total other accounts and accruals not in scope of offsetting disclosures	<b>1,109,213</b>	1,032,666
Total other accounts and accruals as stated in the Group's statements of financial position	<b>1,243,889</b>	1,124,688

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

### 9. NET INTEREST INCOME

	2016 HK\$'000	2015 HK\$'000
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
	<b>3,001,170</b>	3,018,604
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)
	<b>(956,370)</b>	(1,239,769)
Net interest income	<b>2,044,800</b>	1,778,835
Included within interest income		
Interest income on impaired loans and advances	704	163

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).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 10. 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	259,584	306,017
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)
	56,741	72,941

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 11. NET TRADING INCOME

	Note	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	19	17,580	10,714
		<b>230,059</b>	63,615

“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 were 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 12. OTHER OPERATING INCOME

	2016 HK\$'000	2015 HK\$'000
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
	<b>139,853</b>	143,247

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 13. OPERATING EXPENSES

	2016 HK\$'000	2015 HK\$'000
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)	–
	1,227,552	1,113,757

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).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 14. TAXATION

	2016 HK\$'000	2015 HK\$'000
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 (Note 34)	3,297	455
	<b>264,296</b>	226,254

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 HK\$'000	2015 HK\$'000
Profit before taxation	1,684,000	1,419,390
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	<b>264,296</b>	226,254

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

### 15. 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
	<b>339,300</b>	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.

### 16. 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.

### 17. 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
	<b>30,521,281</b>	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).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 18. DERIVATIVE FINANCIAL INSTRUMENTS

	2016			2015		
	Notional amount HK\$'000	Fair value		Notional amount HK\$'000	Fair value	
		Assets HK\$'000	Liabilities HK\$'000		Assets HK\$'000	Liabilities HK\$'000
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
		424,845	553,614		577,651	844,778

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 HK\$'000	Replacement cost HK\$'000	Credit risk- weighted amount HK\$'000	Notional amount HK\$'000	Replacement cost HK\$'000	Credit risk- weighted amount HK\$'000
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
		424,845	335,556		577,651	317,624

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 18. DERIVATIVE FINANCIAL INSTRUMENTS - continued

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 31). 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 19. INVESTMENTS IN SECURITIES

	Financial assets at fair value through profit or loss				
	Held for trading	Designated at fair value	Available-for-sale securities	Held-to-maturity securities	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>2016</b>					
Equity securities:					
Listed in Hong Kong	241	-	56,882	-	57,123
Listed overseas	-	-	2,317	-	2,317
	241	-	59,199	-	59,440
Unlisted	-	-	32,561	-	32,561
	241	-	91,760	-	92,001
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
	-	-	24,072,268	5,563,683	29,635,951
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
	241	-	24,164,028	5,563,683	29,727,952
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
	241	-	24,164,028	5,563,683	29,727,952

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 19. INVESTMENTS IN SECURITIES - continued

	Financial assets at fair value through profit or loss				
	Held for trading HK\$'000	Designated at fair value HK\$'000	Available-for-sale securities HK\$'000	Held-to-maturity securities HK\$'000	Total HK\$'000
<b>2015</b>					
Equity securities:					
Listed in Hong Kong	271	-	186,172	-	186,443
Listed overseas	-	-	2,984	-	2,984
	271	-	189,156	-	189,427
Unlisted	-	-	34,333	-	34,333
	271	-	223,489	-	223,760
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
	-	-	22,576,534	8,686,530	31,263,064
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
	271	-	22,800,023	8,686,530	31,486,824
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
	271	-	22,800,023	8,686,530	31,486,824

### 19. INVESTMENTS IN SECURITIES - continued

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. In 2016, the bonds issued by Yuexiu Property Company have been disposed.

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 11) 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

### 20. 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 28). 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 (Note 28)	8,382,649	1,463,104	9,845,753

	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 (Note 28)	2,805,533	517,150	3,322,683

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 21. ADVANCES AND OTHER ACCOUNTS

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

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).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 21. ADVANCES AND OTHER ACCOUNTS - continued

Impairment allowances on advances:

	Individual assessment HK\$'000	Collective assessment HK\$'000	Total HK\$'000
<b>Balance 1 January 2016</b>	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)
<b>Balance 31 December 2016</b>	<b>39,737</b>	<b>251,219</b>	<b>290,956</b>
<b>Balance 1 January 2015</b>	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)
<b>Balance 31 December 2015</b>	<b>23,688</b>	<b>250,494</b>	<b>274,182</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 21. ADVANCES AND OTHER ACCOUNTS - continued

Details of the impaired loans are as follows:

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

Details of the non-performing loans are as follows:

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

*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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

### 22. SUBSIDIARIES

Name of company	Place of incorporation and kind of legal entity	Issued share capital	Percentage of issued share capital directly held	Principal activities and place of operation
Chong Hing (Nominees) Limited	Hong Kong, limited liability company	HK\$ 100,000	100%	Provision of nominee services in Hong Kong
Chong Hing Finance Limited	Hong Kong, limited liability company	HK\$ 25,000,000	100%	Deposit-taking and lending in Hong Kong
Chong Hing Information Technology Limited	Hong Kong, limited liability company	HK\$ 100,000	100%	Provision of electronic data processing services in Hong Kong
Chong Hing Securities Limited	Hong Kong, limited liability company	HK\$ 10,000,000	100%	Stockbroking in Hong Kong
Chong Hing Commodities and Futures Limited	Hong Kong, limited liability company	HK\$ 5,000,000	100%	Investment holding and commodities and futures broking in Hong Kong
Gallbraith Limited	Hong Kong, limited liability company	HK\$ 16,550,000	100%	Property investment in Mainland China
Top Benefit Enterprise Limited	Hong Kong, limited liability company	HK\$ 100,000	100%	Property investment in Hong Kong
Card Alliance Company Limited	Hong Kong, limited liability company	HK\$ 18,000,000	100%	Credit card management in Hong Kong
Chong Hing Insurance Company Limited	Hong Kong, limited liability company	HK\$ 85,000,000	100%	Insurance underwriting in Hong Kong
Hero Marker Limited	Hong Kong, limited liability company	HK\$ 100,000	100%	Property investment in Hong Kong

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 22. SUBSIDIARIES - continued

None of the subsidiaries had any debt security subsisting at the end of the year or at any time during the year.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results of the year or form a substantial portion of the net assets of the Group. In the opinion of the directors, listing details of other subsidiaries would result in particulars of excessive length.

## 23. INTERESTS IN ASSOCIATES

	2016 HK\$'000	2015 HK\$'000
Share of post-acquisition profits and other comprehensive income net of dividends received	262,565	247,901

The directors consider the Group have significant influence over these entities.

As at 31 December 2016 and 2015, the Group had interests in the following associates:

Name of company	Place of incorporation and operation	Class of share held	Ownership interest	Proportion of voting power (Note)	Nature of business
Bank Consortium Holding Limited	Hong Kong	Ordinary	13.3%	14.3%	Investment holding and provision of trustee, administration and custodian services for retirement schemes
BC Reinsurance Limited	Hong Kong	Ordinary	21.0%	21.0%	Reinsurance
Hong Kong Life Insurance Limited	Hong Kong	Ordinary	16.7%	16.7%	Life insurance underwriting
Net Alliance Co. Limited	Hong Kong	Ordinary	17.6%	15%	Provision of internet services

Note: The Group is able to exercise significant influence over all of these entities because it has the power to appoint one out of five to two out of eight directors of these companies under the provisions stated in the shareholder's agreements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

### 23. INTERESTS IN ASSOCIATES - continued

All of these associates are accounted for using the equity method in these consolidated financial statements.

The summarised financial information below represent the aggregate amount of the Group's share of its interests in associates which are not individually material:

	2016 HK\$'000	2015 HK\$'000
Other comprehensive income	497	13,435
Profit after tax	31,617	31,827
Total comprehensive income	32,114	45,262

There are no significant restrictions on the ability of the associates to transfer funds to the Group in the form of cash dividends, except for Hong Kong Life Insurance Limited which has to maintain net assets of not less than 150% of the required margin of solvency which is determined in accordance with the Hong Kong Insurance Companies (Margin of Solvency) Regulations and which may trigger restrictions to fund transfer.

### 24. ASSETS HELD FOR SALE

The carrying amount of assets held for sale comprises:

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 25. INVESTMENT PROPERTIES

	2016 HK\$'000	2015 HK\$'000
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)
At 31 December	282,927	264,222

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 HK\$'000	2015 HK\$'000
Net gains on fair value adjustments on investment properties	2,026	106,737

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

### 25. INVESTMENT PROPERTIES - continued

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 HK\$'000	2015 HK\$'000
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
	<b>282,927</b>	264,222

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 26. PROPERTY AND EQUIPMENT

	Leasehold land HK\$'000	Buildings HK\$'000	Equipment HK\$'000	Total HK\$'000
<b>COST</b>				
<b>At 1 January 2016</b>	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)
<b>At 31 December 2016</b>	478,312	161,440	705,814	1,345,566
<b>ACCUMULATED DEPRECIATION</b>				
<b>At 1 January 2016</b>	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)
<b>At 31 December 2016</b>	140,206	51,501	520,255	711,962
<b>CARRYING AMOUNTS</b>				
<b>At 31 December 2016</b>	338,106	109,939	185,559	633,604
<b>At 1 January 2016</b>	354,752	114,932	158,093	627,777

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

### 26. PROPERTY AND EQUIPMENT - continued

	Leasehold land HK\$'000	Buildings HK\$'000	Equipment HK\$'000	Total HK\$'000
<b>COST</b>				
<b>At 1 January 2015</b>	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)
<b>At 31 December 2015</b>	486,181	163,595	641,040	1,290,816
<b>ACCUMULATED DEPRECIATION</b>				
<b>At 1 January 2015</b>	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)
<b>At 31 December 2015</b>	131,429	48,663	482,947	663,039
<b>CARRYING AMOUNTS</b>				
<b>At 31 December 2015</b>	354,752	114,932	158,093	627,777
<b>At 1 January 2015</b>	365,716	120,910	123,330	609,956

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%

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*for the year ended 31 December 2016*

### 26. PROPERTY AND EQUIPMENT - continued

The carrying amounts of leasehold land shown above comprise:

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

The carrying amounts of buildings shown above comprise:

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

### 27. PREPAID LEASE PAYMENTS FOR LAND

The Group's prepaid lease payments for land comprise:

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

### 28. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	2016 HK\$'000	2015 HK\$'000
Analysed by collateral type:		
Debt securities classified as:		
Available-for-sale (Note 20)	8,382,649	2,805,533
Held-to-maturity (Note 20)	1,463,104	517,150
	9,845,753	3,322,683

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 29. DEPOSITS FROM CUSTOMERS

	2016 HK\$'000	2015 HK\$'000
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
	<b>102,880,629</b>	99,392,364

## 30. 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.

## 31. LOAN CAPITAL

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

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

### 32. SHARE CAPITAL

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

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.

### 33. ADDITIONAL EQUITY INSTRUMENTS

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

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

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

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

	Accelerated tax depreciation HK\$'000	Collectively assessed impairment allowance HK\$'000	Investment properties HK\$'000	Revaluation of available- for-sale securities HK\$'000	Remeasurement of retirement benefits HK\$'000	Total HK\$'000
<b>At 1 January 2016</b>	(3,881)	38,327	(7,653)	(22,626)	(3,492)	675
Credit (charge) to income statement for the year (Note 14)	982	(2,962)	(1,317)	-	-	(3,297)
Charge to other comprehensive income for the year	-	-	-	(6,448)	-	(6,448)
Exchange adjustments	-	-	497	-	-	497
<b>At 31 December 2016</b>	<b>(2,899)</b>	<b>35,365</b>	<b>(8,473)</b>	<b>(29,074)</b>	<b>(3,492)</b>	<b>(8,573)</b>
<b>At 1 January 2015</b>	(6,844)	38,138	(4,729)	(41,927)	(3,492)	(18,854)
Credit (charge) to income statement for the year (Note 14)	2,963	189	(3,607)	-	-	(455)
Credit to other comprehensive income for the year	-	-	-	19,301	-	19,301
Exchange adjustments	-	-	683	-	-	683
<b>At 31 December 2015</b>	<b>(3,881)</b>	<b>38,327</b>	<b>(7,653)</b>	<b>(22,626)</b>	<b>(3,492)</b>	<b>675</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

### 34. DEFERRED TAXATION – continued

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.

### 35. SHARE OPTION SCHEME

The Bank adopted a new share option scheme (the "New Scheme") pursuant to a resolution passed on 9 May 2012 for the primary purpose of providing incentives to directors and eligible employees and to replace the share option scheme which expired on 24 April 2012. The terms of the New Scheme are similar to those of the expired scheme. Under the New Scheme, the Board of Directors of the Bank may grant options to eligible persons, including directors and employees of the Bank and its subsidiaries, to subscribe for shares in the Bank.

The total number of shares in respect of which options may be granted under the New Scheme is not permitted to exceed 10% of the shares of the Bank in issue at the date of approval of the Scheme, without prior approval from the Bank's shareholders. No option may be granted to any person which, if exercised in full, would result in the total number of shares issued and to be issued upon exercise of the option already granted and to be granted to such person (including exercised, cancelled and outstanding options but excluding lapsed options) in the 12-month period up to and including the date of such new grant exceeding 1% of the shares in issue as at the date of such new grant, provided that options may be issued in excess of such limit if, among other things, such grant shall have been separately approved by shareholders of the Bank in a general meeting at which that proposed grantee and his associates (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) shall have abstained for voting.

Options granted must be taken up within 28 days of the date of offer, upon payment of HK\$10 per option, and the exercise period shall not in any event be longer than 10 years from the date of grant of the relevant options. The exercise price is determined by the Board of Directors of the Bank, and will be the highest of the closing price of the Bank's shares on the date of offer, the average closing price of the shares for the five business days immediately preceding the date of offer and the nominal value of the shares.

No options have been granted under the New Scheme since it was adopted.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 36. INTANGIBLE ASSETS

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

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

### 37. CONTINGENT LIABILITIES AND COMMITMENTS

	2016 HK\$'000	2015 HK\$'000
<b>Contingent liabilities and commitments</b>		
– <b>contractual amounts</b>		
Direct credit substitutes	805,429	868,445
Trade-related contingencies	596,068	225,216
Forward asset purchases	161,609	40,758
<b>Undrawn formal standby facilities, credit lines and other commitments</b>		
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
<b>Lease commitments</b>	258,360	307,682
	<b>25,588,157</b>	18,639,482

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

### 37. CONTINGENT LIABILITIES AND COMMITMENTS – continued

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

### 38. RETIREMENT BENEFITS SCHEME

At the end of the reporting period, the Group had two retirement schemes in operation including a defined contribution plan (the “ORSO Scheme”) and a defined benefit plan (the “ORSO (Defined benefit) Scheme”), which were both registered under the Occupational Retirement Scheme Ordinance in 1995, and a Mandatory Provident Fund Scheme (the “MPF Scheme”) established under the Mandatory Provident Fund Ordinance in December 2000. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme could stay within the ORSO Scheme or switch to the MPF Scheme, whereas all new employees joining the Group on or after December 2000 are required to join the MPF Scheme. Most of the employees enrolled in the MPF Scheme in replacement of the ORSO Scheme (the “participating members”). The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Under the MPF Scheme, the employee contributes 5% of the relevant payroll to the MPF Scheme while the Group contributes from 5% to 10% of the relevant payroll to the MPF Scheme depending on the years of service completed.

The Group operates the ORSO (Defined benefit) Scheme for qualifying employees. Under the ORSO (Defined benefit) Scheme, the employees are entitled to retirement benefits varying between 0 and 100 percent of total contributions on attainment of a retirement age of 55. Upon retirement, the employees are entitled to monthly pension until death varying between 0 and 100 percent of final salary depending on years of service completed at the time of retirement.

The most recent actuarial valuation of the ORSO (Defined benefit) Scheme was carried out as at 31 December 2014 by the qualified actuaries of Towers Watson Hong Kong Limited. The actuarial valuation is carried out periodically, but at least triennially. No valuation is carried out as at 31 December 2016. The present value of the defined benefit obligation and the current service cost have been measured using the Projected Unit Credit method.

At the date of the latest formal independent actuarial valuation made on 31 December 2014, the net retirement asset of the ORSO (Defined benefit) Scheme was HK\$21,726,000.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 38. RETIREMENT BENEFITS SCHEME – continued

	2014 HK\$'000
Amounts recognised in the consolidated income statement in respect of the defined benefit plans are as follow:	
Interest cost on benefit obligation	(368)
Interest income on plan assets	540
Net interest income	172
Current service cost	(86)
	<u>86</u>
Amount recognised in the consolidated income statement and other comprehensive income in respect of the defined benefit plans is as follow:	
Difference between actual return on plan assets and interest, and actuarial losses	<u>10,893</u>

The amount included in the consolidated statement of financial position arising from the Group's defined benefit retirement benefit plan is as follows:

	2014 HK\$'000
Present value of defined benefit obligation	(22,221)
Fair value of plan assets	<u>43,947</u>
	<u>21,726</u>

Changes in the present value of the defined benefit obligation are as follow:

	2014 HK\$'000
Opening defined benefit obligation	24,073
Interest cost	368
Current service cost	86
Actuarial gain	(160)
Benefits paid	<u>(2,146)</u>
Closing defined benefit obligation	<u>22,221</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

### 38. RETIREMENT BENEFITS SCHEME – continued

Changes in fair value of plan assets are as follow:

	2014 HK\$'000
Opening fair value of plan assets	34,820
Interest income	540
Return on plan assets	10,733
Benefits paid	<u>(2,146)</u>
Closing fair value of plan assets	<u>43,947</u>

The major categories of plan assets as a percentage of the fair value of total plan assets are as follow:

	2014 %
Cash	42
Equities (Note)	58

*Note:* The equities represented investments in three equity securities which are securities of The Hong Kong & China Gas Limited, Liu Chong Hing Investment Limited and Chong Hing Bank Limited which are all listed on the Hong Kong Stock Exchange.

The fair value of the plan assets as at 31 December 2014 for each category, are as follow:

	2014 HK\$'000
Deposits with the Bank	18,382
Interest receivable	50
Equity securities listed in Hong Kong:	
The Hong Kong & China Gas Limited	19,757
Liu Chong Hing Investment Limited	4,900
Chong Hing Bank Limited	<u>858</u>
	<u>43,947</u>

The fair values of the equity instruments are determined based on quoted market prices in active markets.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 38. RETIREMENT BENEFITS SCHEME – continued

The amounts of assets of the ORSO (Defined benefit) Scheme invested in the Bank's own deposit account as at 31 December 2014 were:

	2014 HK\$'000
Deposits with the Bank	18,382

The ORSO (Defined benefit) Scheme exposes the Group to the interest rate risk, longevity risk and price risk as at 31 December 2014.

### Interest rate risk

The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to the yields of the Hong Kong Government Exchange Fund Notes. A decrease in the discount rate would increase the plan liability.

### Longevity risk

The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of qualifying employees both during and after their employment. An increase in the life expectancy of the qualifying employees will increase the plan's liability.

### Price risk

As stated above, 58% of the assets were invested into three equity securities as at 31 December 2014. Such high concentration may expose to the Group to price risk when the equity prices fluctuate.

The significant assumptions used in determining the defined benefit obligations are shown below:

	2014 %
Discount rate (per annum)	1.7
Expected rate of salary increase (per annum)	3.0
Expected rate of pension increase (per annum)	0.0
Interest credited on welfare balance (per annum)	2.0

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

### 38. RETIREMENT BENEFITS SCHEME – continued

The table below indicates the potential effect of change of the significant assumptions on the defined benefit obligation:

	2014	
	Change in assumption	
	+0.25%	-0.25%
	HK\$'000	HK\$'000
Discount rate	(488)	510
Expected rate of salary increase	58	(57)
	Age +1 year	Age -1 year
	HK\$'000	HK\$'000
Pensioner mortality	(955)	980

As at 31 December 2014, the weighted average duration of the defined benefit obligation is approximately 6.9 years.

The costs for providing benefits to the members of the ORSO (Defined benefit) Scheme are funded by the Group. The contributions required by the Group to fund the costs are determined by periodic funding valuations in accordance with the Occupational Retirement Scheme Ordinance.

As of 31 December 2014, the Group is not required to contribute to the ORSO (Defined benefit) Scheme with respect to the members of the ORSO (Defined benefit) Scheme according to the results of the last statutory funding valuation of the ORSO (Defined benefit) Scheme as at 31 December 2014. The Group's contribution rate may be subject to change when the results of the next statutory funding valuation of the ORSO (Defined benefit) Scheme as at 31 December 2017 become available.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

### 39. 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 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
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 (Note)	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	–	–	1,453,839	2,153,574
Intermediate holding company	295,792	–	2,140	–
Fellow subsidiaries	2,507	301,064	1,842,204	1,147,378
Associates	–	5,835	152,867	254,191
Key management personnel (Note)	55,754	53,352	211,290	165,407

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.

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

### 39. RELATED PARTY TRANSACTIONS – continued

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).

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:

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

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.

## 40. CAPITAL MANAGEMENT

The Group's policy is to maintain a strong capital base to support the development of the Group's business and to ensure compliance with the statutory capital adequacy ratio requirement, a requirement used to assess the capital adequacy of banks. Capital is allocated to the various activities of the Group depending on the risk taken by each business division. Where the subsidiaries or branches are directly regulated by other regulators, they are required to maintain capital according to the rules of those regulators.

The Group's objective when managing capital are:

- comply with the capital requirements under the Banking (Capital) Rules of the Hong Kong Banking Ordinance; and
- support the Group's stability and business growth so as to provide reasonable returns for shareholders.

Capital adequacy and the use of regulatory capital are monitored regularly by the Group's management, employing techniques based on the Banking (Capital) Rules of the Hong Kong Banking Ordinance. The required information is filed with the Hong Kong Monetary Authority (the "HKMA") on a quarterly basis.

The HKMA requires each bank or banking group to maintain a ratio of total regulatory capital to the risk-weighted asset (the capital adequacy ratio) at or above the minimum as stipulated in the Banking (Capital) Rules. In addition, branches outside Hong Kong of the Bank are also directly regulated and supervised by their local banking supervisors, which may differ from country to country. Subsidiaries of the Group are also subject to statutory capital requirements from other regulatory authorities, such as the Securities and Futures Commission and the Insurance Authority.

The capital adequacy ratios are computed on the consolidated basis, which includes the Bank and certain of its subsidiaries as specified by the HKMA for its regulatory purposes, and are in accordance with the Banking (Capital) Rules of the Hong Kong Banking Ordinance.

The Group has established a capital planning process to assess the adequacy of its capital to support current and future activities and to set the Group's capital adequacy goals in relation to risk, taking into account its strategic focus and business plan. Key factors to consider in this process including additional capital required for future expansion, results of the stress test programme regularly conducted, dividend policy, income recognition and provisioning policies.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 41. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE BANK

	2016 HK\$'000	2015 HK\$'000
<b>Assets</b>		
Cash and short-term funds	30,510,775	21,421,383
Placements with banks maturing between one to twelve months	1,604,971	7,736,895
Derivative financial instruments	424,845	577,651
Available-for-sale securities	24,110,434	22,690,061
Held-to-maturity securities	5,533,547	8,656,149
Advances and other accounts	73,799,209	65,119,368
Investments in subsidiaries	250,984	261,984
Amounts due from subsidiaries	221,629	227,434
Assets held for sale	2	–
Interests in associates	21,500	21,500
Investment properties	244,000	226,000
Property and equipment	410,516	398,257
Prepaid lease payments for land	2,201	2,269
Deferred tax assets	4,672	10,744
Intangible assets	171,123	–
<b>Total assets</b>	<b>137,310,408</b>	127,349,695
<b>Liabilities</b>		
Deposits and balances of banks	2,696,681	5,728,313
Financial assets sold under repurchase agreements	9,845,753	3,322,683
Deposits from customers	102,880,629	99,392,364
Amounts due to subsidiaries	676,870	549,795
Certificates of deposit	812,329	351,962
Derivative financial instruments	553,614	844,778
Other accounts and accruals	975,407	911,654
Current tax liabilities	353,945	127,750
Debt securities issued	1,663,774	–
Loan capital	1,792,267	1,819,591
Deferred tax liabilities	2,927	–
<b>Total liabilities</b>	<b>122,254,196</b>	113,048,890
<b>Equity attributable to owners of the Bank</b>		
Share capital	5,435,904	5,435,904
Additional equity instruments	2,312,030	2,312,030
Reserves (Note (a))	7,308,278	6,552,871
<b>Total equity</b>	<b>15,056,212</b>	14,300,805
<b>Total liabilities and equity</b>	<b>137,310,408</b>	127,349,695

Approved and authorised for issue by the Board of Directors on 28 February 2017 and signed on its behalf by:

**Zhang Zhaoxing**  
Chairman

**Leung Ko May Yee Margaret**  
Deputy Chairman, Managing Director and Chief Executive

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 41. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE BANK – continued

Note (a):

	Investment revaluation reserve HK\$'000	Land and building revaluation reserve HK\$'000	General reserve HK\$'000	Translation reserve HK\$'000	Regulatory reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
<b>THE BANK</b>							
<b>At 1 January 2016</b>	100,258	158,018	1,378,500	(19,242)	663,000	4,272,337	6,552,871
Profit for the year	-	-	-	-	-	1,359,593	1,359,593
Exchange differences arising on translation	-	-	-	(165,962)	-	-	(165,962)
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	184,427	-	-	-	-	-	184,427
Amount reclassified to the profit or loss upon disposal of available-for-sale securities	(140,914)	-	-	-	-	-	(140,914)
Income tax effect relating to disposal of available-for-sale securities	23,251	-	-	-	-	-	23,251
Income tax effect relating to fair value change of available-for-sale securities	(30,492)	-	-	-	-	-	(30,492)
Other comprehensive income (expense)	36,272	16,229	-	(165,962)	-	-	(113,461)
Total comprehensive income (expense) for the year	36,272	16,229	-	(165,962)	-	1,359,593	1,246,132
Distribution payment for additional equity instruments	-	-	-	-	-	(151,425)	(151,425)
Interim dividend paid	-	-	-	-	-	(97,875)	(97,875)
Final dividend paid	-	-	-	-	-	(241,425)	(241,425)
Earmark of retained profits as regulatory reserve	-	-	-	-	76,000	(76,000)	-
<b>At 31 December 2016</b>	136,530	174,247	1,378,500	(185,204)	739,000	5,065,205	7,308,278

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 41. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE BANK – continued

Note (a): – continued

	Investment revaluation reserve HK\$'000	Land and building revaluation reserve HK\$'000	General reserve HK\$'000	Translation reserve HK\$'000	Regulatory reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
<b>THE BANK</b>							
<b>At 1 January 2015</b>	186,384	146,647	1,378,500	23,916	573,000	3,722,527	6,030,974
Profit for the year	-	-	-	-	-	1,060,683	1,060,683
Exchange differences arising on translation	-	-	-	(43,158)	-	-	(43,158)
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	(33,998)	-	-	-	-	-	(33,998)
Amount reclassified to the profit or loss upon disposal of available-for-sale securities	(68,276)	-	-	-	-	-	(68,276)
Income tax effect relating to disposal of available-for-sale securities	11,266	-	-	-	-	-	11,266
Income tax effect relating to fair value change of available-for-sale securities	4,882	-	-	-	-	-	4,882
Other comprehensive (expense) income	(86,126)	11,371	-	(43,158)	-	-	(117,913)
Total comprehensive (expense) income for the year	(86,126)	11,371	-	(43,158)	-	1,060,683	942,770
Distribution payment for additional equity instruments	-	-	-	-	-	(151,173)	(151,173)
Interim dividend paid	-	-	-	-	-	(91,350)	(91,350)
Final dividend paid	-	-	-	-	-	(178,350)	(178,350)
Earmark of retained profits as regulatory reserve	-	-	-	-	90,000	(90,000)	-
<b>At 31 December 2015</b>	100,258	158,018	1,378,500	(19,242)	663,000	4,272,337	6,552,871

### 41. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE BANK – continued

Note (a): – continued

The Bank's reserves available for distribution to owners as at 31 December 2016 comprised retained profits of HK\$4,929,131,000 (2015: HK\$4,165,007,000) and general reserve of HK\$1,378,500,000 (2015: HK\$1,378,500,000).

The regulatory reserve is set up in compliance with the HKMA's requirements and is distributable to owners of the Bank subject to consultation with the HKMA.

The general reserve is comprised of transfers from previous years' retained profits.

The investment revaluation reserve represents cumulative gains and losses arising on the revaluation of available-for-sale investments that have been recognised in other comprehensive income, net of amounts reclassified to the income statement when those available-for sale investments are disposed of or are determined to be impaired.

The land and building revaluation reserve represents difference between fair value and carrying value of the properties transferred from owner-occupied properties to investment properties during the year.

Exchange differences relating to the translation of the net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. Hong Kong dollars) are recognised directly in other comprehensive income and accumulated in the translation reserve. Such exchange differences accumulated in the translation reserve are reclassified to the income statement on the disposal of the foreign operations.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

### 42. BENEFITS AND INTERESTS OF DIRECTORS

(Disclosures required by section 383 of the Hong Kong Companies Ordinance (Cap 622) and Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap 622G)) and Listing Rules

The emoluments of the directors and the chief executive of the Bank were as follows:

#### (A) Directors' emoluments

	2016						Total HK\$'000
	Fees HK\$'000	Salaries HK\$'000	Bonus HK\$'000	Housing allowance HK\$'000	Estimated value of other benefits HK\$'000	Employer's contribution to retirement scheme HK\$'000	
<b>Executive Directors and Chief Executive</b>							
Leung Ko May Yee Margaret (Note 1)	180	11,648	3,800	-	-	694	16,322
Zong Jianxin	180	7,002	1,800	-	-	373	9,355
Lau Wai Man (Note 2)	180	5,212	1,000	-	-	521	6,913
Liu Tit Shing Don (Note 3)	66	1,996	-	-	-	158	2,220
<b>Total Executive Directors' and Chief Executive's emoluments</b>	<b>606</b>	<b>25,858</b>	<b>6,600</b>	<b>-</b>	<b>-</b>	<b>1,746</b>	<b>34,810</b>
<b>Non-executive Directors</b>							
Zhang Zhaoxing	350	-	-	-	-	-	350
Chow Cheuk Yu Alfred	309	-	-	-	-	-	309
Li Feng	300	-	-	-	-	-	300
Wang Shuhui	300	-	-	-	-	-	300
Zhu Chunxiu	300	-	-	-	-	-	300
<b>Total Non-executive Directors' emoluments</b>	<b>1,559</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,559</b>
<b>Independent Non-executive Directors</b>							
Cheng Yuk Wo	420	-	-	-	-	-	420
Lee Ka Lun	380	-	-	-	-	-	380
Chiranakhorn Wanchai (Note 4)	300	-	-	-	-	-	300
Ma Chiu Cheung Andrew	300	-	-	-	-	-	300
Yu Lup Fat Joseph	331	-	-	-	-	-	331
<b>Total Independent Non-executive Directors' emoluments</b>	<b>1,731</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,731</b>
<b>Total</b>	<b>3,896</b>	<b>25,858</b>	<b>6,600</b>	<b>-</b>	<b>-</b>	<b>1,746</b>	<b>38,100</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 42. BENEFITS AND INTERESTS OF DIRECTORS – continued

(Disclosures required by section 383 of the Hong Kong Companies Ordinance (Cap 622) and Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap 622G) and Listing Rules – continued)

The emoluments of the directors and the chief executive of the Bank were as follows:– continued

### (A) Directors' emoluments – continued

	2015						Total HK\$'000
	Fees HK\$'000	Salaries HK\$'000	Bonus HK\$'000	Housing allowance HK\$'000	Estimated value of other benefits HK\$'000	Employer's contribution to retirement benefits scheme HK\$'000	
<b>Executive Directors and Chief Executive</b>							
Leung Ko May Yee Margaret (Note 1)	180	11,649	3,686	–	–	635	16,150
Zong Jianxin	46	3,978	1,411	–	–	199	5,634
Lau Wai Man (Note 2)	180	4,554	1,540	–	–	455	6,729
Liu Tit Shing Don (Note 3)	180	3,951	987	–	–	395	5,513
<b>Total Executive Directors' and Chief Executive's emoluments</b>	<b>586</b>	<b>24,132</b>	<b>7,624</b>	<b>–</b>	<b>–</b>	<b>1,684</b>	<b>34,026</b>
<b>Non-executive Directors</b>							
Zhang Zhaoxing	350	–	–	–	–	–	350
Chow Cheuk Yu Alfred	300	–	–	–	–	–	300
Li Feng	300	–	–	–	–	–	300
Wang Shuhui	300	–	–	–	–	–	300
Zhu Chunxiu	300	–	–	–	–	–	300
<b>Total Non-executive Directors' emoluments</b>	<b>1,550</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1,550</b>
<b>Independent Non-executive Directors</b>							
Cheng Yuk Wo	300	–	–	–	–	–	300
Lee Ka Lun	300	–	–	–	–	–	300
Chiranakhorn Wanchai (Note 4)	300	–	–	–	–	–	300
Ma Chiu Cheung Andrew	300	–	–	–	–	–	300
Yu Lup Fat Joseph	123	–	–	–	–	–	123
<b>Total Independent Non-executive Directors' emoluments</b>	<b>1,323</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1,323</b>
<b>Total</b>	<b>3,459</b>	<b>24,132</b>	<b>7,624</b>	<b>–</b>	<b>–</b>	<b>1,684</b>	<b>36,899</b>

Notes:

1. Being the Deputy Chairman and Managing Director of the Bank and assumed the role of Chief Executive of the Bank with effect from 27 May 2016.
2. Ceased to act as Chief Executive of the Bank with effect from 27 May 2016.
3. Retired as Executive Director of the Bank with effect from 13 May 2016.
4. Passed away on 23 January 2017.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2016

## 42. BENEFITS AND INTERESTS OF DIRECTORS – continued

(Disclosures required by section 383 of the Hong Kong Companies Ordinance (Cap 622) and Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap 622G) and Listing Rules – continued)

### (B) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

The information about loans, quasi-loans and other dealings entered into by the company or subsidiary undertaking of the company, where applicable, in favour of directors is as follows:

	Aggregate balance of all relevant loans outstanding		Maximum aggregate balance of relevant loans during the year
	at January 1	at December 31	
	HK\$'000	HK\$'000	HK\$'000
2016	5,348	3,813	6,318
2015	4,939	5,348	12,842

The loans bear interest at rates ranging from 0% to prime rate plus 10%. Included in the loans to officers are loans of HK\$3,688,000 (2015: HK\$5,143,000) secured by collateral. The collateral consists mainly of properties, securities and fixed deposits.

The three and four highest paid individuals in the Group in 2016 and 2015 respectively were directors of the Bank and details of their emoluments are included above. The remaining individuals among the five highest paid individuals in the Group in 2016 were in the emolument band of HK\$3,500,001 – HK\$4,500,000 (2015: HK\$2,800,001 – HK\$4,000,000). No directors nor the chief executive waived any emoluments in the years ended 31 December 2016 and 31 December 2015.

## 43. IMMEDIATE AND ULTIMATE HOLDING COMPANIES

As at 31 December 2016 and 31 December 2015, the immediate holding company of the Bank was Yuexiu Financial Holdings Limited, which is incorporated in Hong Kong. Its ultimate holding company was Guangzhou Yue Xiu Holdings Limited, which is incorporated in the People's Republic of China.

## 44. COMPARATIVE AMOUNTS

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

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

The preparation of supplementary financial information is in accordance with the Banking (Disclosure) Rules and consolidated supervision arrangement approved by the HKMA.

## 1. MAJOR SPECIALISED COMMITTEES

The Board is constituted in accordance with the Bank's Articles of Association and is ultimately responsible for the sustainable performance of the Group. The Board has established the following specialised committees and delegated its authorities and power to enable them to operate under defined terms of reference. The Board reviews and updates the committees' Terms of Reference on a regular basis.

**These specialised committees are:**

- (i) Audit Committee**
- (ii) Connected Party Transactions Committee**
- (iii) Executive Committee**
- (iv) Nomination Committee**
- (v) Remuneration Committee**
- (vi) Risk Committee**

The Terms of Reference and the composition of each of the above committees are set out in the "Corporate Governance Report" of this Annual Report.

The Executive Committee has established the Asset and Liability Management Committee (the "ALCO") and the Risk Management Committee (the "RMC"). The roles and functions of these committees are as follows:

### **(vii) ALCO**

Members of the ALCO are appointed by the Executive Committee, comprising senior executives of the Bank.

The ALCO is established to facilitate the oversight of the Board in the management of the assets and liabilities of the Group from the perspective of containing the pertinent liquidity, interest rate, foreign exchange and other market risks. The assessment of the impact of the current economic and business climate on the Group's statement of financial position, and the formulation of the corresponding strategies and plans also come under other key functions of the ALCO.

### **(viii) RMC**

Members of the RMC are appointed by the Executive Committee. It comprises the Chief Risk Officer with other senior executives who are responsible for risk management, compliance issues and daily operations of the Bank.

The RMC is responsible for the oversight of risk management of the Group, within the framework of the Group's policies, its Terms of Reference and such other directives as the Executive Committee may determine from time to time.

# UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2016

## 2. MANAGEMENT OF RISKS

The Group has established policies, procedures, and controls for measuring, monitoring and controlling risks arising from the banking and related financial services business. These policies, procedures, and controls are implemented by various committees, divisions and departments of the Group and are regularly reviewed by the Board. Internal auditors also play an important role in risk management process by performing regular, as well as conducting sporadic compliance audits.

The management of assets and liabilities of the Group is conducted under guidance of the ALCO. The ALCO holds meetings every two weeks, and more frequent meetings when required, to review and direct the relevant policies, and to monitor the bank-wide positions. The day-to-day management of the liquidity, foreign exchange, interest rate and other market risks, and the compliance with the ALCO and the RMC policies are monitored by the Finance and Capital Management Division, the Financial Markets Division, the Market Risk Management Department and the Finance Department with the assistance of various qualitative and quantitative analyses.

Complementing with the ALCO in its management of assets and liabilities, the RMC also oversees the implementation of the policies and procedures established for managing the Group's credit, strategic, operational, legal, and reputation risks and compliance requirements.

### (i) Operational and legal risk

Operational risk is the risk of unexpected losses attributable to human error, systems failures, frauds, or inadequate internal controls and procedures.

Executive Directors, division heads, department heads, in-house legal counsels, and internal auditors collaborate to manage operational and legal risks through proper human resources policies, delegation of authorities, segregation of duties, and timely and accurate management information. Senior management and the Audit Committee are accountable to the Board for maintaining a strong and disciplined control environment to provide reasonable assurance that the operational and legal risks are prudently managed.

A comprehensive contingency plan is available to ensure that key business functions continue and the Bank's normal operations are restored effectively and efficiently in the event of business interruption.

## 2. MANAGEMENT OF RISKS – continued

### (ii) Reputation risk

Reputation risk is the risk that the Group's reputation is damaged by one or more than one reputation event that results in negative publicity about the Group's business practices, conduct or financial condition.

Reputation risk is managed by every member of staff ensuring proper and adequate communications and public relation efforts to foster the reputation of the Group. A reputation risk management mechanism guided by the senior management including executive directors has been established to manage including, without limitation, media exposure, handle customers' and other stakeholders' complaints and suggestions, and to ensure that business activities and agents and/or bodies acting on the Group's behalf do not jeopardise its reputation.

Details of the Group's capital management, credit risk, liquidity risk, market risk, foreign exchange risk, interest rate risk management policies and measures are set out in note 7 to the consolidated financial statements.

## 3. 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
		<b>31 December 2016 %</b>
Capital buffers (as a percentage of risk-weighted assets)		
Capital conservation buffer ratio		0.625
Countercyclical capital buffer ratio		0.491
		<b>1.116</b>

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2016

### 3. CAPITAL ADEQUACY RATIOS, LEVERAGE RATIO AND LIQUIDITY RATIOS - continued

#### 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 %
Leverage ratio	9.57	10.19

	Year ended 31 December 2016 %	Year ended 31 December 2015 %
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.

### 4. OTHER FINANCIAL INFORMATION

The Bank has set up a “Regulatory Disclosure” section on its website to house all of information relating to the disclosure of regulatory capital to comply with Banking (Disclosure) Rules. In accordance with section 45 of Banking (Disclosure) Rules, the “Regulatory Disclosure” section includes the following information:

- A detailed breakdown of the Common Equity Tier 1 capital, Additional Tier 1 capital, Tier 2 capital and regulatory deductions to the capital base by using the standard disclosure templates as specified by the HKMA;
- A full reconciliation of the Common Equity Tier 1 capital items, Additional Tier 1 capital items, Tier 2 capital items and regulatory deductions to the capital base and the statement of financial position in the published financial statements;
- The full terms and conditions of all capital instruments;
- The disclosure on leverage ratio pursuant to section 45A of the Banking (Disclosure) Rules; and
- Geographical breakdown of risk-weighted assets in relation to private sector credit exposures and the applicable countercyclical capital buffer ratio for each jurisdiction using the standard template as specified by the HKMA.

The above information will be available on the Bank’s website: [www.chbank.com/en/regulatory-disclosures/index.shtml](http://www.chbank.com/en/regulatory-disclosures/index.shtml) in the “Regulatory Disclosure” section in accordance with the Banking (Disclosure) Rules.

### 5. SEGMENTAL INFORMATION

The Group’s information concerning geographical analysis has been classified by the location of the principal operations of the branches and subsidiary companies responsible for reporting the results or booking the assets. Details are set out in note 6 to the consolidated financial statements.

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2016

### 6. 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. Details are set out in note 7 (credit risk) to the consolidated financial statements.

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:

	2016		
	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	–	–	–
– 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	–
		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	–

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2016

### 7. 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	Advances overdue for over three months	Impaired advances	Individual impairment allowance	Collective impairment allowance
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
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	-	-	-	-
	<b>70,689,155</b>	<b>55,448</b>	<b>48,253</b>	<b>39,737</b>	<b>251,219</b>

	2015				
	Total advances	Advances overdue for over three months	Impaired advances	Individual impairment allowance	Collective impairment allowance
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
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	-	-	-	-
	<b>63,600,012</b>	<b>378,296</b>	<b>25,227</b>	<b>23,688</b>	<b>250,494</b>

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2016

### 8. INTERNATIONAL CLAIMS

The Group's international claims by countries or geographical areas which constitute 10% or more of the relevant disclosure items after taking into account any risk transfers are as follows:

	At 31 December 2016				Total HK\$'000
	Non-bank private sector				
	Banks HK\$'000	Official sector HK\$'000	Non-bank financial institutions HK\$'000	Non- financial private sector HK\$'000	
Offshore centres	4,939,083	2,957	7,782,051	13,070,152	25,794,243
of which					
– Hong Kong	1,899,423	2,957	2,672,304	5,131,784	9,706,468
Developing Asia-Pacific	16,365,527	215,778	2,568,047	9,036,914	28,186,266
of which					
– Mainland China	14,646,785	215,778	2,167,612	8,787,682	25,817,857
Developed countries	9,744,648	3,780,272	1,043,634	715,024	15,283,578

	At 31 December 2015				Total HK\$'000
	Non-bank private sector				
	Banks HK\$'000	Official sector HK\$'000	Non-bank financial institutions HK\$'000	Non- financial private sector HK\$'000	
Offshore centres	3,717,598	5,803	5,725,377	10,590,821	20,039,599
of which					
– Hong Kong	3,682,303	5,803	1,101,219	5,323,487	10,112,812
Developing Asia-Pacific	26,031,123	634,640	1,034,460	6,459,880	34,160,103
of which					
– Mainland China	24,363,216	634,640	834,071	6,303,140	32,135,067
Developed countries	6,297,172	1,142,553	984,255	134,603	8,558,583

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2016

### 9. 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	244,588	286,651	531,239

	MOP	RMB	Total
Net structural position	48,545	351,377	399,922

	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	361,239	361,239

	MOP	RMB	Total
Net structural position	48,545	351,377*	399,922*

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

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2016

### 10. OVERDUE AND RESCHEDULED ASSETS

	2016	
	Gross amount of advances HK\$'000	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	26,571	0.0
Total overdue advances	55,448	0.1
Rescheduled advances	265,023	0.4
Individual impairment allowances made in respect of overdue loans and advances	33,630	
	2015	
	Gross amount of advances HK\$'000	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	27,451	0.0
Total overdue advances	378,296	0.5
Rescheduled advances	1,092	0.0
Individual impairment allowances made in respect of overdue loans and advances	19,566	

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2016

### 10. OVERDUE AND RESCHEDULED ASSETS – continued

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

	2016 <i>HK\$'000</i>	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
	55,448	378,296
Market value of collateral held against covered portion of overdue loans and advances	89,224	914,110

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.

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

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2016

### 11. MAINLAND ACTIVITIES EXPOSURES

The table below summarizes the non-bank Mainland China exposures of the Bank's Hong Kong banking operations and the Bank's Mainland branches 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	
<b>Type by counterparties</b>			
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
<b>Total</b>	<b>34,679,247</b>	<b>5,752,545</b>	<b>40,431,792</b>
<b>Total assets after provision (Note)</b>	<b>136,919,757</b>		
<b>On-balance sheet exposures as percentage of total assets (Note)</b>	<b>25%</b>		

# UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2016

## 11. MAINLAND ACTIVITIES EXPOSURES – continued

	31 December 2015		Total HK\$'000
	On-balance sheet exposure HK\$'000	Off-balance sheet exposure HK\$'000	
<b>Type by counterparties</b>			
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
<b>Total</b>	<b>24,535,881</b>	<b>2,816,869</b>	<b>27,352,750</b>
<b>Total assets after provision (Note)</b>	<b>126,741,016</b>		
<b>On-balance sheet exposures as percentage of total assets (Note)</b>	<b>19%</b>		

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.

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2016

### 12. CAPITAL CHARGE FOR CREDIT, MARKET AND OPERATIONAL RISKS

The capital requirements for each class of exposures are summarised below. This disclosure is made by multiplying the Group's risk-weighted amount derived from the relevant computation method by 8%, not the Group's actual regulatory capital.

#### (i) Capital charge for credit risk

	Capital requirement	
	2016 HK\$'000	2015 HK\$'000
Sovereign exposures	–	–
Public sector entity exposures	8,660	16,290
Bank exposures	984,270	1,353,305
Securities firm exposures	66,920	40,274
Corporate exposures	4,668,720	3,776,844
Cash items	5,451	27,780
Regulatory retail exposures	7,731	11,973
Residential mortgage loans	507,058	487,487
Other exposures which are not past due exposures	646,351	584,765
Past due exposures	20,562	20,183
<b>Total capital charge for on-balance sheet exposures</b>	<b>6,915,723</b>	<b>6,318,901</b>
Direct credit substitutes	54,936	61,449
Trade-related contingencies	9,126	3,431
Forward asset purchases	12,836	3,044
Other commitments	411,366	215,583
Exchange rate contracts	17,791	20,734
Interest rate contracts	9,054	4,676
Securities financing transaction	27,234	56,122
<b>Total capital charge for off-balance sheet exposures</b>	<b>542,343</b>	<b>365,039</b>
Total capital charge for securitisation exposures	–	22,972
Total capital charge for credit valuation adjustment	18,202	16,087
<b>Total capital charge for credit risk</b>	<b>7,476,268</b>	<b>6,722,999</b>

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2016

### 12. CAPITAL CHARGE FOR CREDIT, MARKET AND OPERATIONAL RISKS – continued

#### (ii) Capital charge for market risk

The market risk capital charge set out below relates to interest rate risk and foreign exchange risk. The net open positions of the Group's foreign exchange exposures amounted to HK\$726,050,000 as at 31 December 2016 (2015: HK\$802,313,000). There are no other market risk exposures as at that date.

	<b>Capital charge</b> <b>2016</b> <b>HK\$'000</b>	2015 <i>HK\$'000</i>
Interest rate risk exposures	59,575	–
Foreign exchange exposures (including gold and options)	58,084	64,185
Capital charge for market risk	<b>117,659</b>	64,185

The Group uses the standardised (market risk) approach for calculating market risk.

#### (iii) Capital charge for operational risk

	<b>Capital charge</b> <b>2016</b> <b>HK\$'000</b>	2015 <i>HK\$'000</i>
Capital charge for operational risk	<b>342,124</b>	283,833

The Group uses the basic indicator approach for calculating operational risk.

# UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2016

## 13. RISK MANAGEMENT

### (i) Credit risk

#### (a) Credit risk exposures

Moody's Investors Service is the external credit assessment institution (the "ECAI") that the Group has used in relation to each class of exposures set out below. The process used to map ECAI issuer ratings to exposures booked in the banking book is a process as prescribed in Part 4 of the Banking (Capital) Rules.

	2016							
	Class of credit risk exposures							
	Total exposures HK\$'000	Exposures after recognised credit Rated HK\$'000	Unrated HK\$'000	Risk-weighted amounts		Total risk-weighted amounts HK\$'000	Total exposures covered by recognised collateral HK\$'000	Total exposures covered by recognised guarantees HK\$'000
<b>A. On-balance Sheet</b>								
1. Sovereign	9,960,292	9,960,292	-	-	-	-	-	-
2. Public sector entity	39,359	39,359	501,914	7,872	100,383	108,255	-	-
3. Bank	38,682,342	36,833,739	2,447,450	11,338,394	964,985	12,303,379	-	-
4. Securities firm	1,675,818	-	1,673,001	-	836,501	836,501	2,816	-
5. Corporate	64,443,276	16,030,835	47,224,106	11,134,901	47,224,105	58,359,006	589,488	1,442,267
6. Cash items	524,089	-	1,228,414	-	68,143	68,143	-	-
7. Regulatory retail	136,073	-	128,848	-	96,636	96,636	7,225	-
8. Residential mortgage loan	13,350,322	-	12,793,261	-	6,338,220	6,338,220	55,147	501,914
9. Other exposures which are not past due exposures	7,807,930	-	7,758,280	-	8,079,384	8,079,384	49,649	-
10. Past due exposures	283,430	-	283,430	-	257,019	257,019	275,739	156
<b>B. Off-balance Sheet</b>								
1. Off-balance sheet exposures other than OTC derivative transactions or credit derivative contracts	7,059,840	1,999,888	5,059,952	1,192,225	4,911,061	6,103,286	151,498	753,010
2. OTC derivative transactions	1,070,870	1,067,869	3,001	333,174	2,381	335,555	-	-
3. Securities financing transactions	10,693,972	902,886	9,791,086	340,426	-	340,426	9,791,086	-
	155,727,613	66,834,868	88,892,743	24,346,992	68,878,818	93,225,810	10,922,648	2,697,347
<b>C. Securitisation Exposures</b>	-	-	-	-	-	-	-	-
<b>D. Credit Valuation Adjustment</b>	1,070,870	-	1,070,870	-	227,519	227,519	-	-

# UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2016

## 13. RISK MANAGEMENT – continued

### (i) Credit risk – continued

#### (a) Credit risk exposures – continued

	2015							
	Class of credit risk exposures						Total exposures covered by recognised collateral	Total exposures covered by recognised guarantees
	Total exposures	Exposures after recognised credit		Risk-weighted amounts		Total risk-weighted amounts		
HK'000	Rated	Unrated	Rated	Unrated	HK'000	HK'000	HK'000	
<b>A. On-balance Sheet</b>								
1. Sovereign	9,817,203	9,817,203	-	-	-	-	-	-
2. Public sector entity	539,109	539,109	478,996	107,822	95,799	203,621	-	-
3. Bank	41,407,523	37,955,842	4,473,138	15,080,179	1,836,136	16,916,315	-	-
4. Securities firm	1,012,725	-	1,006,846	-	503,423	503,423	5,879	-
5. Corporate	53,321,933	11,206,081	39,122,328	8,088,223	39,122,328	47,210,551	1,972,067	1,221,461
6. Cash items	400,818	-	2,548,311	-	347,250	347,250	-	-
7. Regulatory retail	207,775	-	199,553	-	149,665	149,665	8,221	-
8. Residential mortgage loan	12,805,080	-	12,295,173	-	6,093,583	6,093,583	30,912	478,995
9. Other exposures which are not past due exposures	7,102,378	-	6,971,964	-	7,309,567	7,309,567	130,414	-
10. Past due exposures	322,959	-	322,959	-	252,286	252,286	275,155	-
<b>B. Off-balance Sheet</b>								
1. Off-balance sheet exposures other than OTC derivative transactions or credit derivative contracts	3,766,978	211,913	3,555,065	133,087	3,410,763	3,543,850	110,319	250,000
2. OTC derivative transactions	1,143,243	1,137,834	5,409	312,216	5,408	317,624	-	-
3. Securities financing transactions	3,507,626	177,489	3,330,137	35,498	666,027	701,525	3,330,138	-
	135,355,350	61,045,471	74,309,879	23,757,025	59,792,235	83,549,260	5,863,105	1,950,456
<b>C. Securitisation Exposures</b>								
	22,972	-	22,972	-	287,150	287,150	-	-
<b>D. Credit Valuation Adjustment</b>								
	1,143,243	-	1,143,243	-	201,087	201,087	-	-

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2016

### 13. RISK MANAGEMENT – continued

#### (i) Credit risk – continued

##### (a) Credit risk exposures – continued

Properties and cash deposits are recognised collateral for past due exposures and other exposures respectively. Recognised guarantees are guarantees issued by banks and the Government of the HKSAR. The Group has also taken properties and listed shares as collateral pledged as security against loans totalling HK\$35,556,881,000 (2015: HK\$32,811,387,000) and HK\$2,631,322,000 (2015: HK\$2,131,104,000) respectively.

##### (b) Counterparty credit risk exposures

The Group enters into Over-The-Counter (“OTC”) derivative transactions, mainly exchange and interest rate contracts, for hedging customers’ and own positions. The methodology used to assign internal capital and credit limits for counterparty credit exposures is based on Banking (Capital) Rules. Counterparties of these OTC derivative transactions are reputable banks and security firms and collateral is not normally required.

The following table summarises the Group’s credit exposures arising from OTC derivative transactions. There is no credit derivative contract outstanding as at 31 December 2016 and 31 December 2015.

	OTC derivative transactions	
	2016 HK\$’000	2015 HK\$’000
OTC derivative		
Gross total positive fair value	424,845	567,391
Credit equivalent amounts	1,070,870	1,143,243
Risk-weighted amounts	335,555	317,624

# UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2016

## 13. RISK MANAGEMENT – continued

### (i) Credit risk – continued

#### (b) Counterparty credit risk exposures – continued

The breakdown of the credit equivalent amounts and the risk-weighted amount is summarised as follows:

	OTC derivative transactions	
	2016 HK\$'000	2015 HK\$'000
Notional amounts:		
– Banks	57,072,120	56,257,099
– Corporates	6,585,524	971,537
– Other	–	26,381
	<b>63,657,644</b>	<b>57,255,017</b>
Credit equivalent amounts:		
– Banks	935,747	1,128,076
– Corporates	135,123	14,612
– Other	–	555
	<b>1,070,870</b>	<b>1,143,243</b>
Risk-weighted amounts:		
– Banks	266,880	307,336
– Corporates	68,675	9,733
– Other	–	555
	<b>335,555</b>	<b>317,624</b>

#### (c) Credit risk mitigation

The Group generally accepts collateral pledged as security and financial guarantees to support loans and advances made to customers. However, on-balance sheet and off-balance sheet netting and credit derivative contracts are not used for credit risk mitigation purposes.

Main types of recognised collateral include cash deposits and properties, whereas main types of recognised guarantees include financial guarantees issued by banks and the Government of the HKSAR.

# UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2016

## 13. RISK MANAGEMENT – continued

### (i) Credit risk – continued

#### (c) Credit risk mitigation – continued

The Group only accepts collateral pledged as security:

- when it is readily realisable;
- when it has stable value that can be quantified or supported by valuation; and
- the title of which can be verified and legally assigned to the Group.

Loan to value (collateral value) ratios are prescribed by the Lending Policy of the Group for various types of loan. At loan inception and renewal, collateral to be pledged as security is valued by reference to its market value. Collateral is subject to re-valuation on a regular basis and at times of significant price fluctuations of the underlying assets. Physical custody of title documents such as title deeds of properties and deposit certificates of cash deposits are required to be placed with the Group. Completion of registration of charges on the collateral pledged as security with the relevant authorities is a condition precedent for granting secured loans.

### (ii) Securitisation exposures

The Group uses the standardised (securitisation) approach to calculate the credit risk for securitisation exposures, and is an investing institution for all classes of exposures set out below.

Moody's Investors Services is the ECAI that the Group has used in relation to the rated securitisation exposures set out below:

Securitisation exposures	2016		
	Outstanding amounts HK\$'000	Risk-weight %	Risk-weighted amounts HK\$'000
Re-securitisations			
Structured investment vehicles	–	1,250	–
Securitisation exposures	2015		
	Outstanding amounts HK\$'000	Risk-weight %	Risk-weighted amounts HK\$'000
Re-securitisations			
Structured investment vehicles	22,972	1,250	287,150

## 13. RISK MANAGEMENT – continued

### (iii) Equity exposures in banking book

The Group adopts a policy of holding equity securities for long-term investment purposes. Equity holdings taken for strategic reasons are primarily associate operations that complement directly the Group's banking business.

Equity securities are accounted for as available-for-sale financial assets, the accounting policy of which is set out in note 4 to the consolidated financial statements. At the statement of financial position date, listed equity securities are stated at fair value which is determined by reference to prices quoted in the respective stock markets. Unlisted equity securities are valued at cost, as adjusted to reflect earning multiples for comparable listed companies if the investee companies are performing at or above expectation. When deemed necessary, equity securities are carried at written down value to reflect the impairment in value of those investee companies.

	<b>2016</b>	2015
	<b>HK\$'000</b>	<i>HK\$'000</i>
Net realised gains from sales	<b>94,577</b>	57,561
Net unrealised revaluation gains:		
– Amount included in available-for-sale securities	<b>6,105</b>	64,642
– Amount included in disclosed reserves	<b>5,300</b>	54,240

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2016

### 13. RISK MANAGEMENT – continued

#### (iv) Interest rate exposures in banking book

Note 7 to the consolidated financial statements sets out the nature and the frequency of measurement of the interest rate risk. In measuring the interest rate exposures, the Group assumes that past contractual re-pricing behaviour will continue in the same manner over the next 12 months.

Variations in earnings for significant upward and downward interest rate movements in accordance with the method the Group uses for stress-testing, broken down by major currencies are set out below:

	2016 Currency			Total
	HK\$	US\$	Others	
Interest rate risk shock				
Equivalents of HK\$'000				
– Variations in earnings (+100 basis points)	52,047	122,790	(40,781)	134,056
– Variations in earnings (-10 basis points)	(18,285)	(13,651)	3,129	(28,807)

	2015 Currency			Total
	HK\$	US\$	Others	
Interest rate risk shock				
Equivalents of HK\$'000				
– Variations in earnings (+100 basis points)	41,798	61,376	(33,596)	69,578
– Variations in earnings (-10 basis points)	(15,731)	(7,356)	3,181	(19,906)

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2016

### 14. 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

# HEAD OFFICE, BRANCHES, SUB-BRANCHES, REPRESENTATIVE OFFICES, PRINCIPAL SUBSIDIARIES AND ASSOCIATES

as of 28 February 2017

		<b>Telephone</b>
<b>HONG KONG MAIN BRANCH</b>	Chong Hing Bank Centre 24 Des Voeux Road Central	3768 1111
<b>HONG KONG ISLAND BRANCHES</b>		
Aberdeen	166-168 Aberdeen Main Road	3768 6210
Causeway Bay	488 Jaffe Road	3768 6290
North Point	376 King's Road	3768 6200
Sai Ying Pun	81-85 Des Voeux Road West	3768 6340
Shau Kei Wan	203-205 Shau Kei Wan Road	3768 6330
Sheung Wan	163 Wing Lok Street	3768 6220
Wan Chai	265-267 Hennessy Road	3768 6350
Western	347-349 Des Voeux Road West	3768 6280
<b>KOWLOON BRANCHES</b>		
Castle Peak Road	285-287 Castle Peak Road, Cheung Sha Wan	3768 6320
How Ming Street	114 How Ming Street, Kwun Tong	3768 6480
Jordan	G/F, No. 120 Woosung Street	3768 6720
Kowloon Bay	Shop Unit 8, G/F, Chevalier Commercial Centre No. 8 Wang Hoi Road	3768 6740
Kowloon City	31-33 Nga Tsin Wai Road	3768 6300
Kwong Tin Estate	No. 205, Kwong Tin Shopping Centre, Kwong Tin Estate	3768 6460
Kwun Tong	31-33 Mut Wah Street	3768 6410
Lai Chi Kok Road	139 Lai Chi Kok Road, Tai Kok Tsui	3768 6380
Lei Yue Mun	Shop No. LG1, Lower Ground Floor Lei Yue Mun Plaza, Yau Tong	3768 6530

# HEAD OFFICE, BRANCHES, SUB-BRANCHES, REPRESENTATIVE OFFICES, PRINCIPAL SUBSIDIARIES AND ASSOCIATES

as of 28 February 2017

		<b>Telephone</b>
<b>KOWLOON BRANCHES – continued</b>		
Mongkok	591 Nathan Road	3768 0001
San Po Kong	55-57 Yin Hing Street	3768 6360
Sham Shui Po	144-148 Tai Po Road	3768 6310
Shun Lee Estate	Lee Yat House, Shun Lee Estate	3768 6420
Tak Tin Estate	No. 207, Tak Tin Plaza, Tak Tin Estate, Lam Tin	3768 6470
To Kwa Wan	34-34A Tam Kung Road	3768 6370
Tsim Sha Tsui	16 Granville Road	3768 6240
Tsz Wan Shan	60-64 Sheung Fung Street	3768 6390
<b>NEW TERRITORIES BRANCHES</b>		
Butterfly Estate	Shop Nos. L196-L199, G/F, Tip Ling House Butterfly Plaza, Butterfly Estate, Tuen Mun	3768 6590
Cheung Fat Estate	Shop No. 206A, 2/F Cheung Fat Plaza, Cheung Fat Estate, Tsing Yi	3768 6560
Cho Yiu Chuen	G/F, Block C, King Cho Road, Cho Yiu Chuen, Lai King	3768 6250
Choi Ming Court	Shop Nos. 265 & 267-268, 2/F Choi Ming Shopping Centre, Choi Ming Court Tseung Kwan O	3768 6790
Fanling	2 Wo Lung Street, Luen Wo Market	3768 6260
Fortune Kingswood	Shop 103, 1/F, Phase 2, Fortune Kingswood, Tin Shui Wai	3768 6500
Glorious Garden	Shop No. 82, Glorious Garden, 45 Lung Mun Road Tuen Mun	3768 6520
Heng On Estate	Level 3, Commercial Centre, Heng On Estate Ma On Shan, Shatin	3768 6450
Lek Yuen Estate	Shop No. 212, Lek Yuen Plaza, Lek Yuen Estate, Shatin	3768 6400
Sheung Shui	71 San Fung Avenue	3768 6270

# HEAD OFFICE, BRANCHES, SUB-BRANCHES, REPRESENTATIVE OFFICES, PRINCIPAL SUBSIDIARIES AND ASSOCIATES

as of 28 February 2017

		<b>Telephone</b>
<b>NEW TERRITORIES BRANCHES – continued</b>		
Sheung Tak Estate	Shop No. 237, Sheung Tak Plaza, Sheung Tak Estate Tseung Kwan O	3768 6510
Tai Wo Plaza	Shop No. 101 I, Level 1, Tai Wo Plaza No. 12 Tai Wo Road, Tai Po	3768 6900
Tin Chak Estate	Shop 218, 2/F, Tin Chak Shopping Centre Tin Chak Estate, Tin Shui Wai	3768 6570
Tsuen Wan	298 Sha Tsui Road	3768 6440
Tuen Mun Hong Lai Garden	G/F, Hong Lai Garden, 117 Heung Sze Wui Road Tuen Mun	3768 6580
Yat Tung Estate	Shop Nos. 1 & 2, G/F, Yat Tung Shopping Centre Yat Tung Estate, Tung Chung	3768 6710
Yuen Long	99-109 Castle Peak Road	3768 6230
<b>GUANGZHOU BRANCH</b>		
Guangzhou	50/F, Yuexiu Financial Tower, No. 28 Zhujiang East Road Tianhe District, Guangzhou, Guangdong, China	(86-20) 2213 7988
<b>SHENZHEN BRANCH</b>		
Shenzhen	Unit 17, 18 & 19 of 1 Floor Unit 39 of 2 Floor & 13 Floor, T2 Tower, Ali Center No. 3331 Keyuan South Road (Shenzhen Bay) Nanshan District, Shenzhen, China	(86-755) 3352 9099
<b>SHANTOU BRANCH</b>		
Shantou	Lanbao International Mansion No. 103-105, Block One, Fenggezhuang No. 162 Jinsha Road, Shantou Guangdong, China	(86-754) 8890 3222
<b>GUANGZHOU TIANHE SUB-BRANCH</b>		
Guangzhou Tianhe	1F, Guangzhou International Finance Centre No. 5 West Zhujiang Road, Tianhe District Guangzhou, Guangdong, China	(86-20) 2338 7388

# HEAD OFFICE, BRANCHES, SUB-BRANCHES, REPRESENTATIVE OFFICES, PRINCIPAL SUBSIDIARIES AND ASSOCIATES

as of 28 February 2017

## Telephone

### GUANGDONG PILOT FREE TRADE ZONE

#### NANSHA SUB-BRANCH

Nansha	Room 801-805, Building No. 1 No. 106 Fengze Road East, Nansha District Guangzhou, Guangdong, China	(86-20) 3226 0620
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#### FOSHAN SUB-BRANCH

Foshan	P6, P7, Part of P27, G/F, No. 127 North Lingnan Avenue Chancheng District, Foshan, Guangdong, China	(86-757) 6352 2888
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### GUANGDONG PILOT FREE TRADE ZONE

#### HENGQIN SUB-BRANCH

Hengqin	Area B, Block 10, Hengqin Financial Industry Service Base, Shizimen Central Business District Hengqin New Area, Zhuhai, Guangdong, China	(86-756) 3833 039
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### SHANGHAI REPRESENTATIVE OFFICE

Shanghai	Room 1807, Yue Xiu Tower, No. 388 Fushan Road Pudong, Shanghai, China	(86-21) 6031 0138
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### MACAU BRANCH

Macau	No. 693, Avenida da Praia Grande Edificio Tai Wah, R/C, Macau	(853) 2833 9982
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### SAN FRANCISCO REPRESENTATIVE OFFICE

San Francisco	Suite 810, 601 California Street, San Francisco California 94108-2823, USA	(1-415) 433 6404
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# HEAD OFFICE, BRANCHES, SUB-BRANCHES, REPRESENTATIVE OFFICES, PRINCIPAL SUBSIDIARIES AND ASSOCIATES

as of 28 February 2017

## PRINCIPAL SUBSIDIARIES

Card Alliance Company Limited

Chong Hing Commodities and Futures Limited

Chong Hing Finance Limited

Chong Hing Information Technology Limited

Chong Hing Insurance Company Limited

Chong Hing (Management) Limited

Chong Hing (Nominees) Limited

Chong Hing Securities Limited

Gallbraith Limited

Hero Marker Limited

Top Benefit Enterprise Limited

## ASSOCIATES

Bank Consortium Holding Limited

BC Reinsurance Limited

Hong Kong Life Insurance Limited

Net Alliance Co. Limited

[www.chbank.com](http://www.chbank.com)

