



2015

Annual Report

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Corporate Information

Board of Directors

Chairman

Dr FUNG Yuk Bun Patrick JP

Executive Directors

Mr NA Wu Beng (*Chief Executive*)

Mr Frank John WANG (*Deputy Chief Executive*)

Non-executive Directors

Dr CHEONG Choong Kong

Ms KNG Hwee Tin

Mr Samuel N TSIEN

Independent Non-executive Directors

Mr LAU Hon Chuen Ambrose GBS, JP

Mr OOI Sang Kuang

Mr TSE Hau Yin Aloysius

Alternate Director

Mr FUNG Yuk Sing Michael (*Alternate Director to
Mr Frank John WANG*)

Audit Committee

Mr TSE Hau Yin Aloysius

Ms KNG Hwee Tin

Mr LAU Hon Chuen Ambrose GBS, JP

Remuneration Committee

Mr OOI Sang Kuang

Mr Samuel N TSIEN

Mr LAU Hon Chuen Ambrose GBS, JP

Nomination Committee

Mr OOI Sang Kuang

Mr Samuel N TSIEN

Mr LAU Hon Chuen Ambrose GBS, JP

Risk Management Committee

Mr TSE Hau Yin Aloysius

Mr NA Wu Beng

Ms KNG Hwee Tin

Company Secretary

Mr LEUNG Chiu Wah

Auditors

KPMG

Certified Public Accountants

Registered Office

161 Queen's Road Central, Hong Kong

A subsidiary of OCBC Bank

Report of the Directors

The Directors of OCBC Wing Hang Bank Limited (the “Bank”) have pleasure in presenting their report together with the audited consolidated financial statements of the Bank and its subsidiaries (collectively the “Group”) for the year ended 31st December, 2015.

Principal Place of Business

The Bank is a licensed bank incorporated and domiciled in Hong Kong and has its registered office and principal place of business at 161 Queen’s Road Central, Hong Kong.

Principal Activities

The Group is engaged in commercial banking and related financial services.

The analysis of the principal activities and geographical locations of operations of the Group during the year are set out in notes 17 and 32 to the financial statements.

Results and Dividend

The results of the Group for the year ended 31st December, 2015 and the state of affairs of the Group and the Bank as at 31st December, 2015 are set out in the financial statements on pages 14 to 122.

The Directors did not recommend the payment of interim and final dividend for the year ended 31st December, 2015 (2014: Nil).

Reserves

Profit attributable to shareholders of HK\$2,027,998,000 (2014: HK\$1,701,831,000) has been transferred to reserves. Details of the movements in reserves of the Group during the year are set out in the consolidated statement of changes in equity.

Major Customers

The five largest customers of the Group accounted for less than 30% of the total income of the Group during the year.

Fixed Assets

Details of the movements in fixed assets of the Group during the year are set out in note 19 to the financial statements.

Share Capital

During the year, the Bank did not issue any ordinary shares (2014: 955,500 ordinary shares issued under the share option scheme and employee incentive plan of the Bank). Details of the share capital are set out in note 28 to the financial statements.

Charitable Donations

During the year, the Group made donations for charitable and community purposes amounting to approximately HK\$1,903,000 (2014: HK\$1,816,000).

Report of the Directors

Directors

The Directors of the Bank during the year and up to the date of this report are as follows:

Chairman

Dr FUNG Yuk Bun Patrick JP

Executive Directors

Mr NA Wu Beng (*Chief Executive*)

Mr Frank John WANG (*Deputy Chief Executive*)

Non-executive Directors

Dr CHEONG Choong Kong

Ms KNG Hwee Tin

Mr Samuel N TSIEN

Independent Non-executive Directors

Mr LAU Hon Chuen Ambrose GBS, JP

Mr OOI Sang Kuang

Mr TSE Hau Yin Aloysius

Alternate Director

Mr FUNG Yuk Sing Michael (*Alternate Director to Mr Frank John WANG*)

The List of Directors of the Bank's subsidiaries is published on the website of the Bank's (www.ocbcwhhk.com).

In accordance with the Bank's Articles of Association, Dr FUNG Yuk Bun Patrick and Mr Frank John WANG will retire from office at the coming Annual General Meeting ("AGM"). These retiring Directors, being eligible, have offered themselves for re-election at the AGM. Other remaining Directors of the Bank will continue in office.

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

No contract of significance to which the Bank, or any of its subsidiaries was a party, and in which a Director of the Bank had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

At no time during the year was the Bank, or any of its subsidiaries a party to any arrangements 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.

Directors' interests in transactions, arrangements or contracts

No contract for significance to which the Bank, or any of its subsidiaries was a party, and in which a director of the Bank had a material interest, subsisted at the end of the year or at any time during the year.

Purchase, Sale or Redemption of the Bank's Securities

There was no purchase, sale or redemption by the Bank or any of its subsidiaries of the Bank's securities during the year.

Retirement Schemes

Particulars of the retirement schemes of the Group are set out in note 35 to the financial statements.

Corporate Governance

The Bank's corporate governance practices are set out in the Corporate Governance Report.

Compliance with the Banking (Disclosure) Rules

The financial statements for the year ended 31st December, 2015 comply fully with the applicable disclosure provisions of the Banking (Disclosure) Rules.

Auditors

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Bank will be proposed at the coming AGM.

On behalf of the Board

FUNG Yuk Bun Patrick

Chairman

Hong Kong, 31st March, 2016

Corporate Governance Report

Corporate Governance Practices

The Bank has complied with Supervisory Policy Manual CG-1 on Corporate Governance of Locally Incorporated Authorised Institutions ("CG-1") issued by the Hong Kong Monetary Authority ("HKMA") throughout the year ended 31st December, 2015.

Board of Directors

Board Composition

Throughout the year, the Board maintained a balanced composition of Executive and Non-executive Directors, including Independent Non-executive Directors. As at the date of this report, the Board comprises nine members, of whom two are Executive Directors. Amongst the seven Non-executive Directors, three are independent. The independent element on the Board is strong to facilitate independent judgement. Members of the Board are as follows:

Chairman

Dr FUNG Yuk Bun Patrick JP

Executive Directors

Mr NA Wu Beng (*Chief Executive*)

Mr Frank John WANG (*Deputy Chief Executive*)

Non-executive Directors

Dr CHEONG Choong Kong

Ms KNG Hwee Tin

Mr Samuel N TSIEN

Independent Non-executive Directors

Mr LAU Hon Chuen Ambrose GBS, JP

Mr OOI Sang Kuang

Mr TSE Hau Yin Aloysius

Alternate Director

Mr FUNG Yuk Sing Michael (*Alternate Director to Mr Frank John WANG*)

Save for that Dr FUNG Yuk Bun Patrick and Mr FUNG Yuk Sing Michael are brothers, all other Directors have no relationship with each other.

Each Director possesses skills and experiences appropriate to the business of the Group. The Bank appoints three Independent Non-executive Directors representing at least one-third of the Board in accordance with the requirements under CG-1.

Directors' attendance records

Attendance records of the Directors at Board Meetings ("BM"), Audit Committee Meetings ("ACM"), Risk Management Committee Meetings ("RMCM"), Remuneration Committee Meeting ("RCM") and Nomination Committee Meeting ("NCM") held in 2015 are as follows:

	Number of meetings attended/held in 2015				
	BM	ACM	RMCM	RCM	NCM
Dr FUNG Yuk Bun Patrick	4/4	N/A	N/A	N/A	N/A
Mr NA Wu Beng	4/4	N/A	2/2	N/A	N/A
Mr Frank John WANG	4/4	N/A	N/A	N/A	N/A
Dr CHEONG Choong Kong	4/4	N/A	N/A	N/A	N/A
Ms KNG Hwee Tin	4/4	4/4	2/2	N/A	N/A
Mr Samuel N TSIEN	4/4	N/A	N/A	1/1	1/1
Mr LAU Hon Chuen Ambrose	4/4	4/4	N/A	1/1	1/1
Mr OOI Sang Kuang	4/4	N/A	N/A	1/1	1/1
Mr TSE Hau Yin Aloysius	4/4	4/4	2/2	N/A	N/A
Mr FUNG Yuk Sing Michael	N/A	N/A	N/A	N/A	N/A

Directors' Continuous Training and Development

Pursuant to requirements under CG-1, the board should provide sufficient time, budget and other resources for developing and updating its members' knowledge and capabilities as necessary to enable them to fulfil their responsibilities effectively and efficiently.

The Bank has put in place a training and development program for Directors which includes on-going professional development training.

During the year, all Directors of the Bank received regular briefings on economic updates, the Group's business, operations, risk management and corporate governance matters as well as rules and regulations applicable to the Group. The Directors also attended seminars on various relevant topics. All Directors have provided the Bank with their training records.

Evaluation of Board Performance

In order to improve the performance of the Board, the Board conducts formal performance evaluation on an annual basis. Each Director completes an evaluation questionnaire and results of the evaluation are presented to the Board. Based on the results of the evaluation and comments received from individual directors, the Board and senior management will take appropriate follow up actions to further improve the performance of the Board.

Board Diversity Policy

The Bank has established a Board Diversity Policy (the "Policy"). The Policy sets out the approach to diversity on the appointment of Directors to the Board of the Bank.

The Bank recognizes and embraces the benefits of having a diverse Board, and sees increasing diversity at Board level as an essential element in maintaining a competitive advantage. A diverse Board will include and make good use of differences in the skills, experiences, background, gender and other qualities of Directors. These differences will be considered in determining the optimum composition of the Board and when possible should be balanced appropriately. All Board appointments are made on merit, in the context of the skills and experience the Board as a whole requires in order to be effective.

The Nomination Committee reviews and assesses Board composition on behalf of the Board and recommends the appointment of new Directors. The Committee reports annually on the Board's composition under diversified perspectives.

Corporate Governance Report

Board Committees

Remuneration Committee

The Remuneration Committee is established with specific terms of reference and delegated with the authority and duties which include, amongst others, making recommendations to the Board on the Bank's remuneration system, policies, structure and practices. In determining the bank-wide remuneration policy, the Remuneration Committee will take into account the Group's business objective, people strategy, short-term and long-term performance, business and economic conditions, market practices and risk management needs, in order to ensure the remuneration aligns with business line and individual performances, promotes effective risk management, facilitates retention of quality personnel and is competitive in the market. For top-level business line, performance criteria and metrics taken into consideration include key financial indicators such as pre-tax earnings, loan growth, return on average shareholders' funds, impaired loans ratio and etc. The remuneration policy is applicable to all staff of the Bank and its subsidiaries, i.e. Macau and Mainland China. In particular, it makes recommendations to the Board in respect of the remuneration packages of the Bank's Executive Directors, senior management and key personnel.

The terms of reference require that the Remuneration Committee shall comprise not less than three members and a majority of the committee shall be Independent Non-executive Directors. Currently, members of the Remuneration Committee are Messrs OOI Sang Kuang (Chairman), Samuel N TSIEN and LAU Hon Chuen Ambrose. One Remuneration Committee meeting was held during the year of 2015. The fees for member of Remuneration Committee for the year are as follows:

HK\$'000

Chairman	60
Independent Non-executive Director	40

Remuneration of Directors, Senior Management and key personnel

The Bank's remuneration policy aims to ensure that the level of remuneration is sufficient and market competitive under effective risk management measures. The remuneration policy have been reviewed and approved by the Remuneration Committee in March 2016 and the updated remuneration policy mainly reflected the adoption of deferral framework applicable to variable remuneration in alignment with OCBC Bank Group.

Pursuant to Supervisory Policy Manual CG-5 Guideline on a Sound Remuneration System issued by the HKMA, details of the remuneration for senior management and key personnel of the Group during the year are disclosed as follows:

A) Senior management	2015		2014	
No. of beneficiaries	6		6	
	Non-deferred HK\$'000	Deferred HK\$'000	Non-deferred HK\$'000	Deferred HK\$'000
Fixed remuneration				
– Cash	31,121	–	31,656	–
Variable remuneration				
– Cash	29,581	–	36,989	16,934
– Shares based payment	–	19,722	–	800

B) Key personnel	2015		2014	
No. of beneficiaries	13		13	
	Non-deferred HK\$'000	Deferred HK\$'000	Non-deferred HK\$'000	Deferred HK\$'000
Fixed remuneration				
– Cash	30,537	–	28,195	–
Variable remuneration				
– Cash	10,430	–	11,584	800
– Shares based payment	–	2,450	–	420

Aggregate amount of deferred variable remuneration is set out below:

	2015		2014	
	Awarded for performance year 2015 HK\$'000	Awarded for prior performance years HK\$'000	Awarded for performance year 2014 HK\$'000	Awarded for prior performance years HK\$'000
Senior management and key personnel				
Vested and paid out during the year				
– Cash	–	7,094	–	33,940
– Shares based payment	–	–	–	–
Outstanding and unvested				
At 31st December				
– Cash	–	8,867	17,734	–
– Shares based payment	22,172	1,220	1,220	–

The share based payment represented the fair value of deferred shares and share options granted to senior management and key personnel on 14th March, 2016 and 16th March, 2016 respectively, as deferred variable incentive bonus for 2015. The share options and deferred shares were issued by the Bank's ultimate holding company, Oversea-Chinese Banking Corporation Limited ("OCBC"), under its OCBC Share Option Scheme 2001 and OCBC Deferred Share Plan respectively.

An amount of deferred variable remuneration for HK\$1,773,400 had been forfeited during the year of 2015 (2014: Nil).

Details of Directors' emoluments are set out in note 10 to the financial statements.

The Bank's remuneration package consists of both fixed and variable (include cash and shares based payment) remuneration. An appropriate balance between fixed and variable remuneration is adopted to reflect the seniority, role and responsibilities of staff members. In general, the proportion of variable remuneration to total remuneration will increase in line with the seniority and responsibilities of staff.

Fixed remuneration included annual salary, double pay, sign-on payment, allowance and pension contributions.

Variable remuneration consists of deferred and non-deferred components in the form of cash and share awards to align an employee's incentive awards with long-term value creation and the time horizons of risk. The award of variable remuneration shall depend on the fulfillment of budgeted income, peer group performance comparison and risk control factors. These criteria include both financial and non-financial factors. Performance in relation to non-financial factors such as adherence to risk management policies, compliance with regulatory requirements, code of conduct, values and customer satisfaction shall form a significant part of the overall performance measurement of staff. The performance objectives of staff and annual performance appraisal exercise should take into account these factors. Poor performance (either financial or non-financial) will result in a reduction or elimination of variable remuneration. Comments from risk management, financial control, compliance and other units independent of the relevant business units shall be obtained.

Corporate Governance Report

Deferred remuneration comprised cash bonus payment and share based payment based on pre-defined vesting, service and/or performance conditions. If certain conditions are not fulfilled during the vested period, all or part of the unvested portion of the deferred remuneration would be foregone. Claw-back mechanism will apply to the unvested deferred variable remuneration.

There was an amount of HK\$425,308 being new sign-on payment made for one employee in 2015 (2014: nil).

No severance payment and guaranteed bonuses were made for directors, senior management and key personnel in 2015 and 2014.

Except for the forfeiture of deferred variable deferred remuneration in 2015, there were no implicit and explicit adjustments of deferred remuneration and retained remuneration on employee's exposure in 2015 and 2014.

Senior management refers to chief executive, deputy chief executive, group executives and other senior executives who are defined as material risk takers of the Group.

Key personnel refers to managers as defined and reported under the HKMA's definition of "Managers" whose actions may have a material impact on the risk exposure of the Bank.

The remuneration of staff in risk control functions are determined in accordance with their performance objectives and are independent of the performance of business units which they oversee.

Nomination Committee

The Nomination Committee is established with specific terms of reference and delegated with the duties that include, amongst others, reviewing and making recommendation to the Board on appointment of Directors, Alternate Director, Chairman, Chief Executive and Deputy Chief Executive and other officers as may be delegated by the Board from time to time.

The terms of reference require that the Nomination Committee shall comprise three members and a majority of them and the Chairman of the committee shall be Independent Non-executive Directors. Currently, members of the Nomination Committee are Messrs OOI Sang Kuang (Chairman), Samuel N TSIEN and LAU Hon Chuen Ambrose.

Audit Committee

The Audit Committee is delegated by the Board with written terms of reference which specify its authority and duties. The terms of reference require that the members of the Audit Committee shall be not less than three Non-executive Directors, the majority of whom including the Chairman shall be independent. Currently, members of the Audit Committee are Messrs TSE Hau Yin Aloysius (Chairman), Ms KNG Hwee Tin and LAU Hon Chuen Ambrose.

The work of the Audit Committee includes review of the financial performance of the Group, consideration of the nature and scope of audit, and evaluation of the effectiveness of the systems of internal control, risk management and regulatory compliance.

The Audit Committee monitors the external auditors' independence, objectivity and effectiveness of the audit process in accordance with applicable standards.

The Audit Committee reviews the work, findings and status of implementation of the recommendations of the internal auditors. The Audit Committee is accountable to the Board, and the work and findings of the Audit Committee are reported to the Board.

Risk Management Committee

The Risk Management Committee is established with specific terms of reference. The terms of reference require that the Risk Management Committee shall comprise not less than three members with a majority being Non-executive Directors. Currently, members of the Risk Management Committee are Messrs TSE Hau Yin Aloysius (Chairman), NA Wu Beng and Ms KNG Hwee Tin.

The Committee's key role is to oversee the risk management function of the Group. Its key functions include review, advise and recommend for the Board's approval the overall risk appetite, risk tolerance and risk management strategy of the Group.

Corporate Governance Functions

The Board is responsible for performing the following corporate governance duties:

- develop and review the Bank's policies and practices on corporate governance;
- review and monitor the training and continuous professional development of Directors and senior management;
- review and monitor the Bank's policies and practices on compliance with legal and regulatory requirements; and
- develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors.

Delegation by the Board

In addition to the Remuneration Committee, Nomination Committee, Audit Committee and Risk Management Committee described above, the Bank has also established other committees, such as the Credit Committee, Management Committee and Asset and Liability Management Committee to oversee the day-to-day operations of the Bank. All committees have specific terms of reference in order to ensure that they discharge their functions properly and to report back to the Board, where appropriate, their decisions and recommendations. Information on these committees is set out below.

The Bank has formalised the functions reserved for the Board and those delegated to senior management. The Bank reviews these arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Bank.

Credit Committee

The Credit Committee is responsible for assisting the Board to formulate, approve and implement loan policies, guidelines and credit practices of the Group. It is responsible for the implementation and maintenance of the Group's credit risk management framework. It also participates in evaluating large credit applications and making credit decisions. The Credit Committee comprises the Chief Executive, Group Executives, Chief Risk Officer and head of Credit Risk Management Division.

Management Committee

The Management Committee meets regularly to manage the affairs of the Group encompassing all aspects including business, operational, legal, compliance, strategy and planning. The Management Committee comprises the Chief Executive, Group Executives, Chief Financial Officer, Chief Information Officer, Chief Operating Officer, Chief Risk Officer, heads of Retail Banking Division, Corporate Banking Division and Treasury Division.

Asset and Liability Management Committee

The Asset and Liability Management Committee is responsible for the implementation and maintenance of the overall risk management framework relating to balance sheet structure, market risk, trading, funding and liquidity risk management of the Group. It recommends policy and guidelines to the Board for approval. The Asset and Liability Management Committee comprises the Chief Executive, Group Executives, Chief Financial Officer, Chief Risk Officer and heads of Treasury Division and Retail Banking Division.

Corporate Governance Report

Internal Controls

The Directors are responsible for internal controls of the Bank and its subsidiaries and for reviewing its effectiveness.

Procedures have been designed for safeguarding assets against unauthorized use or disposition; for maintaining proper accounting records; and for ensuring the reliability of financial information used within the business or for publication. The procedures provide reasonable but not absolute assurance against material errors, losses or fraud. Procedures have also been designed to ensure compliance with applicable laws, rules and regulations.

Systems and procedures are in place to identify, control and report on major risks the Group faces. Risk management policies and major risk control limits are approved by the Board.

Business and functional units are responsible for the assessment of risks arising under their areas of responsibility and the management of such risks in accordance with the Group's risk management policies and procedures.

More detailed discussions on the policies and procedures for management of major risks the Group faces, including credit, market, liquidity and operational risks as well as capital management, are included in note 34 to the financial statements.

A review of the effectiveness of the Bank's internal control system covering all key controls, including financial, operational, compliance and risk management controls, is conducted annually. The review result is reported to the Risk Management Committee and the Board.

Internal audit plays an important role in the Bank's internal control framework. It monitors the effectiveness of internal control procedures and compliance with policies and standards across all business and operational units. Senior management is required to provide the internal audit function with written confirmation that it has acted fully on all recommendations made by external auditors and regulatory authorities. The internal audit function also advises senior management on operational efficiency and other risk management issues. The work of the internal audit function focuses on areas of greatest risk to the Group as determined by risk assessment. The Chief Internal Auditor reports to the Chief Executive and the Audit Committee. Minutes of Audit Committee meetings are submitted to the Board.

Directors' Responsibility for the Preparation of the Financial Statements

The Directors acknowledge their responsibility for the preparation of the financial statements of the Group and ensure that the financial statements are in accordance with statutory requirements and applicable accounting standards. The statement of the Bank's auditors about their responsibility on the financial statements is included in the Independent Auditor's Report.

Auditors' Remuneration

Details of auditors' remuneration are set out in note 5 to the financial statements.

Hong Kong, 31st March, 2016

Independent Auditor's Report



To the member of OCBC Wing Hang Bank Limited *(Incorporated in Hong Kong with limited liability)*

We have audited the consolidated financial statements of OCBC Wing Hang Bank Limited ("the Bank") and its subsidiaries (together "the Group") set out on pages 14 to 122, which comprise the consolidated statement of financial position as at 31st December, 2015, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made 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.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31st December, 2015 and of the Group's financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

31st March, 2016

Consolidated Statement of Profit or Loss

For the year ended 31st December, 2015

(Expressed in thousands of Hong Kong dollars unless otherwise stated)

	Notes	2015	2014 (restated)
Interest income	5(a)	6,284,733	6,543,413
Interest expense	5(b)	(2,698,484)	(3,048,569)
Net interest income		3,586,249	3,494,844
Other operating income	5(c)	1,111,419	913,305
Operating income		4,697,668	4,408,149
Operating expenses	5(e)	(2,274,928)	(2,240,738)
Operating profit before impairment losses and allowances		2,422,740	2,167,411
Impairment losses and allowances	15(e)	(146,208)	(209,536)
Operating profit after impairment losses and allowances		2,276,532	1,957,875
Net gains on revaluation of properties and disposal of tangible fixed assets	6(a)	12,948	3,501
Net losses from trading and financial instruments designated at fair value through profit or loss	6(b)	(11,531)	(88,096)
Net gains on disposal of available-for-sale financial assets	6(c)	79,251	88,905
Share of net gains of associated companies	18	59,422	50,955
Profit before taxation		2,416,622	2,013,140
Taxation	7(a)	(388,624)	(311,309)
Profit for the year attributable to equity shareholders of the Bank	8	2,027,998	1,701,831

The notes on pages 19 to 122 form part of these financial statements. Details of dividends payable to equity shareholders of the Bank are set out in note 9.

Consolidated Statement of Comprehensive Income

For the year ended 31st December, 2015

(Expressed in thousands of Hong Kong dollars unless otherwise stated)

	Notes	2015	2014
Profit for the year		2,027,998	1,701,831
Other comprehensive income for the year (after tax and reclassification adjustments)			
Items that will not be reclassified to profit or loss			
– Surplus on revaluation of bank premises	19	329,221	436,464
– Deferred taxes	7(d)	(5,421)	(42,066)
		323,800	394,398
Items that will be reclassified subsequently to profit or loss			
– Exchange adjustments on translation of financial statements of subsidiaries		(198,608)	(8,805)
		(198,608)	(8,805)
– Available-for-sale financial assets			
– Fair value changes			
– on debt securities		(33,442)	77,873
– on equity securities		144,916	100,078
– Transfer to consolidated statement of profit or loss			
– gains on disposal	6(c)	(61,068)	(69,005)
– Deferred taxes	7(d)	(6,868)	(18,497)
		43,538	90,449
– Cash flow hedging reserve			
– Fair value changes taken to equity	30(e)	13,298	–
– Deferred taxes	7(d)	(2,194)	–
		11,104	–
		(143,966)	81,644
Other comprehensive income for the year, net of tax		179,834	476,042
Total comprehensive income for the year attributable to equity shareholders of the Bank		2,207,832	2,177,873

The notes on pages 19 to 122 form part of these financial statements.

Consolidated Statement of Financial Position

As at 31st December, 2015

(Expressed in thousands of Hong Kong dollars unless otherwise stated)

	Notes	2015	2014
ASSETS			
Cash and balances with banks, central banks and other financial institutions	11	4,742,130	7,583,054
Placements with banks, central banks and other financial institutions	12	6,914,867	19,645,875
Amounts due from ultimate holding company and fellow subsidiaries	33	9,640,759	7,031,024
Trading assets	13	2,014,546	1,916,608
Financial assets designated at fair value through profit or loss	14	6,567,450	7,094,386
Advances to customers and other accounts	15(a)	155,904,595	159,450,435
Available-for-sale financial assets	16	32,547,690	26,209,405
Investments in associated companies	18	350,167	311,974
Tangible fixed assets	19		
– Investment properties		182,900	169,000
– Other properties, plants and equipment		4,779,391	4,543,407
Goodwill	20	1,306,430	1,306,430
Current tax recoverable	7(c)	–	24,223
Deferred tax assets	7(d)	17,302	22,617
Total assets		224,968,227	235,308,438
EQUITY AND LIABILITIES			
Deposits and balances of banks, central banks and other financial institutions	21	691,288	2,312,768
Amounts due to ultimate holding company and fellow subsidiaries	33	2,304,865	1,909,896
Deposits from customers	22	180,399,232	195,255,992
Certificates of deposit issued	23	8,650,384	5,167,145
Trading liabilities	24	893,269	568,789
Current tax payable	7(c)	215,206	109,352
Deferred tax liabilities	7(d)	243,671	208,794
Other accounts and provisions	25	2,657,975	3,098,629
Subordinated liabilities	26	3,236,237	3,269,087
Total liabilities		199,292,127	211,900,452
Share capital	28(a)	1,740,750	1,740,750
Reserves	28(b)	23,935,350	21,667,236
Total equity		25,676,100	23,407,986
Total equity and liabilities		224,968,227	235,308,438

Approved and authorised for issue by the Board of Directors on 31st March, 2016.

Patrick Y B FUNG

Chairman

W B NA

Executive Director and Chief Executive

The notes on pages 19 to 122 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2015

(Expressed in thousands of Hong Kong dollars unless otherwise stated)

	2015				
	At 1st January	Share of changes in associated companies	Transfer to/(from) reserve	Total comprehensive income for the year	At 31st December
Share capital	1,740,750	–	–	–	1,740,750
Capital reserve	311,643	–	–	–	311,643
Statutory reserve	396,382	–	–	–	396,382
General reserve	2,262,755	–	–	(198,608)	2,064,147
Bank premises revaluation reserve	2,484,728	64,185	(54,007)	323,800	2,818,706
Investment revaluation reserve	275,992	(3,903)	–	43,538	315,627
Cash flow hedging reserve	–	–	–	11,104	11,104
Unappropriated profits	15,935,736	–	54,007	2,027,998	18,017,741
Total equity	23,407,986	60,282	–	2,207,832	25,676,100

	2014									
	At 1st January	Transition to no-par value regime on 3rd March, 2014 (Note 28(a))	Share issued under Share Option Scheme (Note 28(a))	Share issued under Employee Incentive Plan (Note 28(a))	Dividends approved in respect of the previous year (Note 9(b))	Disposal of bank premises	Share of changes in associated companies	Transfer to/(from) reserve	Total comprehensive income for the year	At 31st December
Share capital	307,425	1,406,517	21,747	5,061	–	–	–	–	–	1,740,750
Share premium	1,405,748	(1,405,748)	–	–	–	–	–	–	–	–
Capital redemption reserve	769	(769)	–	–	–	–	–	–	–	–
Capital reserve	299,076	–	–	–	–	–	–	12,567	–	311,643
Statutory reserve	314,024	–	–	–	–	–	–	82,358	–	396,382
General reserve	2,293,560	–	–	–	–	–	–	(22,000)	(8,805)	2,262,755
Bank premises revaluation reserve	2,133,256	–	–	–	–	(1,706)	–	(41,220)	394,398	2,484,728
Investment revaluation reserve	183,283	–	–	–	–	–	2,260	–	90,449	275,992
Unappropriated profits	14,763,079	–	–	–	(499,175)	1,706	–	(31,705)	1,701,831	15,935,736
Total equity	21,700,220	–	21,747	5,061	(499,175)	–	2,260	–	2,177,873	23,407,986

The notes on pages 19 to 122 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31st December, 2015

(Expressed in thousands of Hong Kong dollars unless otherwise stated)

	Notes	2015	2014
Net cash (outflow)/inflow from operating activities	31(a)	(11,061,390)	6,772,418
Investing activities			
Purchase of held-to-maturity and available-for-sale financial assets		(11,252,235)	(5,507,249)
Sale and redemption of held-to-maturity and available-for-sale financial assets		9,991,530	5,878,767
Loan to an associated company	18	–	(41,108)
Dividends received from associated company	18	34,740	29,240
Loans repaid by an associated company	18	46,771	5,663
Purchase of properties and equipment	19	(113,302)	(57,053)
Sale of properties and equipment		73	8,057
Net cash (outflow)/inflow from investing activities		(1,292,423)	316,317
Financing activities			
Issue of new shares under Share Option Scheme	28(a)	–	21,747
Issue of new shares under Employee Incentive Plan	28(a)	–	495
Dividends paid		–	(499,175)
Interest paid on subordinated liabilities		(186,046)	(186,141)
Net cash outflow from financing activities		(186,046)	(663,074)
(Decrease)/increase in cash and cash equivalents		(12,539,859)	6,425,661
Cash and cash equivalents at 1st January		26,835,490	20,420,970
Effects of foreign exchange rate changes		(200,474)	(11,141)
Cash and cash equivalents at 31st December	31(b)	14,095,157	26,835,490
Analysis of the balances of cash and cash equivalents			
Cash and balances with banks, central banks and other financial institutions		4,667,897	6,968,231
Placements with banks, central banks and other financial institutions with an original maturity within three months		5,738,901	9,702,984
Amounts due from ultimate holding company and fellow subsidiaries with an original maturity within three months		3,022,527	6,875,890
Treasury bills with an original maturity within three months		665,832	3,288,385
		14,095,157	26,835,490
Cash flows from operating activities included:			
Interest received		6,298,952	6,576,654
Interest paid		2,828,817	2,782,388
Dividend received		9,100	9,695

The notes on pages 19 to 122 form part of these financial statements.

Notes to the Financial Statements

For the year ended 31st December, 2015

(Expressed in thousands of Hong Kong dollars unless otherwise stated)

1. Principal activities

The Bank and its subsidiaries (together referred to as “the Group”) are engaged in commercial banking and related financial services.

2. Principal accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”), and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable requirements of the Hong Kong Companies Ordinance. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Bank. The adoption of these new and revised HKFRSs do not result in significant changes to the Group’s and the Bank’s accounting policies applied in these financial statements for the year presented. Note 4 provides information on the changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31st December, 2015 comprise the Bank and its subsidiaries and the Group’s interest in associated companies. The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

- financial instruments classified as trading, designated at fair value through profit or loss and available-for-sale (note 2(f)(ii));
- investment property (note 2(k));
- other freehold land and buildings (note 2(k)); and
- other leasehold land and buildings, for which the fair values cannot be measured separately at the inception of the lease and the entire lease is classified as finance lease (notes 2(k) and 2(l)).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Notes to the Financial Statements

2. Principal accounting policies *(continued)*

(b) Basis of preparation of the financial statements *(continued)*

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.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 3.

(c) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of financial assets (see note 2(f)) or, when appropriate, the cost on initial recognition of an investment in an associated company (see note 2(d)).

In the Bank's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses, if any (see note 2(o)).

2. Principal accounting policies *(continued)*

(d) Associated companies

An associated company is an entity in which the Group or Bank has significant influence, but not control, or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associated company is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted for any excess of the Group's share of the acquisition-date fair values of the associated company's identifiable net assets over the cost of the investment (if any). Therefore, the investment is adjusted for the post acquisition change in the Group's share of the associated company's net assets and any impairment loss relating to the investment (see notes 2(e) and 2(o)). Any acquisition-date excess over cost, the Group's share of the post-acquisition post-tax results of the associated companies and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax results of the associated companies' other comprehensive income is recognised in the consolidated statement of comprehensive income.

Unrealised profits and losses resulting from transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated company, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in statement of profit or loss.

When the Group ceases to have significant influence over an associated company, it is accounted for as a disposal of the entire interest in that associated company, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former associated company at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(f)).

In the Bank's statement of financial position, its investments in associated companies are stated at cost less impairment losses, if any (note 2(o)).

(e) Goodwill

Goodwill represents the excess of

- (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over
- (ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (note 2(o)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

Notes to the Financial Statements

2. Principal accounting policies *(continued)*

(f) Financial instruments

(i) Initial recognition

The Group classifies its financial instruments into different categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred. The categories are: fair value through profit or loss, loans and receivables, available-for-sale financial assets and other financial liabilities.

Financial instruments are measured initially at fair value, which normally will be equal to the transaction price plus, in case of a financial asset or financial liability not held at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset or issue of the financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately.

The Group recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets and financial liabilities at fair value through profit or loss is recognised using trade date accounting. Other financial assets and financial liabilities are recognised using settlement date accounting. From these dates, any gains and losses arising from changes in fair value of the financial assets or financial liabilities at fair value through profit or loss are recorded.

(ii) Classification

Fair value through profit or loss

This category comprises financial assets and financial liabilities held for trading, and those designated at fair value through profit or loss upon initial recognition, but exclude those investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured.

Trading financial instruments are financial assets or financial liabilities which are acquired or incurred principally for the purpose of trading, or are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

The Group has the option to designate financial instruments at fair value through profit or loss upon initial recognition when:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise;
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract; or
- the separation of the embedded derivatives from the financial instrument is not prohibited.

2. Principal accounting policies *(continued)*

(f) Financial instruments *(continued)*

(ii) Classification *(continued)*

Fair value through profit or loss (continued)

Financial assets and financial liabilities under this category are carried at fair value. Changes in the fair value are included in the statement of profit or loss in the period in which they arise. Upon disposal or repurchase, the difference between the net sale proceeds or net payment and the carrying value is included in the statement of profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than (1) those that the Group intends to sell immediately or in the near term, which will be classified as held for trading; (2) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or (3) those where the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available-for-sale. Loans and receivables mainly comprise loans and advances to customers and banks, and placements with banks, central banks and other financial institutions.

Securities classified as loans and receivables typically comprise securities issued by the same customers with whom the Group has a lending relationship that are not quoted in an active market. Investment decisions for credit substitute securities are subject to the same credit approval processes as loans, and the Group bears the same customer risk as it does for loans extended to those customers. Additionally the yield and maturity terms are generally directly negotiated by the Group with the issuer. These securities include commercial paper, short term debentures and preference shares issued by the borrower.

Loans and receivables and securities classified as loans and receivables are carried at amortised cost using the effective interest method, less impairment losses, if any (note 2(o)).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other three categories above. They include financial assets intended to be held for an indefinite period of time, but which may be sold in response to needs for liquidity or changes in the market environment.

Available-for-sale financial assets are carried at fair value. Unrealised gains and losses arising from changes in the fair value are recognised in other comprehensive income and accumulated separately in equity, except for impairment losses and foreign exchange gains and losses on monetary items such as debt securities which are recognised in the statement of profit or loss.

Notes to the Financial Statements

2. Principal accounting policies *(continued)*

(f) Financial instruments *(continued)*

(ii) Classification *(continued)*

Available-for-sale financial assets (continued)

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be measured reliably, and derivatives that are linked to and must be settled by delivery of such unquoted equity securities are carried at cost less impairment losses, if any (note 2(o)). Interest income from debt securities calculated using the effective interest method and dividend income from equity securities are recognised in the statement of profit or loss as set out in notes 5(a) and 5(c) respectively.

When the available-for-sale financial assets are sold, gains or losses on disposal include the difference between the net sale proceeds and the carrying value, and the accumulated fair value adjustments which are previously recognised in other comprehensive income shall be reclassified from equity to the statement of profit or loss.

Other financial liabilities

Financial liabilities, other than trading liabilities and those designated at fair value through profit or loss, are measured at amortised cost using the effective interest method.

(iii) Fair value measurement principles

The fair value of financial instruments is based on their quoted market prices at the reporting date without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current ask prices.

If there is no publicly available latest traded price nor a quoted market price on a recognised stock exchange or a price from a broker or dealer for non-exchange-traded financial instruments, or if the market for it is not active, the fair value of the instrument is estimated using valuation techniques that provide a reliable estimate of prices which could be obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the reporting date applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on market data at the reporting date.

(iv) Derecognition

A financial asset is derecognised when the contractual rights to receive the cash flows from the financial asset expire, or where the financial asset together with substantially all the risks and rewards of ownership, have been transferred.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

The Group uses the weighted average method to determine realised gains or losses to be recognised in profit or loss on derecognition.

2. Principal accounting policies *(continued)*

(f) Financial instruments *(continued)*

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position where there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(vi) Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. The embedded derivatives are separated from the host contract and accounted for as a derivative when (1) the economic characteristics and risks of the embedded derivative are not closely related to the host contract; and (2) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in the statement of profit or loss.

When the embedded derivative is separated, the host contract is accounted for in accordance with note (ii) above.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities, or commitments (fair value hedge); or, (2) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents the assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Notes to the Financial Statements

2. Principal accounting policies *(continued)*

(f) Financial instruments *(continued)*

(vii) Fair value hedging

Changes in the fair value of derivatives that are designated and that qualify as fair value hedging instruments are recorded in the statement of profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the statement of profit or loss over the period to maturity or derecognition.

(viii) Cash flow hedging

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedging instruments are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the statement of profit or loss.

Amounts accumulated in equity are recycled to the statement of profit or loss in the periods in which the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the statement of profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the statement of profit or loss.

(g) Repurchase and reverse repurchase transactions

Assets sold subject to a simultaneous agreement to repurchase these assets at a certain later date at a fixed price (repurchase agreements) are retained in the financial statements and measured in accordance with their original measurement principles. The proceeds from the sale are reported as liabilities and are carried at amortised cost.

Assets purchased under agreements to resell (reverse repurchase agreements) are reported not as purchases of the assets, but as receivables and are carried in the statement of financial position at amortised cost.

Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements are recognised as interest income and interest expense respectively, over the life of each agreement using the effective interest method.

2. Principal accounting policies *(continued)*

(h) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the statement of profit or loss as follows:

(i) Interest income

Interest income for all interest-bearing financial instruments is recognised in the statement of profit or loss on an accrual basis using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Cash rebates granted in relation to residential mortgage loans are capitalised and amortised to the statement of profit or loss over their expected life.

For impaired financial assets, the accrual of interest income based on the original terms of the financial assets is discontinued, but any increase in the present value of impaired financial assets due to the passage of time is reported as interest income.

(ii) Fees and commission income

Fees and commission income is recognised in the statement of profit or loss when the corresponding service is provided, except where the fee is charged to cover the costs of a continuing service to, or risk borne for, the customer, or is interest in nature. In these cases, the fee is recognised as income in the accounting period in which the costs or risk is incurred and is accounted for as interest income.

Origination or commitment fees received/paid by the Group which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight line basis over the commitment period.

(iii) Finance income from finance lease and hire purchase contract

Finance income implicit in finance lease and hire purchase payments is recognised as interest income over the period of the leases so as to produce an approximately constant periodic rate of return on the outstanding net investment in the leases for each accounting period. Contingent rentals receivable are recognised as income in the accounting period in which they are earned. Commission paid to dealers for acquisition of finance lease loans or hire purchase contracts is included in the carrying value of the assets and amortised to the statement of profit or loss over the expected life of the lease as an adjustment to interest income.

Notes to the Financial Statements

2. Principal accounting policies *(continued)*

(h) Revenue recognition *(continued)*

(iv) Rental income from operating lease

Rental income received under operating leases is recognised as other operating income in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised in the statement of profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals receivable are recognised as income in the accounting period in which they are earned.

(v) Dividend income

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established. Dividend income from listed investments is recognised when the share price of the investment is quoted ex-dividend.

(i) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the statement of profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of prior years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

2. Principal accounting policies *(continued)*

(i) **Income tax** *(continued)*

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 2(k), the amount of deferred tax recognized is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each reporting date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Bank or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met.

In the case of current tax assets and liabilities, the Bank and the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(j) **Translation of foreign currencies**

Foreign currency transactions during the year are translated into Hong Kong dollars at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the closing foreign exchange rates ruling at the reporting date. Exchange gains and losses are recognised in the statement of profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into Hong Kong dollars using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

Notes to the Financial Statements

2. Principal accounting policies (continued)

(j) Translation of foreign currencies (continued)

The results of overseas operation are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Hong Kong dollars at the foreign exchange rates ruling at the reporting date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the reserve.

On disposal of an overseas operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to the statement of profit or loss when the profit or loss on disposal is recognised.

(k) Tangible fixed assets and depreciation

(i) Bank premises that are held for the Group's administrative use are stated in the statement of financial position at their revalued amount, being their fair values at the date of revaluation less any subsequent accumulated depreciation. Revaluations are performed with sufficient regularity by professional qualified valuers to ensure that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date. Changes arising on the revaluation are generally dealt with in other comprehensive income and are accumulated separately in equity in the bank premises revaluation reserve. The only exceptions are as follows:

- when a deficit arises on revaluation, it will be charged to the statement of profit or loss to the extent that it exceeds the amount held in the reserve in respect of that same asset immediately prior to the revaluation; and
- when a surplus arises on revaluation, it will be credited to the statement of profit or loss to the extent that a deficit on revaluation in respect of that same asset had previously been charged to the statement of profit or loss.

(ii) Bank premises that are not held for the Group's administrative use are stated in the statement of financial position at cost, less accumulated depreciation and impairment losses. In preparing these financial statements, advantage has been taken of the transitional provisions set out in paragraph 80A of HKAS 16, *Property, plant and equipment*, issued by the HKICPA, with the effect that bank premises that are not held for administrative use have not been revalued to fair value at the reporting date.

(iii) Gains or losses arising from the retirement or disposal of bank premises are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in the statement of profit or loss on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits and is not reclassified to the statement of profit or loss.

(iv) Equipment, comprising furniture, plant and other equipment, is stated at cost less depreciation calculated on a straight-line basis to write off the assets over their estimated useful lives, which are generally between three to ten years.

2. Principal accounting policies *(continued)*

(k) Tangible fixed assets and depreciation *(continued)*

- (v) No amortisation is provided on freehold land. Leasehold land (note 2(l)) is amortised in equal annual instalments over the remaining term of the lease. Buildings are depreciated by equal instalments over the estimated useful lives which in no case exceed fifty years.
- (vi) Investment properties are land and/or buildings which are owned and/or held under a leasehold interest (note 2(l)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use, which are stated in the statement of financial position at their open market values which are assessed annually by professional qualified valuers. Any gain or loss arising from a change in fair value or from the retirement or disposal of investment properties is recognised in the statement of profit or loss.

(l) Finance and operating leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Finance leases

Where the Group is a lessor under finance leases, an amount representing the net investment in the lease is included in the statement of financial position as "Advances to customers". Hire purchase contracts having the characteristics of finance leases are accounted for in the same manner as finance leases. Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(o).

(iii) Operating leases

Where the Group leases out assets under operating leases, the assets are included in the statement of financial position according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in note 2(k) except where the asset is classified as an investment property. Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(o). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 2(h)(iv).

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the statement of profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the statement of profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the statement of profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property (note 2(k)(vi)).

Notes to the Financial Statements

2. Principal accounting policies *(continued)*

(m) Repossessed assets

In the recovery of impaired loans and advances, the Group may take possession of the collateral assets through court proceedings or voluntary delivery of possession by the borrowers. In accordance with the Group's accounting policy set out in note 2(o), impairment allowances for impaired loans and advances are maintained after taking into account the net realisable value of the repossessed assets. Repossessed assets continue to be treated as securities for loans and advances. The Group does not hold the repossessed assets for its own use.

Repossessed assets are recorded at the lower of their carrying amount of the related loans and advances and fair value less costs to sell at the date of exchange. They are not depreciated or amortised.

(n) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee ("the holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee to customers, the fair value of the guarantee is initially recognised as deferred income within other liabilities. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where the Bank issues a financial guarantee to its subsidiaries, the fair value of the guarantee is estimated and capitalised as the cost of investment in subsidiaries and deferred income within "Other accounts and provisions".

The amount of the guarantee initially recognised as deferred income is amortised in the statement of profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(n)(ii) if and when (1) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee; and (2) the amount of that claim on the Group is expected to exceed the amount currently carried in other liabilities in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Bank has a legal or constructive obligation, complaint or legal claim, arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2. Principal accounting policies *(continued)*

(o) Impairment of assets

The carrying amounts of the Group's assets are reviewed at each reporting date to determine whether there is objective evidence of impairment. Objective evidence that financial assets are impaired includes observable data that comes to the attention of the Group about one or more of the following loss events which has an impact on the future cash flows on the assets that can be estimated reliably:

- significant financial difficulty of the issuer or borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the borrower;
- disappearance of an active market for financial assets because of financial difficulties; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, the carrying amount is reduced to the estimated recoverable amount by means of a charge to the statement of profit or loss.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of loans and receivables, which are measured at amortised cost, whose recovery is considered doubtful but not remote. In this case, the impairment losses are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against loans and receivables directly and any amounts held in the allowance account relating to that borrower are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in the statement of profit or loss.

(i) Loans and receivables

Impairment losses on loans and receivables are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets). Receivables with a short duration are not discounted if the effect of discounting is immaterial.

The total allowance for credit losses consists of two components: individual impairment allowances, and collective impairment allowances.

Notes to the Financial Statements

2. Principal accounting policies *(continued)*

(o) Impairment of assets *(continued)*

(i) Loans and receivables *(continued)*

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The individual impairment allowance is based upon management's best estimate of the present value of the cash flows which are expected to be received discounted at the original effective interest rate. In estimating these cash flows, management makes judgements about the borrower's financial situation and the net realisable value of any underlying collateral or guarantees in favour of the Group. Each impaired asset is assessed on its own merits.

In assessing the need for collective loan loss allowances, management uses statistical modelling and considers historical trends of factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, the Group makes assumptions both to define the way the Group models inherent losses and to determine the required input parameters, based on historical experience and current economic conditions.

The accuracy of the impairment allowances the Group makes depends on how well the Group can estimate future cash flows for individually assessed impairment allowances and the model assumptions and parameters used in determining collective impairment allowances. While this necessarily involves judgement, the Group believes that the impairment allowances on advances to customers are reasonable and supportable.

Any subsequent changes to the amounts and timing of the expected future cash flows compared to the prior estimates that can be linked objectively to an event occurring after the write-down, will result in a change in the impairment allowances on loans and receivables and be charged or credited to the statement of profit or loss. A reversal of impairment losses is limited to the loans and receivables' carrying amount that would have been determined had no impairment loss been recognised in prior years.

When there is no reasonable prospect of recovery, the advances and the related interest receivables are written off.

Loans and receivables with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Renegotiated loans and receivables are subject to ongoing monitoring to determine whether they remain impaired or overdue.

2. Principal accounting policies *(continued)*

(o) Impairment of assets *(continued)*

(ii) Available-for-sale financial assets

When there is objective evidence that an available-for-sale financial asset is impaired, the cumulative loss that had been recognised in the investment revaluation reserve is reclassified to the statement of profit or loss. The amount of the cumulative loss that is recognised in the statement of profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in the statement of profit or loss.

For unquoted available-for-sale equity securities that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the equity securities and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Such impairment losses are not reversed.

Impairment losses recognised in the statement of profit or loss in respect of available-for-sale equity securities are not reversed through the statement of profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in the statement of profit or loss.

(iii) Other assets

Internal and external sources of information are reviewed at each reporting date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- tangible fixed assets (other than properties carried at revalued amounts);
- investments in subsidiaries and associated companies; and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

Notes to the Financial Statements

2. Principal accounting policies (continued)

(o) Impairment of assets (continued)

(iii) Other assets (continued)

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal 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 time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in the statement of profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable), or value in use (if determinable).

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the statement of profit or loss in the year in which the reversals are recognised.

(iv) Interim financial reporting and impairment

The Group prepares an interim financial report in compliance with HKAS 34, *Interim financial reporting*, in respect of the first six months of the year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the year (notes 2(o)(i) to (iii)).

Impairment losses recognised in an interim period in respect of goodwill and available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not the statement of profit or loss.

2. Principal accounting policies *(continued)*

(p) Related parties

- (i) A person, or a close member of that person's family, is related to the Group if that person:
- (1) has control or joint control of the Group;
 - (2) has significant influence over the Group; or
 - (3) is a member of the key management personnel of the Group or the Group's parent.
- (ii) An entity is related to the Group if any of the following conditions applies:
- (1) the entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
 - (2) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member);
 - (3) both entities are joint ventures of the same third party;
 - (4) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (5) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (6) the entity is controlled or jointly controlled by a person identified in note 2(p)(i);
 - (7) a person identified in note 2(p)(i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); or
 - (8) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(q) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's chief operating decision maker for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

Notes to the Financial Statements

2. Principal accounting policies *(continued)*

(r) Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with banks, central banks and other financial institutions, and short-term, highly liquid inter-bank placements and investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Balances of banks, central banks and other financial institutions that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purposes of the consolidated cash flow statement.

(s) Employee benefits

- (i) Salaries, annual bonuses, paid annual leave and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group.
- (ii) Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Funds Scheme Ordinance are recognised as an expense in the statement of profit or loss when incurred.
- (iii) When the Group grants employees options to acquire shares of the Bank, the considerations received are recognised in the statement of financial position as "Other accounts and provisions" at the date of grant. The fair value of the options is measured at the grant date and is charged to the statement of profit or loss and credited to shareholders' funds between the grant date and the vesting date. When the options are exercised, shareholders' funds are increased by the amount of the proceeds and consideration received.
- (iv) When the Group grants employees awards to acquire shares of the Bank under the Employee Incentive Plan ("EIP"), the fair value of the awards is measured at the grant date and is charged to the statement of profit or loss and credited to shareholders' funds between the grant date and the vesting date. The cash amount equals to the dividend that would have been paid during the period up to vesting will be charged to the statement of profit or loss as bonus expenses on an accruals basis.

3. Accounting estimates and judgements

Notes 19, 20, 35 and 36 contain information about the assumptions and their risk factors relating to valuation of investment property, goodwill impairment, fair value of share options granted and fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Key sources of estimation uncertainty

Impairment losses

(i) Loans and advances

Loan portfolios are reviewed periodically to assess whether impairment losses exist. The Group makes judgements as to whether there is any objective evidence that a loan portfolio is impaired, i.e. whether there is a decrease in estimated future cash flows. Objective evidence for impairment is described in accounting policy (note 2(o)). If management has determined, based on their judgement, that objective evidence of impairment exists, expected future cash flows are estimated based on historical loss experience for assets with credit risk characteristics similar to those of the Group. Historical loss experience is adjusted on the basis of the current observable data. Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss experience.

3. Accounting estimates and judgements *(continued)*

(a) Key sources of estimation uncertainty *(continued)*

Impairment losses *(continued)*

(ii) Available-for-sale equity securities

The Group determines that available-for-sale equity securities are impaired when there has been a significant or prolonged decline in the fair value below cost. The determination of when a decline in fair value below cost is not recoverable within a reasonable time period is judgmental by nature, so profit and loss could be affected by differences in this judgement.

(b) Critical accounting judgements in applying the Group's accounting policies

Certain critical accounting judgements in applying the Group's accounting policies are described below:

(i) Investment property

The Group has temporarily sub-let certain vacant properties but has decided not to treat the properties as investment properties because it is not the Group's intention to hold the properties in the long-term for capital appreciation or rental income. Accordingly, the properties has still been treated as a building held for own use.

4. Changes in accounting policies

The HKICPA has issued the following amendments to HKFRSs that are first effective for the current accounting period of the Group and the Bank. Of these, the following developments are relevant to the Group's financial statements:

- *Annual Improvements to HKFRSs 2010-2012 Cycle*
- *Annual Improvements to HKFRSs 2011-2013 Cycle*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. The impacts of the adoption of other new or amended HKFRS, are as follows:

Annual Improvements to HKFRSs 2010-2012 Cycle and 2011-2013 Cycle

These two cycles of annual improvements contain amendments to nine standards with consequential amendments to other standards. Among them, HKAS 24, *Related party disclosures* has been amended to expand the definition of a "related party" to include a management entity that provides key management personnel services to the reporting entity, and to require the disclosure of the amounts incurred for obtaining the key management personnel services provided by the management entity. These amendments do not have an impact on the Group's related party disclosures as the Group does not obtain key management personnel services from management entities.

Notes to the Financial Statements

5. Operating profit

(a) Interest income

	2015	2014 (restated)
Interest income arising from:		
– financial assets not measured at fair value through profit or loss	5,916,735	6,208,577
– trading assets	155,454	124,676
– financial assets designated at fair value through profit or loss	212,544	210,160
	6,284,733	6,543,413

of which:

– interest income from listed investments	450,334	474,443
– interest income from unlisted investments	367,416	336,426
– interest income from impaired financial assets	4,115	10,989

The above interest income from impaired financial assets includes interest income on unwinding of discount on loan impairment loss of HK\$1,693,000 (2014: HK\$2,234,000) (note 15(e)) for the year ended 31st December, 2015.

(b) Interest expense

	2015	2014 (restated)
Interest expense arising from:		
– financial liabilities not measured at fair value through profit or loss	2,332,371	2,666,592
– trading liabilities	180,067	195,836
– financial liabilities designated at fair value through profit or loss	186,046	186,141
	2,698,484	3,048,569

of which:

– interest expense for certificates of deposit issued	91,350	95,972
– interest expense for deposits from customers	2,218,139	2,548,795
– interest expense for deposits and balances of banks, central banks and other financial institutions	22,882	21,825
– interest expense for subordinated liabilities (note 31(a))	186,046	186,141

5. Operating profit *(continued)*
(c) Other operating income

	2015	2014 (restated)
Fees and commission		
Credit commission and fees	193,429	178,636
Credit card related fees	217,725	185,241
Trade related fees	52,103	67,056
Insurance commission	118,769	103,063
Stockbroking fees	161,561	124,461
Trust fees	41	41
Wealth management fees	38,113	30,918
Other fees and commission income	99,752	98,237
Less: Fees and commission expenses	(113,447)	(98,183)
	768,046	689,470
Gains arising from dealing in foreign currencies (note 5(d))	309,348	192,586
Gains on other dealing activities (note 5(d))	1,450	1,213
Dividend income from unlisted available-for-sale financial assets	8,235	8,733
Dividend income from listed available-for-sale financial assets	798	840
Dividend income from listed trading investments	67	122
Rental income from investment properties less direct outgoings of HK\$216,000 (2014: HK\$54,000)	4,575	4,596
Others	18,900	15,745
	1,111,419	913,305
of which:		
Net fees and commission, other than amounts included in determining the effective interest rate, arising from financial instruments that are not held for trading nor designated at fair value through profit or loss		
– fees and commission income	264,761	264,567
– fees and commission expenses	(4)	(6)
	264,757	264,561

Notes to the Financial Statements

5. Operating profit *(continued)*

(d) Net trading income

	2015	2014 (restated)
Gains arising from dealing in foreign currencies (note 5(c))	309,348	192,586
Gains on other dealing activities (note 5(c))	1,450	1,213
Net realised and unrealised losses on trading financial instruments (note 6(b))	(35,585)	(37,810)
	275,213	155,989

(e) Operating expenses

	2015	2014
Staff costs		
Salaries and other staff costs	1,392,966	1,277,578
Retirement benefit costs (note 35(a))	76,607	72,262
EIP – fair value of awards (note 31(a))	–	4,566
EIP – bonus	–	2,533
	1,469,573	1,356,939
Premises and equipment expenses, excluding depreciation	325,823	297,158
Depreciation (notes 19 & 31(a))	205,304	206,061
Other expenses		
Auditor's remuneration		
Audit services	6,492	6,084
Other services	1,483	1,622
Others	266,253	372,874
	274,228	380,580
	2,274,928	2,240,738

During 2014, the Group paid KPMG US\$3,500,000 for professional services rendered in relation to the acquisition by Oversea-Chinese Banking Corporation Limited.

6. (a) Net gains on revaluation of properties and disposal of tangible fixed assets

	2015	2014
Unrealised revaluation gains of investment properties (note 19)	13,900	5,900
Net losses on disposal of tangible fixed assets	(952)	(2,399)
	12,948	3,501

(b) Net losses from trading and financial instruments designated at fair value through profit or loss

	2015	2014 (restated)
Net realised and unrealised losses on trading financial instruments (note 5(d))	(35,585)	(37,810)
Net realised and unrealised gains/(losses) on financial instruments designated at fair value through profit or loss:		
– unrealised gains/(losses) on subordinated liabilities	30,774	(99,163)
– realised and unrealised (losses)/gains on other financial instruments	(6,574)	48,877
	24,200	(50,286)
Net losses from hedging activities		
– fair value hedges		
– net losses on hedged items attributable to the hedged risk	(15,182)	–
– net gains on hedging instruments	15,036	–
	(146)	–
	(11,531)	(88,096)

(c) Net gains on disposal of available-for-sale financial assets

	2015	2014
Net unrealised gains transferred from investment revaluation reserve upon disposal	61,068	69,005
Net gains on disposal of available-for-sale financial assets	18,183	19,900
	79,251	88,905

Notes to the Financial Statements

7. Taxation

(a) Taxation in the consolidated statement of profit or loss represents:

	2015	2014
Current tax – Provision for Hong Kong profits tax		
Provision for the year	314,184	261,541
Overprovision in respect of prior years	(29,327)	(33,855)
	284,857	227,686
Current tax – Provision for tax outside Hong Kong		
Provision for the year	86,697	84,069
Overprovision in respect of prior years	(8,639)	(5,800)
	78,058	78,269
Deferred taxation		
Origination and reversal of temporary differences	25,709	5,354
	388,624	311,309

The provision for Hong Kong profits tax for 2015 is calculated at 16.5% (2014: 16.5%) of the Group's estimated assessable profits for the year. The provision for taxation outside Hong Kong is provided at the appropriate current rates of taxation ruling in the regions in which the relevant units of the Group operate.

7. Taxation (continued)

(b) Reconciliation between tax expenses and accounting profit at applicable tax rates:

	2015		2014	
		%		%
Profit before tax	2,416,622	100.00	2,013,140	100.00
Notional tax on profit before tax, calculated at the rates applicable to profits in the region concerned	395,421	16.36	327,945	16.29
Tax effect of non-deductible expenses	38,496	1.59	13,542	0.67
Tax effect of non-taxable revenue	(54,051)	(2.24)	(43,918)	(2.18)
Tax effect of unused tax losses not recognised	(5)	–	(18)	–
Tax effect of unused tax losses recognised	28	–	63	–
Overprovision in respect of prior years	(37,966)	(1.57)	(39,655)	(1.97)
Others	46,701	1.93	53,350	2.65
Actual tax expense	388,624	16.07	311,309	15.46

(c) Current tax recoverable and payable

The components of current tax recoverable and payable in the statement of financial position are as follows:

	2015	2014
Current tax recoverable		
Provision for Hong Kong profits tax	–	708
Provisional profits tax paid	–	(3,686)
	–	(2,978)
Provision for tax outside Hong Kong	–	(21,245)
	–	(24,223)
Current tax payable		
Provision for Hong Kong profits tax	314,077	260,833
Provisional profits tax paid	(176,410)	(204,711)
	137,667	56,122
Provision for tax outside Hong Kong	77,539	53,230
	215,206	109,352

All current tax recoverable and payable are expected to be settled within one year.

Notes to the Financial Statements

7. Taxation (continued)

(d) Deferred tax assets and liabilities recognised

The components of deferred tax (assets)/liabilities recognised in the statement of financial position and the movements during the year are as follows:

	2015						Total
	Depreciation allowances in excess of related depreciation	Revaluation of properties	Revaluation of available-for-sale financial assets	Revaluation of cash flow hedges	Collective impairment allowances for loans and advances	Others	
At 1st January	10,973	185,642	48,845	–	540	(59,823)	186,177
Charged to consolidated statement of profit or loss	9,968	–	–	–	4,796	10,945	25,709
Charged to reserves	–	5,421	6,868	2,194	–	–	14,483
At 31st December	20,941	191,063	55,713	2,194	5,336	(48,878)	226,369

	2014						Total
	Depreciation allowances in excess of related depreciation	Revaluation of properties	Revaluation of available-for-sale financial assets	Collective impairment allowances for loans and advances	Others		
At 1st January	5,863	143,576	30,348	18,186	(77,713)		120,260
Charged/(credited) to consolidated statement of profit or loss	5,110	–	–	(17,646)	17,890		5,354
Charged to reserves	–	42,066	18,497	–	–		60,563
At 31st December	10,973	185,642	48,845	540	(59,823)		186,177

	2015	2014
Net deferred tax assets recognised on the statement of financial position	(17,302)	(22,617)
Net deferred tax liabilities recognised on the statement of financial position	243,671	208,794
	226,369	186,177

8. Profit attributable to the shareholders of the Bank

The profit attributable to the shareholders of the Bank includes an amount of HK\$1,307,425,000 (2014: HK\$1,187,100,000) which has been dealt with in the financial statements of the Bank.

Details of dividends paid and payable to equity shareholders of the Bank are set out in note 9.

9. Dividends

(a) Dividends attributable to the year

The Bank did not propose the payment of dividend for the year ended 31 December 2015 (2014: Nil).

(b) Dividends attributable to the previous year, approved and paid during the year

	2015	2014
Underprovision of final dividend in respect of the prior year	–	1,147
No final dividend in respect of the prior year, approved and paid during the year (2014: HK\$1.62 per ordinary share on 307,424,722 shares)	–	498,028
	–	499,175

10. Directors' emoluments

Directors' remuneration disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation is as follows:

	2015	2014
Directors' fee	5,835	5,568
Salaries, allowances and benefits in kind*	14,951	23,440
Pension contributions	884	1,937
Performance bonuses	15,023	45,046
Share-based payments	–	2,228
	36,693	78,219

*Note: The non-cash benefits to directors mainly include housing allowances.

Notes to the Financial Statements

11. Cash and balances with banks, central banks and other financial institutions

	2015	2014
Cash balances	873,730	834,030
Balances with central banks	2,975,254	5,807,663
Balances with banks	893,146	941,361
	4,742,130	7,583,054

12. Placements with banks, central banks and other financial institutions

	2015	2014
Remaining maturity		
– Within 1 month	5,963,774	10,386,288
– Over 1 month but within 1 year	951,093	9,259,587
	6,914,867	19,645,875

13. Trading assets

	2015	2014
Debt securities:		
Listed in Hong Kong	217,153	301,348
Listed outside Hong Kong	125,291	–
	342,444	301,348
Unlisted	757,663	948,377
	1,100,107	1,249,725
Equity securities listed in Hong Kong	1,848	661
Total trading securities	1,101,955	1,250,386
Positive fair values of derivative financial instruments held for trading (note 30 (a))	912,591	666,222
	2,014,546	1,916,608
Trading debt securities include:		
Treasury bills	746,075	1,049,303
Other trading debt securities	354,032	200,422
	1,100,107	1,249,725

13. Trading assets *(continued)*

Trading securities analysed by counterparty are as follows:

	2015	2014
Issued by:		
Sovereigns	746,075	1,049,303
Public sector entities	17	2
Banks	174,749	125,027
Corporates	181,114	76,054
	1,101,955	1,250,386

14. Financial assets designated at fair value through profit or loss

	2015	2014
Debt securities:		
Listed in Hong Kong	3,953,317	3,289,763
Listed outside Hong Kong	2,077,839	3,129,847
	6,031,156	6,419,610
Unlisted	536,294	674,776
	6,567,450	7,094,386
Debt securities designated at fair value through profit or loss include:		
Treasury bills	162,797	69,339
Certificates of deposit held	118,913	–
Other debt securities designated at fair value through profit or loss	6,285,740	7,025,047
	6,567,450	7,094,386

Financial assets designated at fair value through profit or loss analysed by counterparty are as follows:

	2015	2014
Issued by:		
Sovereigns	162,797	69,339
Public sector entities	37,871	733,599
Banks	1,743,273	1,648,500
Corporates	4,623,509	4,642,948
	6,567,450	7,094,386

Notes to the Financial Statements

15. Advances to customers and other accounts

(a) Advances to customers and other accounts

	2015	2014
Gross advances to customers	150,482,619	150,839,476
Individual impairment allowances for impaired loans and advances (note 15(e))	(177,041)	(205,516)
Collective impairment allowances for loans and advances (note 15(e))	(222,550)	(217,867)
Net advances to customers	150,083,028	150,416,093
Gross trade bills	3,852,774	6,641,918
Individual impairment allowances for impaired trade bills (note 15(e))	–	(398)
Collective impairment allowances for trade bills (note 15(e))	(56)	(38)
Net trade bills	3,852,718	6,641,482
Customer liability under acceptances	288,828	388,325
Interest receivables	605,165	619,384
Other accounts	1,074,856	1,385,151
	155,904,595	159,450,435

15. Advances to customers and other accounts *(continued)*

(b) Advances to customers analysed by industry sectors

The information concerning advances to customers by industry sectors is prepared by classifying the advances according to the usage of the advances and is stated gross of any impairment allowances.

		2015			2014	
	Gross	% of gross	Impaired	Gross	% of gross	Impaired
	advances to	advances	advances to	advances to	advances	advances to
	customers	covered by	customers	customers	covered by	customers
		collateral			collateral	
Advances for use in Hong Kong						
Industrial, commercial and financial						
– Property development	2,030,154	49.9	–	2,465,839	47.3	–
– Property investment	20,360,131	99.0	–	19,645,482	99.5	3,964
– Financial concerns	2,842,449	14.5	–	3,225,909	15.8	–
– Stockbrokers	3,065,519	51.3	–	1,918,234	29.8	–
– Wholesale and retail trade	7,427,073	70.4	54,651	5,971,781	72.8	20,874
– Manufacturing	3,035,738	52.0	31,302	2,778,803	56.1	37,875
– Transport and transport equipment	9,308,227	89.1	19,993	9,649,121	85.1	15,464
– Information technology	80,317	30.3	–	97,824	1.0	–
– Share financing	451,688	93.8	–	277,385	97.9	–
– Recreational activities	45,780	–	–	50,080	–	–
– Others	4,906,868	75.0	10,530	4,070,248	65.4	7,393
Individuals						
– Advances for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme or their respective successor schemes	2,116,594	100.0	–	2,364,957	100.0	1,305
– Advances for the purchase of other residential properties	34,473,856	100.0	4,856	30,014,249	100.0	712
– Credit card advances	307,934	0.8	1,551	292,409	0.4	1,372
– Others	10,662,713	71.9	18,778	8,940,990	70.3	15,755
	101,115,041	85.7	141,661	91,763,311	84.5	104,714
Trade finance	4,663,502	62.5	34,929	8,027,252	78.1	18,367
Advances for use outside Hong Kong						
– Mainland China	22,565,148	66.4	658,394	28,954,954	59.8	403,465
– Macau	21,246,727	88.2	25,069	20,816,317	91.5	25,430
– Others	892,201	60.8	–	1,277,642	61.4	–
	44,704,076	76.6	683,463	51,048,913	72.8	428,895
	150,482,619	82.3	860,053	150,839,476	80.2	551,976

Notes to the Financial Statements

15. Advances to customers and other accounts *(continued)*

(c) Impaired advances to customers

The gross impaired advances to customers, market value of collateral held with respect to such advances and individual impairment allowances are as follows:

	2015	2014
Gross impaired advances to customers	860,053	551,976
Gross impaired advances to customers as a percentage of total advances to customers	0.57%	0.37%
Market value of collateral held with respect to impaired advances to customers	718,287	400,817
Individual impairment allowances	177,041	205,516

Impaired advances to customers are individually assessed loans with objective evidence of impairment on an individual basis. Individually assessed impairment allowances were made after taking into account the net present value of future recoverable amounts in respect of such loans and advances, and the collateral held mainly comprised properties and vehicles.

There are no impaired advances to banks nor individual impairment allowances made on advances to banks as at 31st December, 2015 and 31st December, 2014.

(d) Net investments in finance leases and hire purchase contracts

Advances to customers include net investment in equipment leased to customers under finance leases and hire purchase contracts having the characteristics of finance leases. The total minimum lease payments receivable under finance leases and hire purchase contracts, and their present values are as follows:

	2015		2014	
	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments
Amount receivable:				
Within 1 year	5,439,768	6,013,862	5,256,928	5,841,531
After 1 year but within 5 years	8,175,421	8,671,017	7,704,967	8,198,839
After 5 years	1,021	1,050	3,972	4,640
	13,616,210	14,685,929	12,965,867	14,045,010
Unearned future income on finance lease	–	(1,069,719)	–	(1,079,143)
	13,616,210	13,616,210	12,965,867	12,965,867
Individual impairment allowances for impaired loans and advances	(33,223)		(13,758)	
Collective impairment allowances for loans and advances	(8,996)		(8,175)	
Net investment in finance leases and hire purchase contracts	13,573,991		12,943,934	

15. Advances to customers and other accounts *(continued)*

(e) Impairment allowances for loans and advances

	Individual	2015 Collective	Total
At 1st January	205,914	217,905	423,819
Additions	189,959	4,701	194,660
Releases	(48,452)	–	(48,452)
Net charges to consolidated statement of profit or loss	141,507	4,701	146,208
Unwind of discount of loan impairment losses (note 5(a))	(1,693)	–	(1,693)
Recoveries of advances written off in prior years	45,851	–	45,851
Amounts written off	(214,538)	–	(214,538)
At 31st December	177,041	222,606	399,647
Representing impairment allowances for:			
Trade bills (note 15(a))	–	56	56
Advances to customers (note 15(a))	177,041	222,550	399,591
	177,041	222,606	399,647
		2014	
	Individual	Collective	Total
At 1st January	58,699	223,666	282,365
Additions	262,663	–	262,663
Releases	(47,366)	(5,761)	(53,127)
Net charges/(releases) to consolidated statement of profit or loss	215,297	(5,761)	209,536
Unwind of discount of loan impairment losses (note 5(a))	(2,234)	–	(2,234)
Recoveries of advances written off in prior years	34,417	–	34,417
Amounts written off	(100,265)	–	(100,265)
At 31st December	205,914	217,905	423,819
Representing impairment allowances for:			
Trade bills (note 15(a))	398	38	436
Advances to customers (note 15(a))	205,516	217,867	423,383
	205,914	217,905	423,819

Notes to the Financial Statements

15. Advances to customers and other accounts *(continued)*

(f) Repossessed assets

During the year ended 31st December, 2015, the Group has taken possession of collateral it holds as security as follows:

Nature	2015	2014
Properties	55,300	90,056
Vehicles	26,922	18,605
Others	7,774	3,771
	89,996	112,432

The amount represents the market value of the repossessed assets.

Repossessed assets obtained are intended to be realised in an orderly fashion to repay the impaired advances to customers and are not held for the own use of the Group.

At 31st December, 2015, repossessed assets obtained as securities for impaired advances to customers totalled HK\$45,374,000 (2014: HK\$45,196,000) for the Group.

16. Available-for-sale financial assets

	2015	2014
Available-for-sale debt securities:		
Listed in Hong Kong	7,643,441	4,954,626
Listed outside Hong Kong	3,491,212	3,695,836
	11,134,653	8,650,462
Unlisted	20,952,762	17,243,814
	32,087,415	25,894,276
Available-for-sale equity securities:		
Listed outside Hong Kong	172,148	146,622
Unlisted	288,127	168,507
	460,275	315,129
	32,547,690	26,209,405
Available-for-sale debt securities include:		
Treasury bills	5,392,741	8,775,194
Certificates of deposit held	11,946,667	3,616,291
Other available-for-sale debt securities	14,748,007	13,502,791
	32,087,415	25,894,276

16. Available-for-sale financial assets *(continued)*

Available-for-sale financial assets analysed by counterparty are as follows:

	2015	2014
Issued by:		
Sovereigns	5,392,741	8,775,194
Public sector entities	462,479	898,325
Banks	16,243,823	9,548,325
Corporates	10,448,647	6,987,561
	32,547,690	26,209,405

17. Investments in subsidiaries

The following list contains only the particulars of principal subsidiaries:

Name of company	Place of incorporation and operation	Nominal value of issued ordinary shares	Group's effective interest	Principal activities
Banco OCBC Weng Hang, S.A.	Macau	MOP120,000,000	100%	Banking
Wing Hang Bank (China) Limited	People's Republic of China	RMB1,500,000,000	100%	Banking
OCBC Inchroy Credit Corporation Limited	Hong Kong	HK\$25,000,000	100%	Hire Purchase
OCBC Wing Hang Finance Company Limited	Hong Kong	HK\$130,000,000	100%	Hire Purchase
OCBC Wing Hang Credit Limited	Hong Kong	HK\$20,000,000	100%	Consumer Lending
OCBC Wing Hang Insurance Brokers Limited	Hong Kong	HK\$100,000	100%	Insurance Broker
OCBC Wing Hang Insurance Agency Limited	Hong Kong	HK\$50,000	100%	Insurance Agency
OCBC Wing Hang Shares Brokerage Company Limited	Hong Kong	HK\$10,000,000	100%	Securities Dealing
OCBC Wing Hang (Trustee) Limited	Hong Kong	HK\$3,000,000	100%	Trustee Services
OCBC Wing Hang (Nominees) Limited	Hong Kong	HK\$10,000	100%	Nominee Services
Cheuk Woo Enterprises Company Limited	Hong Kong	HK\$10,000	100%	Property Investment

Notes to the Financial Statements

18. Investments in associated companies

	2015	2014
Share of net assets	338,506	253,542
Loans to associated companies	11,661	58,432
	350,167	311,974

On 31st December, 2015, the outstanding balance of the loans to associated companies included a secured loan to an associated company totalling HK\$11,661,000 (2014: HK\$17,324,000) which borne interest at 0.55% per annum over HIBOR and was repayable by 2012 with an option to extend the repayment period to 2017. On 14th September, 2012, the loan was extended to 28th September, 2017 with the interest rate set at 2.60% per annum over HIBOR.

The Group provided a secured ceiling overdraft facility and an unsecured overdraft facility with limits of HK\$200,000,000 and HK\$450,000,000 respectively to an associated company, which borne interest at prime lending rate. At 31st December, 2015, there was no outstanding balance of the overdraft account. (2014: HK\$41,108,000). For details, please refer to note 33(e).

There are no impaired loans to associated companies nor individual impairment allowances made on loans to associated companies at 31st December, 2015 and 31st December, 2014.

The following list contains only the particulars of material associated companies:

Name of company	Form of business structure	Place of incorporation and operation	Nominal value of issued ordinary shares	Group's effective interest	Voting power	Principal activities
Bank Consortium Holding Limited	Incorporated	Hong Kong	HK\$150,000,000	27%	2 out of 7*	Services for Retirement Schemes
Hong Kong Life Insurance Limited	Incorporated	Hong Kong	HK\$420,000,000	33%	1 out of 3*	Insurance

* Representing the Group's number of votes on the board of directors of the respective associated companies.

Note 1: Bank Consortium Holding Limited, a major provider of retirement plans and pension fund services in Hong Kong, enables the Group to enhance its Mandatory Provident Fund services.

Note 2: Hong Kong Life Insurance Limited, a major insurance company in Hong Kong, enables the Group to expand the customer base for its insurance services.

All of the above associated companies are accounted for using the equity method in the consolidated financial statements.

In respect of the year ended 31st December, 2015, the share of the results of Bank Consortium Holding Limited and Hong Kong Life Insurance Limited was included in these financial statements based on accounts drawn up to 31st October, 2015 and 30th November, 2015 respectively. The Group has taken advantage of the provision contained in HKAS 28, *Investments in Associates*, whereby it is permitted to include the attributable share of associates' results based on accounts drawn up to a non-coterminous period and where the difference is not greater than three months.

18. Investments in associated companies *(continued)*

Summarised financial information of the material associated companies, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

	Bank Consortium Holding Limited		Hong Kong Life Insurance Limited	
	2015	2014	2015	2014
Gross amounts of the associated companies				
Assets	694,634	647,883	10,736,041	8,726,735
Liabilities	57,000	54,821	9,994,257	8,202,038
Net assets	637,634	593,062	741,784	524,697
Total operating income	460,147	473,695	2,167,645	1,365,772
Profit after tax	144,043	145,411	37,254	26,478
Other comprehensive income	(107)	51	180,967	6,740
Total comprehensive income	143,936	145,462	218,221	33,218
Dividends received from the associated companies	33,040	29,240	–	–
Reconciled to the Group's interests in the associated companies				
Gross amounts of net assets of the associated companies				
	637,634	593,062	741,784	524,697
Group's effective interest	27%	27%	33%	33%
Group's share of net assets of the associated companies	170,036	158,150	247,261	174,899
Dividends received from the associated companies	(33,040)	(29,240)	–	–
Others	6,324	3,525	1,129	–
Elimination of unrealised gain on transfer of bank premises to the associated companies	(37,610)	(37,610)	(26,368)	(26,368)
Carrying amount in the consolidated financial statements	105,710	94,825	222,022	148,531

Notes to the Financial Statements

18. Investments in associated companies *(continued)*

Aggregate information of an associated company that is not individually material:

	2015	2014
Aggregate carrying amount of individually immaterial associated company in the consolidated financial statements	10,774	10,186
Aggregate amounts of the Group's share of net assets of the associated company	10,774	10,186
Total operating income	124,347	94,759
Profit after tax	25,323	16,330
Total comprehensive income	25,323	16,330
Reconciliation of carrying amounts to the Group's total interests in the associated companies		
Carrying amount of material associated companies		
– Bank Consortium Holding Limited	105,710	94,825
– Hong Kong Life Insurance Limited	222,022	148,531
Carrying amount of the individually immaterial associated company	10,774	10,186
Investment in associated companies in the consolidated financial statements	338,506	253,542

19. Tangible fixed assets

	2015				
	Investment properties	Bank premises	Equipment	Bank premises and equipment	Total
Cost or valuation					
At 1st January	169,000	4,562,686	1,169,293	5,731,979	5,900,979
Additions	–	14	113,288	113,302	113,302
Disposals	–	–	(77,443)	(77,443)	(77,443)
Surplus on revaluation					
– credited to bank premises revaluation reserve	–	329,221	–	329,221	329,221
– credited to consolidated statement of profit or loss (note 6(a))	13,900	–	–	–	13,900
Elimination of accumulated depreciation on revalued bank premises	–	(77,184)	–	(77,184)	(77,184)
Exchange adjustment	–	(3,452)	(2,353)	(5,805)	(5,805)
At 31st December	182,900	4,811,285	1,202,785	6,014,070	6,196,970
The analysis of cost or valuation of the above assets is as follows:					
At cost	–	1,343,510	1,202,785	2,546,295	2,546,295
At valuation 2015	182,900	3,467,775	–	3,467,775	3,650,675
	182,900	4,811,285	1,202,785	6,014,070	6,196,970
Accumulated depreciation					
At 1st January	–	261,195	927,377	1,188,572	1,188,572
Charge for the year (note 5(e))	–	109,174	96,130	205,304	205,304
Written back on disposals	–	–	(76,418)	(76,418)	(76,418)
Elimination of accumulated depreciation on revalued bank premises	–	(77,184)	–	(77,184)	(77,184)
Exchange adjustment	–	(1,269)	(4,326)	(5,595)	(5,595)
At 31st December	–	291,916	942,763	1,234,679	1,234,679
Net book value (note (a))					
At 31st December	182,900	4,519,369	260,022	4,779,391	4,962,291

Notes to the Financial Statements

19. Tangible fixed assets (continued)

	2014				
	Investment properties	Bank premises	Equipment	Bank premises and equipment	Total
Cost or valuation					
At 1st January	163,100	4,193,135	1,157,413	5,350,548	5,513,648
Additions	–	41	57,012	57,053	57,053
Disposals	–	(3,433)	(44,859)	(48,292)	(48,292)
Surplus on revaluation					
– credited to bank premises revaluation reserve	–	436,464	–	436,464	436,464
– credited to consolidated statement of profit or loss (note 6(a))	5,900	–	–	–	5,900
Elimination of accumulated depreciation on revalued bank premises	–	(63,323)	–	(63,323)	(63,323)
Exchange adjustment	–	(198)	(273)	(471)	(471)
At 31st December	169,000	4,562,686	1,169,293	5,731,979	5,900,979
The analysis of cost or valuation of the above assets is as follows:					
At cost	–	1,346,957	1,169,293	2,516,250	2,516,250
At valuation					
2014	169,000	3,215,729	–	3,215,729	3,384,729
	169,000	4,562,686	1,169,293	5,731,979	5,900,979
Accumulated depreciation					
At 1st January	–	227,549	859,573	1,087,122	1,087,122
Charge for the year (note 5(e))	–	96,359	109,702	206,061	206,061
Written back on disposals	–	(6)	(37,830)	(37,836)	(37,836)
Elimination of accumulated depreciation on revalued bank premises	–	(63,323)	–	(63,323)	(63,323)
Exchange adjustment	–	616	(4,068)	(3,452)	(3,452)
At 31st December	–	261,195	927,377	1,188,572	1,188,572
Net book value (note (a))					
At 31st December	169,000	4,301,491	241,916	4,543,407	4,712,407

19. Tangible fixed assets (continued)

(a) Fair value measurement of properties

(i) Fair value hierarchy

The following table presents the fair value of the Group's properties measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3: Fair value measured using significant unobservable inputs.

	2015			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Investment properties	–	–	182,900	182,900
Bank premises held for administrative use	–	–	3,467,775	3,467,775
	–	–	3,650,675	3,650,675

	2014			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Investment properties	–	–	169,000	169,000
Bank premises held for administrative use	–	–	3,215,729	3,215,729
	–	–	3,384,729	3,384,729

During the year ended 31st December, 2015, there were no transfers between Level 1 and Level 2, nor transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

All of the Group's investment properties and bank premises held for administrative use were revalued by an independent firm of surveyors, Savills Valuation and Professional Services Limited as at 30th November, 2015, who have among their staff, Fellows of the Hong Kong Institute of Surveyors, with recent experience in the location and category of property being valued.

Management has assessed that the fair value of investment properties and bank premises held for administrative use at 31st December, 2015 is not materially different from 30th November, 2015.

Notes to the Financial Statements

19. Tangible fixed assets (continued)

(a) Fair value measurement of properties (continued)

(ii) Information about Level 3 fair value measurements

	Valuation techniques	Unobservable inputs	Ranges
Investment properties and bank premises held for administrative use	Direct comparison approach	Premium (discount) on quality of the properties	-30% to 45%

The fair value of investment properties and bank premises are determined using direct comparison approach by reference to recent sales price of comparable properties on a price per square foot basis, adjusted for a premium or a discount specific to the quality of the Group's properties compared to the recent sales. The valuations take into account the characteristic of the properties which included the location, size, view, floor level, year of completion and other factors collectively. Higher premium for higher quality properties will result in a higher fair value measurement.

The movements during the period in the balance of these Level 3 fair value measurements are as follows:

	2015		2014	
	Investment properties	Bank premises	Investment properties	Bank premises
Cost or valuation				
At 1st January	169,000	3,215,729	163,100	2,845,990
Additions	–	9	–	31
Disposals	–	–	–	(3,433)
Depreciation charge for the year	–	(77,184)	–	(63,329)
Depreciation written back on disposals for the year	–	–	–	6
Surplus on revaluation				
– credited to bank premises revaluation reserve	–	329,221	–	436,464
– credited to consolidated statement of profit or loss	13,900	–	5,900	–
At 31st December	182,900	3,467,775	169,000	3,215,729

Fair value adjustment of investment properties is recognised in the line item "Net gains on revaluation of properties and disposal of tangible fixed assets" on the face of the consolidated statement of profit or loss.

Surplus on revaluation of bank premises are recognised in other comprehensive income in "Bank premises revaluation reserve".

All the gains recognised in the statement of profit or loss for the year arise from the properties held at the end of the reporting period.

19. Tangible fixed assets *(continued)*

(a) Fair value measurement of properties *(continued)*

- (iii) The surplus on revaluation on bank premises held for administrative use net of deferred tax of HK\$323,800,000 (2014: HK\$394,398,000) have been recognised in other comprehensive income and accumulated in the bank premises revaluation reserve of the Group respectively.
- (iv) The carrying amount of the Group's bank premises held for administrative use would have been HK\$857,760,000 (2014 HK\$892,257,000) respectively had they been stated at cost less accumulated depreciation.

(b) The net book value of investment properties and bank premises is as follows:

	2015	2014
FREEHOLD		
– Held outside Hong Kong	276,180	321,870
LEASEHOLD		
– Held in Hong Kong		
Long-term leases (over 50 years unexpired)	2,081,774	1,850,544
Medium-term leases (10 to 50 years unexpired)	1,569,458	1,445,877
– Held outside Hong Kong		
Long-term leases (over 50 years unexpired)	6,213	6,738
Medium-term leases (10 to 50 years unexpired)	395,814	408,616
Short-term leases (less than 10 years unexpired)	372,830	436,846
	4,702,269	4,470,491

(c) Fixed assets leased out under operating leases

The Group leases out investment properties under operating leases. The leases typically run for an initial period of two to three years. None of the leases includes contingent rentals.

All properties held under operating leases that would otherwise meet the definition of investment property are classified as investment property.

The Group's total future minimum lease payments under non-cancellable operating leases are receivables as follows:

	2015	2014
Within 1 year	4,239	3,501
After 1 year but within 5 years	2,915	1,472
	7,154	4,973

Notes to the Financial Statements

20. Goodwill

(a) Goodwill

	2015	2014
Cost		
At 1st January/31st December	1,307,600	1,307,600
Accumulated impairment loss		
At 1st January/31st December	1,170	1,170
Net book value		
At 31st December	1,306,430	1,306,430

(b) Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the Group's cash-generating units ("CGU") identified according to region of operation and reportable segment as follows:

	2015	2014
Hong Kong:		
Retail banking business acquired	1,019,136	1,019,136
Corporate banking business acquired	233,741	233,741
Treasury business acquired	53,553	53,553
	1,306,430	1,306,430

The recoverable amount of the CGU is determined based on value in use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimate growth rate beyond initial cash flows projection of 4.00% (2014: 4.00%). The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates. The cash flows are discounted using a discount rate of 13.27% (2014: 11.19%). The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

21. Deposits and balances of banks, central banks and other financial institutions

	2015	2014
Deposits from central banks	70,318	605,174
Deposits from banks	620,970	1,707,594
	691,288	2,312,768

22. Deposits from customers

	2015	2014
Demand deposits and current accounts	28,737,171	26,747,435
Savings deposits	28,626,769	27,450,798
Time, call and notice deposits	123,035,292	141,057,759
	180,399,232	195,255,992

23. Certificates of deposit issued

	2015	2014
Certificates of deposit issued at amortised cost	8,650,384	5,167,145
	8,650,384	5,167,145

24. Trading liabilities

Trading liabilities represent negative fair values of derivative financial instruments held for trading. Details are set out in note 30(a).

25. Other accounts and provisions

	2015	2014
Acceptances outstanding	288,828	388,325
Interest payable	949,381	1,079,714
Amount payable for purchase of debt securities	–	55
Other payables	1,419,766	1,630,535
	2,657,975	3,098,629

Notes to the Financial Statements

26. Subordinated liabilities

	2015	2014
US\$400 million 6.00% step-up perpetual subordinated notes, designated at fair value through profit or loss (note (a))	3,236,237	3,269,087
	3,236,237	3,269,087

- (a) On 19th April, 2007, the Bank issued step-up perpetual subordinated notes which is included in tier 2 capital and subject to phase out, with a face value of HK\$3,125,520,000 (US\$400,000,000). The notes bear interest at a fixed rate of 6.00% per annum until 19th April, 2017 and are floating at LIBOR plus 1.85% per annum thereafter if the notes are not early redeemed at the option of the Bank. Despite the Bank has the option to defer making payment of interest on the subordinated note, interest payable on each interest payment date will be made by the Bank provided that the Bank has generated sufficient positive distributable profits during the 12 months preceding the interest payment date. The notes are listed on the Singapore Exchange Securities Trading Limited.

At 31st December, 2015, the carrying amount of the step-up perpetual subordinated notes designated at fair value through profit or loss are higher than their contractual amount payable at redemption for the Group by HK\$136,037,000 (2014: HK\$166,927,000). The change in fair value of this step-up perpetual subordinated notes is recognised as "net (losses)/gains from trading and financial instruments designated at fair value through profit or loss" in the consolidated statement of profit or loss. This change in fair value which is attributable to change in credit risk for the year ended 31st December, 2015 is a loss of HK\$91,254,000 (2014: HK\$226,054,000) and the accumulated amount of this change for the Group is a gain of HK\$30,878,000 (2014: HK\$122,132,000).

27. Maturity profile

The following maturity profiles of the assets and liabilities of the Group are based on the remaining periods to repayment at the reporting date.

	2015							
	Repayable on demand	Within 1 month	Over 1 month but within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Undated	Total
Assets								
Cash and balances with banks, central banks and other financial institutions	4,742,130	-	-	-	-	-	-	4,742,130
Placements with banks, central banks and other financial institutions	-	5,963,774	541,672	409,421	-	-	-	6,914,867
Amounts due from ultimate holding company and fellow subsidiaries	-	3,022,527	6,618,232	-	-	-	-	9,640,759
Trading assets	-	14,108	-	383,637	417,233	285,129	914,439	2,014,546
Financial assets designated at fair value through profit or loss	-	-	-	779,389	5,059,071	728,990	-	6,567,450
Advances to customers	2,856,720	10,820,435	9,012,513	21,634,750	45,227,724	60,328,313	202,573	150,083,028
Trade bills	10,368	359,315	634,906	2,847,707	-	-	422	3,852,718
Available-for-sale financial assets	-	3,683,841	9,111,354	5,068,191	12,679,627	1,544,402	460,275	32,547,690
Other assets	612	986,944	347,911	120,102	78,780	-	7,070,690	8,605,039
Total assets	7,609,830	24,850,944	26,266,588	31,243,197	63,462,435	62,886,834	8,648,399	224,968,227
Liabilities								
Deposits and balances of banks, central banks and other financial institutions	427,307	263,981	-	-	-	-	-	691,288
Amounts due to ultimate holding company and fellow subsidiaries	-	1,141,940	1,162,925	-	-	-	-	2,304,865
Deposits from customers	57,304,452	59,686,129	44,277,167	16,945,307	2,186,177	-	-	180,399,232
Certificates of deposit issued	-	899,733	1,329,645	3,128,521	2,792,485	500,000	-	8,650,384
Trading liabilities	-	-	-	-	-	-	893,269	893,269
Subordinated liabilities	-	-	-	-	-	-	3,236,237	3,236,237
Other liabilities	-	1,228,481	581,425	730,106	391,426	19,786	165,628	3,116,852
Total liabilities	57,731,759	63,220,264	47,351,162	20,803,934	5,370,088	519,786	4,295,134	199,292,127
Net assets/(liabilities) gap	(50,121,929)	(38,369,320)	(21,084,574)	10,439,263	58,092,347	62,367,048	4,353,265	25,676,100

of which:

Certificates of deposit held								
– included in financial assets designated at fair value through profit or loss								
	-	-	-	118,913	-	-	-	118,913
– included in available-for-sale financial assets								
	-	3,050,838	5,585,034	2,940,171	370,624	-	-	11,946,667
Debt securities								
– included in trading assets								
	-	14,108	-	383,637	417,233	285,129	-	1,100,107
– included in financial assets designated at fair value through profit or loss								
	-	-	-	660,476	5,059,071	728,990	-	6,448,537
– included in available-for-sale financial assets								
	-	633,003	3,526,320	2,128,020	12,309,003	1,544,402	-	20,140,748

Notes to the Financial Statements

27. Maturity profile (continued)

			2014					
	Repayable on demand	Within 1 month	Over 1 month but within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Undated	Total
Assets								
Cash and balances with banks, central banks and other financial institutions	7,583,054	–	–	–	–	–	–	7,583,054
Placements with banks, central banks and other financial institutions	–	10,386,288	5,416,151	3,843,436	–	–	–	19,645,875
Amounts due from ultimate holding company and fellow subsidiaries	–	6,875,749	155,275	–	–	–	–	7,031,024
Trading assets	–	–	–	1,033,327	216,398	–	666,883	1,916,608
Financial assets designated at fair value through profit or loss	–	–	100,940	1,048,329	5,142,310	802,807	–	7,094,386
Advances to customers	2,115,279	10,564,553	7,198,705	24,192,281	50,964,095	55,373,912	7,268	150,416,093
Trade bills	9,414	1,291,880	2,076,335	3,263,853	–	–	–	6,641,482
Available-for-sale financial assets	–	2,430,506	4,030,586	5,754,988	12,563,539	1,114,657	315,129	26,209,405
Other assets	589	1,345,525	352,126	178,514	103,071	–	6,790,686	8,770,511
Total assets	9,708,336	32,894,501	19,330,118	39,314,728	68,989,413	57,291,376	7,779,966	235,308,438
Liabilities								
Deposits and balances of banks, central banks and other financial institutions	956,897	1,355,871	–	–	–	–	–	2,312,768
Amounts due to ultimate holding company and fellow subsidiaries	–	1,265,854	387,898	256,144	–	–	–	1,909,896
Deposits from customers	54,139,126	66,599,990	41,945,695	27,511,621	5,059,560	–	–	195,255,992
Certificates of deposit issued	–	–	1,073,631	1,472,992	2,120,522	500,000	–	5,167,145
Trading liabilities	–	–	–	–	–	–	568,789	568,789
Subordinated liabilities	–	–	–	–	–	–	3,269,087	3,269,087
Other liabilities	–	1,570,442	579,058	573,690	495,583	–	198,002	3,416,775
Total liabilities	55,096,023	70,792,157	43,986,282	29,814,447	7,675,665	500,000	4,035,878	211,900,452
Net assets/(liabilities) gap	(45,387,687)	(37,897,656)	(24,656,164)	9,500,281	61,313,748	56,791,376	3,744,088	23,407,986

of which:

Certificates of deposit held								
– included in available-for-sale financial assets	–	–	50,414	2,738,523	827,354	–	–	3,616,291
Debt securities								
– included in trading assets	–	–	–	1,033,327	216,398	–	–	1,249,725
– included in financial assets designated at fair value through profit or loss	–	–	100,940	1,048,329	5,142,310	802,807	–	7,094,386
– included in available-for-sale financial assets	–	2,430,506	3,980,172	3,016,465	11,736,185	1,114,657	–	22,277,985

28. Share capital and reserves

(a) Share capital

As at 31st December, 2015, 450,000,000 ordinary shares, with par value of HK\$1 each, were authorised for issue. Under the new Hong Kong Companies Ordinance (Cap. 622), which commenced operation on 3rd March, 2014, the concepts of “authorised share capital” and “par value” no longer exist. As part of the transition to the no-par value regime, the amount standing to the credit of the share premium account and the capital redemption reserve on 3rd March, 2014 have become part of the Bank’s share capital, under the transitional provisions set out in section 37 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622). These changes do not have an impact on the number of shares in issue or the relative entitlement of any of the members.

	2015		2014	
	No. of shares		No. of shares	
Issued and fully paid:				
At 1st January	308,380,222	1,740,750	307,424,722	307,425
Transition to no-par value regime on				
3rd March, 2014	–	–	–	1,406,517
Shares issued under Share Option Scheme	–	–	460,000	21,747
Shares issued under EIP	–	–	495,500	5,061
At 31st December	308,380,222	1,740,750	308,380,222	1,740,750

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Bank. All ordinary shares rank equally with regard to the Bank’s residual net assets.

(i) Share Option Scheme

During the year, there were no options being exercised to subscribe for ordinary shares (2014: 460,000 shares) in the Bank (2014: at a consideration of HK\$21,747,000). At 31st December, 2015, there were no options outstanding (2014: the options were fully exercised).

(ii) EIP

During the year, there were no awards under the EIP being exercised to subscribe for ordinary shares (2014: 495,500 shares) in the Bank (2014: at a consideration of HK\$495,500). All the outstanding amounts at 29th July, 2014 had been cancelled as a result of the change of controlling shareholders as disclosed in note 38. At 31st December, 2015, there were no EIP awards outstanding (2014: nil).

The details of the Share Option Scheme and the EIP are disclosed in note 35 to the financial statements.

Notes to the Financial Statements

28. Share capital and reserves (continued)

(b) Reserves

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Bank's individual components of equity between the beginning and the end of the year are set out below:

	The Bank 2015					
	General reserve	Bank premises revaluation reserve	Investment revaluation reserve	Cash flow hedging reserve	Unappro- priated profits	Total
At 1st January	1,801,949	1,706,073	183,008	–	11,898,461	15,589,491
Transfer (from)/to reserve	–	(14,472)	–	–	14,472	–
	–	(14,472)	–	–	14,472	–
Other comprehensive income:						
– fair value changes on cash flow hedges net of deferred tax	–	–	–	11,104	–	11,104
– fair value changes on available- for-sale financial assets net of deferred tax	–	–	63,472	–	–	63,472
– fair value changes on available- for-sale financial assets transferred to statement of profit or loss on disposal net of deferred tax	–	–	(60,724)	–	–	(60,724)
– surplus on revaluation net of deferred tax	–	364,639	–	–	–	364,639
– profit attributable to shareholders of the Bank for the year	–	–	–	–	1,307,425	1,307,425
Total comprehensive income for the year, net of tax	–	364,639	2,748	11,104	1,307,425	1,685,916
At 31st December	1,801,949	2,056,240	185,756	11,104	13,220,358	17,275,407

28. Share capital and reserves (continued)

(b) Reserves (continued)

	Share premium	Capital redemption reserve	General reserve	The Bank 2014 Bank premises revaluation reserve	Investment revaluation reserve	Unappro- priated profits	Total
At 1st January	1,405,748	769	1,801,949	1,583,354	160,214	11,196,508	16,148,542
Transition to no-par value regime on 3rd March, 2014	(1,405,748)	(769)	–	–	–	–	(1,406,517)
Dividends approved in respect of the previous year (note 9(b))	–	–	–	–	–	(499,175)	(499,175)
Disposal of bank premises	–	–	–	(1,706)	–	1,706	–
Transfer (from)/to reserve	–	–	–	(12,322)	–	12,322	–
	(1,405,748)	(769)	–	(14,028)	–	(485,147)	(1,905,692)
Other comprehensive income:							
– fair value changes on available- for-sale financial assets net of deferred tax	–	–	–	–	86,407	–	86,407
– fair value changes on available- for-sale financial assets transferred to statement of profit or loss on disposal net of deferred tax	–	–	–	–	(63,613)	–	(63,613)
– surplus on revaluation net of deferred tax	–	–	–	136,747	–	–	136,747
– profit attributable to shareholders of the Bank for the year	–	–	–	–	–	1,187,100	1,187,100
Total comprehensive income for the year, net of tax	–	–	–	136,747	22,794	1,187,100	1,346,641
At 31st December	–	–	1,801,949	1,706,073	183,008	11,898,461	15,589,491

Notes to the Financial Statements

28. Share capital and reserves (continued)

(b) Reserves (continued)

The Group's unappropriated profits as at 31st December, 2015 included the accumulated gains of HK\$303,539,000 (2014: HK\$244,117,000) of the associated companies and a regulatory reserve of HK\$1,824,014,000 (2014: HK\$1,833,550,000). The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes by earmarking amounts in respect of losses which the Group will or may incur on advances to customers in addition to impairment losses recognised. Movements in the reserve are earmarked directly through unappropriated profits and in consultation with the Hong Kong Monetary Authority ("HKMA").

Prior to 3rd March, 2014, the application of the share premium account and the capital redemption reserve was governed by sections 48B and 49H respectively of the predecessor Hong Kong Companies Ordinance (Cap. 32). In accordance with the transitional provisions set out in section 37 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), on 3rd March, 2014 any amount standing to the credit of the share premium account and the capital redemption reserve has become part of the Bank's share capital. The use of share capital as from 3rd March, 2014 is governed by the new Hong Kong Companies Ordinance (Cap. 622).

The capital reserve of the Group comprises unappropriated profits capitalised on the issue of bonus shares by subsidiaries in prior years and reserves established by Banco OCBC Weng Hang, S.A. and Wing Hang Bank (China) Limited in accordance with the local banking regulations and are not available for distribution.

The statutory reserve of the Group is calculated as a percentage of the total risk assets at the reporting date of Wing Hang Bank (China) Limited to cover its potential losses that are not yet incurred as required by the relevant requirements issued by the Ministry of Finance of the People's Republic of China and is not available for distribution.

The general reserve of the Group was set up from the transfer of unappropriated profits and exchange differences arising from translation of the financial statements of overseas branches and subsidiaries (note 2(j)).

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flow in accordance with the accounting policy adopted for cash flow hedges (note 2(f)).

Revaluation reserves have been set up and are dealt with in accordance with the accounting policies adopted for the revaluation of bank premises and available-for-sale financial assets (notes 2(k) and (f)). Bank premises revaluation reserve and investment revaluation reserve do not represent realised profits and are not available for distribution.

At 31st December, 2015, the aggregate amount of reserves available for distribution to equity shareholders of the Bank as calculated under the provision of Part 6 of the Hong Kong Companies Ordinance and including the distributable amounts disclosed cash flow hedging reserve was HK\$13,932,230,000 (2014: HK\$12,704,968,000).

The Bank and its financial subsidiaries operate under regulatory jurisdictions which require the maintenance of minimum capital ratios which could therefore potentially restrict the amount of general reserve and unappropriated profits, which are available for distribution, to be distributed to shareholders.

29. Contingent liabilities and commitments

(a) Contingent liabilities and commitments to extend credit

Contingent liabilities and commitments arises from forward asset purchases, amounts owing on partly paid-up shares and securities, forward deposits placed, asset sales or other transactions with recourse, as well as credit-related instruments which include letters of credit, guarantees and commitments to extend credit. The risk involved in these credit-related instruments is essentially the same as the credit risk involved in extending loan facilities to customers. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client default. Since a significant portion of guarantees and commitments is expected to expire without being drawn upon, the total of the contractual amounts is not representative of future cash flows.

The risk weights used in the computation of credit risk weighted amounts range from 0% to 100%.

The following is a summary of the contractual amounts of each significant class of contingent liabilities and commitments:

	2015	2014
Direct credit substitutes	585,693	1,446,415
Transaction-related contingencies	116,126	127,544
Trade-related contingencies	505,454	687,530
Other commitments:		
With an original maturity of not more than one year	653,186	1,503,900
With an original maturity over one year	1,679,078	1,626,342
Which are unconditionally cancellable	25,501,038	38,084,858
Total	29,040,575	43,476,589
Credit risk weighted amounts	1,543,403	2,444,655

(b) Capital commitments

Capital commitments for acquisition of tangible fixed assets outstanding at 31st December, 2015 not provided for in the financial statements are as follows:

	2015	2014
Expenditure authorised and contracted for	32,361	30,399
Expenditure authorised but not contracted for	–	–
	32,361	30,399

Notes to the Financial Statements

29. Contingent liabilities and commitments *(continued)*

(c) Lease commitments

At 31st December, 2015, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2015	2014
Properties		
Within 1 year	105,675	101,761
After 1 year but within 5 years	141,013	146,127
After 5 years	9,848	18,117
	256,536	266,005
Others		
Within 1 year	2,629	2,507
After 1 year but within 5 years	1,648	794
	4,277	3,301

The Group leases a number of properties and items of equipment under operating leases. The leases run for an initial period of one to ten years, with an option to renew the lease when all terms are renegotiated. Lease payments are periodically adjusted to reflect market rentals. None of the leases includes contingent rentals.

30. Derivative financial instruments

Derivatives refer to financial contracts whose value depends on the value of one or more underlying assets or indices.

Derivative financial instruments arise from forward, swap and option transactions undertaken by the Group in the foreign exchange, interest rate and equity markets.

Derivative financial instruments are also used to manage the Group's own exposures to market risk as part of its asset and liability management process. The principal derivatives instruments used by the Group are interest and foreign exchange rate related contracts, which are primarily over-the-counter ("OTC") derivatives. The Group also participates in exchange traded derivatives. Most of the Group's derivatives positions have been entered into to meet customer demand and to hedge these and other trading positions. For accounting purposes, derivatives are classified as held for trading or held for hedging.

The notional amounts of these instruments indicate the volume of transactions outstanding at the reporting date and do not represent amounts at risk.

30. Derivative financial instruments *(continued)*

The following table is a summary of the notional amounts of each significant type of derivatives.

	2015			Total
	Qualifying for hedge accounting	Managed in conjunction with financial instruments designated at fair value through profit or loss	Others, including held for trading	
Exchange rate contracts				
Forwards	–	–	42,320,830	42,320,830
Options purchased	–	–	21,078,005	21,078,005
Options written	–	–	20,879,227	20,879,227
Interest rate contracts				
Swaps	2,557,665	7,595,490	19,963,803	30,116,958
Equity contracts				
Options purchased	–	–	415,399	415,399
Options written	–	–	411,362	411,362
	2,557,665	7,595,490	105,068,626	115,221,781
	2014			Total
	Qualifying for hedge accounting	Managed in conjunction with financial instruments designated at fair value through profit or loss	Others, including held for trading	
Exchange rate contracts				
Forwards	–	–	19,321,201	19,321,201
Options purchased	–	–	14,754,680	14,754,680
Options written	–	–	14,712,577	14,712,577
Interest rate contracts				
Swaps	–	8,205,213	20,856,122	29,061,335
Equity contracts				
Options purchased	–	–	556,946	556,946
Options written	–	–	555,889	555,889
	–	8,205,213	70,757,415	78,962,628

The trading transactions include the Group's positions arising from the execution of trade orders from customers or transactions undertaken to hedge these positions.

Notes to the Financial Statements

30. Derivative financial instruments *(continued)*

(a) Use of derivative financial instruments

- (i) The following is a summary of the fair values of derivative financial instruments held for trading purposes by type of derivatives entered into by the Group:

	2015		2014	
	Assets	Liabilities	Assets	Liabilities
Exchange rate contracts	565,131	624,375	222,583	237,821
Interest rate contracts	280,229	230,081	428,827	316,160
Equity contracts	38,897	38,813	14,812	14,808
Total (notes 13 and 24)	884,257	893,269	666,222	568,789

- (ii) The following is a summary of the fair values of derivative financial instruments held for hedging purposes by type of derivatives entered into by the Group:

	2015		2014	
	Assets	Liabilities	Assets	Liabilities
Interest rate contracts (note 13)	28,334	–	–	–
	28,334	–	–	–

(b) Remaining life of derivative financial instruments

The following tables provide an analysis of the notional amounts of derivatives of the Group by relevant maturity groupings based on the remaining periods to settlement at the reporting date.

	2015			Total
	Within 1 year	Over 1 year but within 5 years	Over 5 years	
Exchange rate contracts	76,047,346	8,230,716	–	84,278,062
Interest rate contracts	6,799,322	18,671,119	4,646,517	30,116,958
Equity contracts	826,761	–	–	826,761
	83,673,429	26,901,835	4,646,517	115,221,781

	2014			Total
	Within 1 year	Over 1 year but within 5 years	Over 5 years	
Exchange rate contracts	43,368,542	5,419,916	–	48,788,458
Interest rate contracts	7,842,900	17,848,937	3,369,498	29,061,335
Equity contracts	1,112,835	–	–	1,112,835
	52,324,277	23,268,853	3,369,498	78,962,628

30. Derivative financial instruments *(continued)*

(c) The credit risk weighted amounts are as follows:

	2015	2014
Exchange rate contracts	1,126,587	671,525
Interest rate contracts	151,241	201,774
Equity contracts	56,077	57,187
	1,333,905	930,486

The risk weights used in the computation of credit risk weighted average amounts range from 0% to 100%. These amounts do not take into account the effects of bilateral netting arrangements.

(d) Fair value hedges

The fair value hedges principally consist of interest rate swaps. The interest rate swaps are used to protect against changes in the fair value of certain fixed rate assets due to movements in market interest rates. At 31st December, 2015, the positive fair value of derivatives held as fair value hedges was HK\$15,036,000 (2014: nil). The gains on the hedging instruments for the year were HK\$15,036,000 (2014: nil). The losses on the hedged item attributable to the hedged risk for the year were HK\$15,182,000 (2014: nil).

(e) Cash flow hedges

The cash flow hedges principally consist of interest rate contracts that are used to hedge against the variability in cash flows of certain floating rate liabilities. At 31st December, 2015, the positive fair value of derivatives held as cash flow hedges was HK\$13,298,000 (2014: nil). During the year, there was no ineffectiveness recognised in the statement of profit or loss that arose from cash flow hedges (2014: nil).

The time periods in which the hedged cash flows are expected to occur and affect the consolidated statement of profit or loss are as follows:

	2015		
	Less than 1 year	1 to 2 years	Total
Forecast receivable cash flows	–	–	–
Forecast payable cash flows	(12,117)	(9,793)	(21,910)
Forecast net payable cash flows	(12,117)	(9,793)	(21,910)

	2014		
	Less than 1 year	1 to 2 years	Total
Forecast receivable cash flows	–	–	–
Forecast payable cash flows	–	–	–
Forecast net payable cash flows	–	–	–

Notes to the Financial Statements

31. Notes to the consolidated cash flow statement

(a) Reconciliation of operating profit to net cash (outflow)/inflow from operating activities

	2015	2014 (restated)
Operating profit	2,276,532	1,957,875
Depreciation (note 5(e))	205,304	206,061
EIP – fair value of awards (note 5(e))	–	4,566
Interest expense on subordinated liabilities (note 5(b))	186,046	186,141
Net losses from trading and financial instruments designated at fair value through profit or loss	(11,531)	(88,096)
Change in fair value of subordinated liabilities designated at fair value through profit or loss (note 6(b))	(30,774)	99,163
Profits tax paid	(232,838)	(421,257)
Change in treasury bills with original maturity of three months or above	969,669	6,027,930
Change in placements with banks, central banks and other financial institutions with original maturity of three months or above	8,766,925	(2,901,126)
Change in amounts due from ultimate holding company and fellow subsidiaries maturing after three months	(6,463,098)	(155,134)
Change in certificates of deposit held	(8,330,376)	(2,228,977)
Change in trading assets	(387,867)	472,145
Change in financial assets designated at fair value through profit or loss	620,394	1,128,860
Change in advances to customers and other accounts	3,545,840	(17,093,736)
Change in deposits and balances of banks, central banks and other financial institutions	(1,080,890)	(531,226)
Change in amounts due to ultimate holding company and fellow subsidiaries	394,969	1,909,896
Change in deposits from customers	(14,856,760)	17,346,032
Change in certificates of deposit issued	3,483,239	980,922
Change in trading liabilities	324,480	(204,321)
Change in other accounts and provision	(440,654)	76,700
Net cash (outflow)/inflow from operating activities	(11,061,390)	6,772,418

31. Notes to the consolidated cash flow statement *(continued)*

(b) Reconciliation of cash and cash equivalents with the consolidated statement of financial position

	2015	2014
Cash and balances with banks, central banks and other financial institutions	4,742,130	7,583,054
Placements with banks, central banks and other financial institutions	6,914,867	19,645,875
Amounts due from ultimate holding company and fellow subsidiaries	3,022,527	7,031,024
Treasury bills	6,301,614	9,893,836
Amounts shown in the consolidated statement of financial position	20,981,138	44,153,789
Less: Amounts with an original maturity of three months or above	(6,811,748)	(16,703,476)
Deposits and balances of banks, central banks and other financial institutions that are repayable on demand	(74,233)	(614,823)
Cash and cash equivalents in the consolidated cash flow statement	14,095,157	26,835,490

32. Segment reporting

The Group manages its businesses by divisions, which are organised by a mixture of both business lines and geography. The segment disclosure is based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters.

Hong Kong segment

This is mainly composed of retail banking activities, corporate banking activities and treasury activities.

Retail banking activities include acceptance of deposits, residential mortgages, hire purchase, consumer loans, wealth management, stock brokerage and insurance services.

Corporate banking activities include advance of commercial and industrial loans, trade financing and institutional banking.

Treasury activities include foreign exchange services, management of investment securities and trading activities.

Notes to the Financial Statements

32. Segment reporting *(continued)*

Mainland China segment

This comprises the business of Wing Hang Bank (China) Limited for which the main business is on corporate banking activities.

Macau segment

This comprises the business of Banco OCBC Weng Hang, S.A. for which the main business is on retail banking activities.

For the purposes of assessing segment performance and allocating resources between segments, the Group's chief operating decision maker monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include tangible assets (include equipment of the Group and overseas bank premises), balance and placement with banks, central banks and other financial institutions and advances to bank which have been reported under Mainland China and Macau segments and financial assets with the exception of goodwill, interest in associated companies, taxation and other assets. Segment liabilities include deposits and financial liabilities.

Revenue and expenses are allocated to the reportable segments with reference to interest and fee and commission income generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation of assets attributable to those segments.

The identification of reportable segments also considered geographical information which has been classified by the geographical location of the principal operations of the subsidiaries, or in the case of the Bank itself, of the geographical location of the branch responsible for reporting the results or booking the assets and liabilities.

Specified non-current assets of the Group include tangible fixed assets, goodwill and investments in associated companies.

"Others" in the reconciliation to the reported amount on the consolidated statement of profit or loss and consolidated statement of financial position mainly represent the management of shareholders' fund and equity shares.

32. Segment reporting (continued)

(a) Segment results, assets and liabilities

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the year is set out below.

	2015						
	Hong Kong				Mainland China	Macau	Total
	Retail banking	Corporate banking	Treasury	Total			
Net interest income	1,820,351	506,857	393,706	2,720,914	527,308	532,242	3,780,464
Non-interest income	534,733	63,870	211,029	809,632	77,056	221,315	1,108,003
Reportable segment revenue	2,355,084	570,727	604,735	3,530,546	604,364	753,557	4,888,467
Operating expenses	(1,200,414)	(177,980)	(87,211)	(1,465,605)	(441,905)	(327,103)	(2,234,613)
Operating profit before impairment losses and allowances	1,154,670	392,747	517,524	2,064,941	162,459	426,454	2,653,854
Impairment losses and allowances	(84,655)	(31,127)	(17,734)	(133,516)	(5,692)	(7,000)	(146,208)
Operating profit	1,070,015	361,620	499,790	1,931,425	156,767	419,454	2,507,646
Net (losses)/gains on revaluation of properties and disposal of tangible fixed assets	(305)	–	–	(305)	2	(236)	(539)
Net (losses)/gains from trading and financial instruments designated at fair value through profit or loss	–	–	(38,324)	(38,324)	26,072	721	(11,531)
Net gains on disposal of available-for- sale financial assets	–	–	78,568	78,568	474	–	79,042
Share of net gains of associated companies	–	–	–	–	–	100	100
Reportable segment profit before tax	1,069,710	361,620	540,034	1,971,364	183,315	420,039	2,574,718
Depreciation	29,258	161	5,099	34,518	57,850	33,683	126,051
Reportable segment assets	70,257,213	47,203,362	39,180,241	156,640,816	23,381,442	31,850,316	211,872,574
Addition to non-current segment assets	21,154	439	6,742	28,335	13,628	23,829	65,792
Reportable segment liabilities	143,759,464	1,071,396	1,439,233	146,270,093	20,143,408	28,540,142	194,953,643

Notes to the Financial Statements

32. Segment reporting *(continued)*

(a) Segment results, assets and liabilities *(continued)*

	Hong Kong				2014 (restated)		
	Retail banking	Corporate banking	Treasury	Total	Mainland China	Macau	Total
Net interest income	1,730,159	440,918	278,180	2,449,257	727,037	518,968	3,695,262
Non-interest income	491,342	72,170	107,655	671,167	39,846	174,512	885,525
Reportable segment revenue	2,221,501	513,088	385,835	3,120,424	766,883	693,480	4,580,787
Operating expenses	(1,088,104)	(190,207)	(81,692)	(1,360,003)	(470,104)	(314,884)	(2,144,991)
Operating profit before impairment losses and allowances	1,133,397	322,881	304,143	1,760,421	296,779	378,596	2,435,796
Impairment losses and allowances	(39,370)	4,459	–	(34,911)	(152,125)	(22,500)	(209,536)
Operating profit	1,094,027	327,340	304,143	1,725,510	144,654	356,096	2,226,260
Net (losses)/gains on revaluation of properties and disposal of tangible fixed assets	(2,132)	(13)	–	(2,145)	19	(339)	(2,465)
Net (losses)/gains from trading and financial instruments designated at fair value through profit or loss	–	–	(100,661)	(100,661)	11,256	1,309	(88,096)
Net gains/(losses) on disposal of available-for-sale financial assets	–	–	74,919	74,919	(7,890)	16,379	83,408
Reportable segment profit before tax	1,091,895	327,327	278,401	1,697,623	148,039	373,445	2,219,107
Depreciation	27,995	404	5,306	33,705	64,971	26,033	124,709
Reportable segment assets	64,846,928	48,809,456	28,419,967	142,076,351	42,595,647	34,553,141	219,225,139
Addition to non-current segment assets	24,839	142	126	25,107	6,221	13,782	45,110
Reportable segment liabilities	140,050,053	1,076,283	630,970	141,757,306	39,320,484	31,565,140	212,642,930

32. Segment reporting *(continued)*

(a) Segment results, assets and liabilities *(continued)*

Reconciliations of reportable segment revenue, profit before taxation, assets and liabilities:

	2015	2014 (restated)
Revenue		
Reportable segment revenue	4,888,467	4,580,787
Other revenue	11,049	115,022
Elimination of inter-segment revenue	(201,848)	(287,660)
Consolidated operating income	4,697,668	4,408,149
Profit before taxation		
Reportable segment profit before taxation	2,574,718	2,219,107
Share of net gains of associated companies	59,322	50,955
Other net losses	(217,418)	(140,417)
Elimination of inter-segment profit	–	(116,505)
Consolidated profit before taxation	2,416,622	2,013,140
Assets		
Reportable segment assets	211,872,574	219,225,139
Balance and placements with banks, central banks and other financial institutions	5,710,092	12,419,016
Amounts due from ultimate holding company and fellow subsidiaries	9,640,759	6,875,749
Investments in associated companies	350,167	311,974
Tangible fixed assets	3,769,060	3,397,650
Goodwill	1,306,430	1,306,430
Current tax recoverable	–	2,977
Deferred tax assets	17,302	22,617
Other assets	2,921,944	6,576,500
Elimination of inter-segment assets	(10,620,101)	(14,829,614)
Consolidated total assets	224,968,227	235,308,438

Notes to the Financial Statements

32. Segment reporting *(continued)*

(a) Segment results, assets and liabilities *(continued)*

	2015	2014
Liabilities		
Reportable segment liabilities	194,953,643	212,642,930
Current tax payable	215,206	62,718
Deferred tax liabilities	243,671	73,008
Other liabilities	7,445,981	9,922,293
Elimination of inter-segment liabilities	(3,566,374)	(10,800,497)
Consolidated total liabilities	199,292,127	211,900,452

(b) Other geographical information

	2015				
	Hong Kong	Mainland China	Macau	Less: inter-segment elimination	Total
Specified non-current assets	5,500,408	421,079	685,936	11,465	6,618,888
Contingent liabilities and commitments (note 29(a))	20,450,077	7,148,083	3,457,977	(2,015,562)	29,040,575
	2014				
	Hong Kong	Mainland China	Macau	Less: inter-segment elimination	Total
Specified non-current assets	5,093,701	438,241	787,365	11,504	6,330,811
Contingent liabilities and commitments (note 29(a))	33,054,909	8,099,178	4,074,299	(1,751,797)	43,476,589

33. Material related party transactions

(a) Ultimate holding company

The Oversea-Chinese Banking Corporation Limited ("OCBC")

On 29th July, 2014, OCBC and its connected parties have acquired an aggregate of 97.52 percent of the issued share capital of the Bank and became the Bank's controlling shareholders. On 15th October, 2014, OCBC acquired the remaining shares of the Bank and became its 100 percent shareholder.

During the year, transactions with OCBC were entered into by the Group in the ordinary course of business and on normal commercial terms. The income and expenses during the year and average on-balance sheet outstanding during the year as a related company and on-balance sheet and off-balance sheet outstanding at the reporting date were:

	2015	2014
(i) Income and expense during the year		
Interest income	133,854	24,584
Interest expense	59,086	1,660
(ii) Average on-balance sheet outstanding during the year		
Amounts due from ultimate holding company	11,212,783	1,001,156
Amounts due to ultimate holding company	2,015,813	210,799
(iii) On-balance sheet outstanding at the reporting date		
Amounts due from ultimate holding company	9,640,759	6,875,749
Amounts due to ultimate holding company	2,304,865	1,551,602
(iv) Derivative financial instruments outstanding (notional amounts) at the reporting date		
Exchange rate contracts	13,673,970	1,077,801
Interest rate contracts	7,828,005	310,216

On 25th September, 2015, OCBC and the Bank entered into the equity interest transfer agreement, of which the Bank agreed to acquire OCBC Bank (China) Limited ("OCBC China") from OCBC, subject to approvals by the China Banking Regulatory Commission ("CBRC"), the HKMA and the Monetary Authority of Singapore. The consideration of the transfer will be based on the value of net tangible assets of OCBC China as at the date of completion. CBRC has conditionally approved the transaction in January 2016.

Notes to the Financial Statements

33. Material related party transactions *(continued)*

(b) Fellow companies

(1) Fellow subsidiaries

During the year, transactions with OCBC fellow subsidiaries are entered into by the Group in the ordinary course of business and on normal commercial terms. The income and expenses during the year and average on-balance sheet outstanding during the year as related parties and on-balance sheet and off-balance sheet outstanding at the reporting date are:

	2015	2014
(i) Income and expense during the year		
Interest income	1,108	737
Interest expense	9,484	3,442
(ii) Average on-balance sheet outstanding during the year		
Amounts due from fellow subsidiaries	47,322	55,983
Amounts due to fellow subsidiaries	222,006	77,492
(iii) On-balance sheet outstanding at the reporting date		
Amounts due from fellow subsidiaries	–	155,275
Amounts due to fellow subsidiaries	–	358,294

33. Material related party transactions *(continued)*

(b) Fellow companies *(continued)*

(2) Fellow associates

During the year, transactions with OCBC fellow associates are entered into by the Group in the ordinary course of business and on normal commercial terms. The income and expenses during the year and average on-balance sheet outstanding during the year as related parties and on-balance sheet and off-balance sheet outstanding at the reporting date are:

	2015	2014
(i) Income and expense during the year		
Interest income	5,114	1,827
(ii) Average on-balance sheet outstanding during the year		
Placement with banks, central banks and other financial institutions	173,089	92,896
(iii) On-balance sheet outstanding at the reporting date		
Placement with banks, central banks and other financial institutions	–	271,484

Notes to the Financial Statements

33. Material related party transactions *(continued)*

(c) Substantial shareholder

During 2014, transactions with The Bank of New York Mellon Corporation ("BNY"), a substantial shareholder of the Bank, or its subsidiaries are entered into by the Group in the ordinary course of business and on normal commercial terms. The income and expenses during the year and average on-balance sheet outstanding during the year as related parties and on-balance sheet and off-balance sheet outstanding at the reporting date are:

On 15th July, 2014, BNY sold its entire holding of issued shares of the Bank to OCBC and ceased to be a related party.

	2015	2014
(i) Income and expense during the year		
Interest income	–	40
Interest expense	–	252
(ii) Average on-balance sheet outstanding during the year		
Cash and balances with banks, central banks and other financial institutions	–	82,040
Placement with banks, central banks and other financial institutions	–	29,773
Deposits and balances of banks, central banks and other financial institutions	–	37,246

33. Material related party transactions *(continued)*

(d) Subsidiaries

During the year, the Bank entered into the transactions with subsidiaries owned by the Bank in the ordinary course of business and on normal commercial terms. The income and expenses during the year, average on-balance sheet outstanding during the year, on-balance sheet and off-balance sheet outstanding at the reporting date are:

	2015	2014
(i) Income and expense during the year		
Interest income	468,291	400,233
Interest expense	95,423	74,521
Other operating income	148,298	150,750
Operating expense	88,596	73,581
The interest rates in connection with amounts due from subsidiaries and due to subsidiaries are under terms and conditions normally applicable to customers of comparable standing.		
Other operating income represented income on providing management services, information technology services, rental services, share brokerage services, financial control and other administration services to the Bank's subsidiaries by the Bank.		
Operating expenses represented rental services and share brokerage services fee paid to the Bank's subsidiaries by the Bank.		
All income and expenses on these transactions are determined on an arm's length basis.		
(ii) Average on-balance sheet outstanding during the year		
Amounts due from subsidiaries	20,218,586	17,227,718
Amounts due to subsidiaries	7,641,734	5,638,480
(iii) On-balance sheet outstanding at the reporting date		
Amounts due from subsidiaries	21,878,070	21,057,180
Amounts due to subsidiaries	8,469,516	8,064,124
No allowance for impairment losses has been made in respect of these balances as at 31st December, 2015 (2014: nil).		
(iv) Off-balance sheet outstanding (contract amounts) at the reporting date		
Direct credit substitutes	127,207	9,500
Transaction-related contingencies	200,000	200,000
Other commitments	4,184,168	5,949,814
(v) Derivative financial instruments outstanding (notional amounts) at the reporting date		
Exchange rate contracts	6,287,042	3,500,208
Interest rate contracts	85,000	119,000
Equity contracts	4,038	1,057

Notes to the Financial Statements

33. Material related party transactions *(continued)*

(e) Associated companies

During the year, the Bank entered into the transactions with associated companies in the ordinary course of business and on normal commercial terms. The income and expenses during the year, average on-balance sheet outstanding during the year and on-balance sheet and off-balance sheet outstanding at the reporting date are:

	2015	2014
(i) Income and expense during the year		
Interest income	1,134	748
Interest expense	5,020	4,919
(ii) Average on-balance sheet outstanding during the year		
Loans to associated companies	31,871	24,203
Deposits from customers	932,932	701,380
(iii) On-balance sheet outstanding at the reporting date		
Loans to associated companies	11,661	58,432
Deposits from customers	1,021,839	705,679
(iv) Off-balance sheet outstanding (contracts amounts) at the reporting date		
Other commitments	510,000	375,905

The Group provided a secured loan to an associated company for HK\$47,640,000 in 2007 to finance its purchase of the Group's bank premise during the year 2007. The loan bears an interest rate of 0.55% per annum over HIBOR and is repayable by 2012 with an option to extend the repayment period to 2017. On 14th September, 2012, the loan was extended to 28th September, 2017 with the interest rate at 2.60% per annum over HIBOR. At the reporting date, the outstanding amount of the loan is HK\$11,661,000 (2014: HK\$17,324,000).

On 29th May, 2014, the Group provided a secured ceiling overdraft facility and an unsecured overdraft facility with limits of HK\$200,000,000 and HK\$450,000,000 respectively to an associated company, which bear interest at a prime lending rate. At the reporting date, the outstanding amount of the overdraft account is nil (2014: HK\$41,108,000).

33. Material related party transactions *(continued)*

(f) Key management personnel

During the year, the Group entered into a number of transactions with the Group's key management personnel and their close family members and companies controlled or significantly influenced by them. All the transactions are in the ordinary course of business and under terms and conditions normally applicable to customers of comparable standing. The income, expenses and emoluments during the year, average on-balance sheet outstanding during the year and on-balance sheet outstanding at the reporting date are as follows:

	2015	2014
(i) Income and expense during the year		
Interest income	363	837
Interest expense	72,696	62,943
(ii) Average on-balance sheet outstanding during the year		
Advances to customers	32,058	64,358
Deposits from customers	8,375,274	6,077,552
(iii) On-balance sheet outstanding at the reporting date		
Advances to customers	11,640	43,347
Deposits from customers	3,933,406	10,741,858
(iv) Emoluments for the year		
Remuneration for key management personnel, including amounts paid to the Bank's directors as disclosed in note 10 is as follows:		
	2015	2014
Short-term employee benefits	66,940	104,654
Post-employment benefits	2,413	3,009
Equity compensation benefits	–	2,483
	69,353	110,146

Notes to the Financial Statements

33. Material related party transactions *(continued)*

(g) Loans to directors

Loans to directors of the company disclosed pursuant to section 383(1)(d) of the Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2015	2014
Aggregate amount of relevant loans outstanding at 31st December	3,804	4,096
The maximum aggregate amount of relevant loans outstanding during the year	4,873	39,199

- (h) During the year, no allowance for impairment losses has been made in respect of the above advances to related parties (2014: nil).

34. Management of risks

The Group has established policies, procedures and limits to manage various types of risk that the Group is exposed to risk management processes and management information systems are in place to identify, measure, monitor and control credit risk, liquidity risk, market risk and operational risk. The risk management policies, procedures and limits are approved by the Board of Directors or its designated committee, and are monitored and reviewed regularly by relevant risk management committees, such as the Credit Committee and the Asset and Liability Management Committee ("ALMCO"). Internal auditors perform regular audits and independent checking to ensure compliance with the policies and procedures.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risks, and the Group's management of capital.

(a) Credit risk management

Credit risk arises from the possibility that the counterparty in a transaction may default. It arises from the lending, trade finance, treasury, derivatives and other activities undertaken by the Group. The Board of Directors has delegated the Group's credit risk management to the Credit Committee, which is chaired by the Bank's Chief Executive.

The credit risk management function is independent of the business units. It oversees the implementation of credit policies and ensures the quality of credit evaluation and approval. Credit approval is conducted in accordance with the Group's credit policy, which defines the credit extension criteria, the credit approval and monitoring processes, the loan classification system and impairment policy. The credit policy also takes into account the requirements of the Hong Kong Banking Ordinance, guidelines issued by the HKMA and accounting standards issued by the HKICPA with respect to large exposures and impairment requirements.

Guidelines to manage credit risk have been laid down in the Group's Loaning Manual, which is regularly reviewed and approved by the Credit Committee. The Loaning Manual covers the delegated lending authorities, credit extension criteria, credit monitoring process, loan classification system, credit recovery and impairment policy.

34. Management of risks *(continued)*

(a) Credit risk management *(continued)*

(i) Corporate credit risk

The corporate credit exposures are diversified among corporates, middle market borrowers and SMEs. The large corporate exposures are generally concentrated among highly rated customers. The principal means of managing credit risk is the credit approval process. The Group has policies and procedures to evaluate the potential credit risk of a particular counterparty or transaction and to approve the transaction. For corporate clients, the Group has a detailed credit review system that is applied to each counterparty on a regular basis. The Group also has limits for exposure to individual industries and for borrowers and groups of borrowers, regardless of whether the exposure is in the form of loans or non-funded exposures. The Group also has a review process that ensures the proper level of review and approval depending on the size of the facility and risk grading of the credit.

The Group undertakes ongoing credit review and monitoring at various levels. The credit policies promote early detection of counterparty, industry or product exposures that require special attention. The Credit Committee oversees the overall portfolio risk as well as individual problem loans and potential problem loans on a regular basis.

(ii) Retail credit risk

The Group's retail credit policy and approval processes are designed based on the characteristics of the retail banking products: small value but high volume, and relatively homogeneous transactions. Monitoring the credit risk of retail exposures is based primarily on statistical analyses and portfolio review with respect to different products and types of customers. The Group reviews and revises the product terms and customer profiles on a continual basis according to the performance of respective portfolios and the market practices.

(iii) Credit risk for treasury transactions

The credit risk of the Group's treasury transactions is managed in the same way as the Group manages its corporate lending risk. The Group applies a risk grading to its counterparties and sets individual counterparty limits.

(iv) Credit-related commitments

The risks involved in credit-related commitments and contingencies are essentially the same as the credit risk involved in extending loan facilities to customers. These transactions are, therefore, subject to the same credit application, portfolio maintenance and collateral requirements as for customers applying for loans.

Notes to the Financial Statements

34. Management of risks (continued)

(a) Credit risk management (continued)

(v) Master netting arrangements

To mitigate credit risks, the Group enters into master netting arrangements with counterparties whenever possible. Netting agreements 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.

The following table sets out the carrying amounts of recognised financial instruments that are subject to the above agreements:

	2015					
	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amount
				Financial instruments	Cash collateral received	
Financial assets						
Placements with banks	70,902	–	70,902	(70,902)	–	–
Positive fair values of derivative financial instruments held for trading	628,209	–	628,209	(328,584)	(84,886)	214,739
Interest receivable	85,452	(85,452)	–	–	–	–
	784,563	(85,452)	699,111	(399,486)	(84,886)	214,739

	2015					
	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amount
				Financial instruments	Cash collateral pledged	
Financial liabilities						
Deposits from banks	74,258	–	74,258	(74,258)	–	–
Deposits from customers	138,402	–	138,402	(138,402)	–	–
Negative fair values of derivative financial instruments held for trading	797,400	–	797,400	(328,584)	(362,011)	106,805
Interest payable	181,457	(85,452)	96,005	–	–	96,005
	1,191,517	(85,452)	1,106,065	(541,244)	(362,011)	202,810

34. Management of risks (continued)

(a) Credit risk management (continued)

(v) Master netting arrangements (continued)

	2014					
	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amount
				Financial instruments	Cash collateral received	
Financial assets						
Placements with banks	1,004,172	–	1,004,172	(1,004,172)	–	–
Positive fair values of derivative financial instruments held for trading	531,561	–	531,561	(181,285)	(83,271)	267,005
Interest receivable	77,582	(77,582)	–	–	–	–
	1,613,315	(77,582)	1,535,733	(1,185,457)	(83,271)	267,005

	2014					
	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amount
				Financial instruments	Cash collateral pledged	
Financial liabilities						
Deposits from banks	145,871	–	145,871	(145,871)	–	–
Deposits from customers	472,123	–	472,123	(472,123)	–	–
Negative fair values of derivative financial instruments held for trading	470,488	–	470,488	(181,285)	(194,580)	94,623
Interest payable	179,030	(77,582)	101,448	–	–	101,448
	1,267,512	(77,582)	1,189,930	(799,279)	(194,580)	196,071

Notes to the Financial Statements

34. Management of risks *(continued)*

(a) Credit risk management *(continued)*

(vi) Concentration of credit risk

Concentration of credit risk exists when changes in geographic, economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is material in relation to the Group's total exposures. The Group's portfolio is diversified along geographic, industry and product sectors in accordance with the established limits approved by the relevant risk committees.

(1) Maximum exposure

The maximum exposure to credit risk at the reporting date without taking into consideration of any collateral held or other credit enhancements is represented by the carrying amount of each financial asset in the statement of financial position after deducting any impairment allowance. A summary of the maximum exposure is as follows:

	2015	2014
Cash and balances with banks, central banks and other financial institutions	4,742,130	7,583,054
Placements with banks, central banks and other financial institutions	6,914,867	19,645,875
Amounts due from ultimate holding company and fellow subsidiaries	9,640,759	7,031,024
Trading assets	2,014,546	1,916,608
Financial assets designated at fair value through profit or loss	6,567,450	7,094,386
Advances to customers	150,083,028	150,416,093
Trade bills	3,852,718	6,641,482
Loans to associated companies	11,661	58,432
Available-for-sale financial assets	32,547,690	26,209,405
Financial guarantees and other credit related contingent liabilities	1,207,273	2,261,489
Loan commitments and other credit related commitments	27,833,302	41,215,100

34. Management of risks *(continued)*

(a) Credit risk management *(continued)*

(vi) Concentration of credit risk *(continued)*

(2) Credit quality of loans and advances

Advances to banks are only made to banks with good credit standing. Loans to associated companies are granted as our associated companies have good credit standing. At 31st December, 2015 and 2014, no advances to banks and loans to associated companies are past due nor impaired. The credit quality of advances to customers can be analysed as follows:

	2015	2014
Gross advances to customers		
– neither past due nor impaired	148,589,148	149,093,737
– past due but not impaired	1,033,418	1,193,763
– impaired (note 15(c))	860,053	551,976
	150,482,619	150,839,476

of which:

Gross advances to customers		
– Grade 1: Pass	148,721,200	149,444,738
– Grade 2: Special mention	901,366	842,762

The Group classifies the loans and advances in accordance with the loan classification system required to be adopted for reporting to the HKMA.

The ageing analysis of advances to customers that are past due but not impaired is as follows:

	2015	2014
Gross advances to customers that are past due but not impaired		
– past due 3 months or less	997,900	1,158,591
– 6 months or less but over 3 months	20,614	31,464
– 1 year or less but over 6 months	14,904	3,708
	1,033,418	1,193,763

At 31st December, 2015, advances to customers that would be past due or impaired had the terms not been renegotiated amounted to HK\$24,494,000 (2014: HK\$31,775,000) for the Group.

Notes to the Financial Statements

34. Management of risks *(continued)*

(a) Credit risk management *(continued)*

(vi) Concentration of credit risk *(continued)*

(3) *Credit quality of financial assets other than advances to customers, banks and associated companies*

Credit risk of treasury transactions is managed in the same way as the Group manages its corporate lending risk and risk gradings are applied to the counterparties with individual counterparty limits set. It is the Group's credit policy not to invest debt securities that are below the grading of BBB by Standard & Poor's Ratings Services or their equivalents unless it is approved by the Credit Committee.

At the reporting date, the credit quality of investment in debt securities analysed by designation of external credit assessment institution, Standard & Poor's Ratings Services or their equivalents, is as follows. In the absence of such issue ratings, the ratings designated for the issuers are reported.

	2015	2014
AAA	8,512,438	13,249,321
AA- to AA+	7,606,726	7,887,983
A- to A+	20,257,286	7,752,285
BBB to BBB+	1,441,594	2,037,673
Lower than BBB	685,736	664,011
	38,503,780	31,591,273
Unrated	1,251,192	2,647,114
	39,754,972	34,238,387

There are no overdue debt securities included in "Financial assets designated at fair value through profit or loss" and "Available-for-sale financial assets" of the Group as at 31st December, 2015 (2014: nil).

Included in "Other assets" of the Group as at 31st December, 2015 and 31st December, 2014, there are no receivables which are overdue.

34. Management of risks *(continued)*

(a) Credit risk management *(continued)*

(vi) Concentration of credit risk *(continued)*

(4) Collateral and other credit enhancements

The Group holds collateral against advances to customers in the form of mortgages over property, other registered securities over assets, cash deposits and guarantees. Collateral generally is not held over advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. The Group also holds commercial properties as collateral against loans to associated companies. Collateral held as security for financial assets or financial derivatives other than advances is determined by the nature of the instrument.

An estimate of the fair value of collateral and other credit enhancements held against past due but not impaired financial assets is as follows:

	2015	2014
Fair value of collateral and other credit enhancements held against financial assets that are past due but not impaired	2,944,156	3,194,136

Analysis of credit risk concentration by the economic sector of the respective financial assets is disclosed in notes 13 to 16 and the geographical concentration of the Group's assets is disclosed in note 32(b).

(b) Liquidity risk management

Liquidity risk is the risk of inability to fund an increase in assets or meet obligations as they fall due. An institution's obligations, and the funding sources used to meet them, depend significantly on its business mix, statement of financial position structure, and the cash flow profiles of its on- and off-balance sheet obligation. The Group's primary objective of liquidity risk management is to manage the liquidity risk exposures under both normal and stressed conditions. The Group has established liquidity management policies for ensuring adequate liquidity is maintained at all times. The Group maintained an average liquidity maintenance ratio of 36.4% in 2015 (2014: an average liquidity ratio of 37.5%), which is well above the statutory requirement of 25%. The ratio as of 31st December, 2015 is compiled in accordance with the Banking (Liquidity) Rules effective from 1st January, 2015, whereas the ratio as of 31st December, 2014 was compiled in accordance with the Fourth Schedule of the Hong Kong Banking Ordinance as in force immediately before 1st January, 2015. Accordingly, the ratios of the two periods are not directly comparable.

Roles and responsibilities in the Group's liquidity risk management structure are mainly distributed across different committees and hierarchical levels: Board of Directors, Risk Management Committee, Asset and Liability Management Committee ("ALMCO"), Investment Strategy Committee, Treasury Division, Financial Management Division, Risk Management Division, Corporate Banking Division and Retail Banking Division.

Notes to the Financial Statements

34. Management of risks *(continued)*

(b) Liquidity risk management *(continued)*

Liquidity is managed day-to-day by the Treasurer under the direction of ALMCO. ALMCO, which comprises personnel from senior management, treasury function, risk management, financial management and other business areas that could affect liquidity risk, is responsible for overseeing the liquidity risk management, in particular implementation of appropriate liquidity policies and procedures, identifying, measuring and monitoring liquidity risk, and control over the liquidity risk management process. The Board of Directors approves the liquidity risk strategy and policies, maintaining continued awareness of the overall liquidity risk profile, and ensuring liquidity risk is adequately managed and controlled by senior management within the established risk management framework.

Customer deposits form an important part of funding source of the Group. The Retail Banking Division and Corporate Banking Division are responsible for maintaining customer deposits as well as advising the funding need of loans to the Treasury Division. The head of Retail Banking Division updates information to the ALMCO members on any material customers' deposits balance movement and strategy to tap deposits.

To cater for funding requirements during ordinary course of business, sufficient liquid assets are held and also access to the interbank market is maintained. In addition, adequate standby facilities are maintained in order to meet any unexpected and material cash outflow. The Group also performs regular stress tests which include an institution-specific crisis scenario, a general market wide crisis scenario and a combined scenario, on its liquidity position to ensure adequate liquidity is maintained at all times.

Treasury Division acts in accordance with the Liquidity Portfolio Framework and Debt Securities Investment Framework to address the issue of liquidity cushion. The objectives of the Liquidity Portfolio Framework are to ensure that the Group can meet its obligations when they fall due in normal circumstances and an adequate stock of high quality liquid assets in the portfolio could provide a safety cushion in the event of a funding crisis.

Due to the close proximity of three operating regions Hong Kong, China and Macau, the Group adopts a centralised approach to manage liquidity and funding for both domestic and overseas subsidiaries. At the next granular level, such as branches and sub-branches, the overseas subsidiaries take responsibility for managing their funding arrangement in relation to the use and application of funds. Financial Management Division provides a consolidated picture to the Group's management.

The identification of liquidity risk depends first and foremost on its ability to accurately measure net funding requirements along different time horizons of its cash-flow projections. Setting up liquidity risk tolerance, including the quality and mixture of liquid asset holdings, maturity or currency mismatches and concentration of funding as well as stress testing is the next step to facilitate liquidity risk control in the liquidity management structure.

In commensurate with the Group's business size, structure and complexity, the Group sets up target for the critical liquidity risk indicators for monitoring and controlling the liquidity risk exposures.

The Group adopts a range of liquidity metrics to manage its liquidity position, namely liquidity maintenance ratio, medium term funding ratio, maturity mismatch target, loan to deposit ratio and etc. Those liquidity indicators are subject to the ALMCO's review on a regular basis against the target.

34. Management of risks *(continued)*

(b) Liquidity risk management *(continued)*

The maintenance of liquidity maintenance ratio can serve the purpose to address the short term liquidity stability. Medium term funding ratio gives a clear picture on the Group's medium term funding. A medium funding ratio is a percentage of liabilities plus shareholders' equity to total assets excluding land and building and investments in associates or subsidiaries, both with a contractual maturity of more than one year.

The Group bases on the projection of future cash flows under normal and stressed conditions over different time horizons to identify potential funding mismatches and compared against the liquidity metrics. Moreover, the risk is further analysed by currencies and entities for senior management's review.

Stress tests for liquidity risk management are designed to assess the Group's ability to generate sufficient liquidity from both sides of assets and liabilities to meet funding needs under adverse conditions. The scenarios cover crisis under institution specific, general market wide and combined basis. Assumptions are subject to regular review by the ALMCO to ensure the effectiveness of stress testing process. Stress tests are performed regularly at individual major entity level. The impact is further analysed on consolidated group wide level.

The Group has formulated a contingency plan setting out strategies for dealing with a liquidity crisis and the procedures for making up cash-flow deficits in emergency situations. The plan is updated and reviewed at least annually by ALMCO to ensure that it remains robust over time. Any revision will be further approved by the Board of Directors. Apart from the liquidity limits and ratios agreed with the HKMA, the Group will promptly inform the HKMA of any indicators of serious liquidity problems, which may trigger contingency funding plan.

The cash flows payable by the Group for the non-derivative financial liabilities including interest payable that will be settled by remaining contractual maturities at the reporting date are presented in the following table. The amounts disclosed are based on the contractual undiscounted cash flows. Interest payable in respect of term non-derivative financial liabilities is reported based on contractual interest payment date. Interest payable in respect of perpetual subordinated notes is reported based on the contractual interest payable up to the Bank's optional redemption date.

Notes to the Financial Statements

34. Management of risks *(continued)*

(b) Liquidity risk management *(continued)*

	2015							
	Repayable on demand	Within 1 month	Over 1 month but within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Undated	Gross cash outflow
Non-derivative financial liabilities								
Deposits and balances of banks, central banks and other financial institutions	427,307	266,870	1,314	-	-	-	-	695,491
Amounts due to ultimate holding company and fellow subsidiaries	-	1,142,284	1,163,886	-	-	-	-	2,306,170
Deposits from customers	57,304,452	59,821,264	44,534,819	17,467,981	2,503,411	19,794	-	181,651,721
Certificates of deposit issued	-	905,065	1,337,818	3,171,470	2,938,280	533,120	-	8,885,753
Subordinated liabilities	-	-	-	93,523	186,012	-	3,100,200	3,379,735
Other liabilities	-	1,084,840	331,869	310,748	272,148	-	165,628	2,165,233
	57,731,759	63,220,323	47,369,706	21,043,722	5,899,851	552,914	3,265,828	199,084,103
Unrecognised loan commitments	17,897,968	1,490,031	1,837,691	5,137,496	1,470,116	-	-	27,833,302
Financial guarantees and other credit related contingent liabilities	212,171	187,078	288,605	436,991	80,074	2,354	-	1,207,273
	18,110,139	1,677,109	2,126,296	5,574,487	1,550,190	2,354	-	29,040,575
Derivative cash flows								
Derivative financial instruments settled on net basis	-	93,327	186,399	258,886	417,234	37,147	-	992,993
Derivative financial instruments settled on a gross basis								
- total outflow	-	4,124,277	3,765,543	6,389,743	607,118	-	-	14,886,681
- total inflow	-	(4,303,211)	(4,070,287)	(7,759,111)	(768,788)	-	-	(16,901,397)
	-	(178,934)	(304,744)	(1,369,368)	(161,670)	-	-	(2,014,716)

34. Management of risks *(continued)*

(b) Liquidity risk management *(continued)*

				2014 (restated)				
	Repayable on demand	Within 1 month	Over 1 month but within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Undated	Gross cash outflow
Non-derivative financial liabilities								
Deposits and balances of banks, central banks and other financial institutions	956,897	1,358,492	252	–	–	–	–	2,315,641
Amounts due to ultimate holding company and fellow subsidiaries	–	1,266,345	388,022	265,309	–	–	–	1,919,676
Deposits from customers	54,139,126	66,797,846	42,213,150	27,943,010	5,311,771	–	–	196,404,903
Certificates of deposit issued	–	3,476	1,099,615	1,545,170	2,214,143	615,070	–	5,477,474
Subordinated liabilities	–	–	–	93,065	372,259	–	3,102,160	3,567,484
Other liabilities	–	1,378,655	320,810	171,245	264,473	–	198,002	2,333,185
	55,096,023	70,804,814	44,021,849	30,017,799	8,162,646	615,070	3,300,162	212,018,363
Unrecognised loan commitments	28,946,021	498,893	3,038,550	7,561,067	1,168,186	2,383	–	41,215,100
Financial guarantees and other credit related contingent liabilities	221,115	278,493	495,839	1,202,373	63,171	–	498	2,261,489
	29,167,136	777,386	3,534,389	8,763,440	1,231,357	2,383	498	43,476,589
Derivative cash flows								
Derivative financial instruments settled on net basis	–	64,238	166,818	280,285	746,138	98,151	–	1,355,630
Derivative financial instruments settled on a gross basis								
– total outflow	–	3,073,081	1,860,396	3,859,899	984,731	–	–	9,778,107
– total inflow	–	(3,133,991)	(2,137,511)	(4,600,021)	(1,059,036)	–	–	(10,930,559)
	–	(60,910)	(277,115)	(740,122)	(74,305)	–	–	(1,152,452)

The detail of the analysis on the Group's material assets and liabilities into relevant maturity groupings based on the remaining period at reporting date to the contractual maturity date are set out in note 27.

Notes to the Financial Statements

34. Management of risks *(continued)*

(c) **Market risk management**

Market risk is the risk arising from the movements in market prices of on- and off-balance sheet positions in interest rates, foreign exchange rates as well as equity and commodity prices and the resulting change in the profit or loss or reserve of the Group.

The Group is exposed to market risk on position taken or financial instrument held or taken such as foreign exchange contracts, interest rate contracts, fixed income and equity securities and derivatives instruments.

The Board of Directors reviews and approves the policies for the management of market risks and trading authorities. ALMCO has been delegated the responsibility of controlling and monitoring market risk including regular review of the risk exposures and the risk management framework such as the established limits and stop-losses. The limits are set by ALMCO and reviewed on a periodic basis with reference to market conditions, with any material changes requiring a review by the Board of Directors. It is the Bank's policy that no limit should be exceeded. Middle Office has been delegated the duties of intra-day monitoring and ensuring compliance with the policy and limits.

The Group adopts a prudent approach in managing the portfolio of trading instruments. It reduces excessive market risk by offsetting trading transactions or hedging the open positions by executing derivative contracts with other market counterparties. Trading of interest rate and foreign exchange derivative contracts forms an integral part of the Group's trading activities, which are primarily for squaring the trading positions or covering the customer driven positions.

The Group uses the Price Value of a Basis Point ("PVBP") measurement to monitor and limit its interest rate risk exposure. PVBP is a technique involving the calculation of the change in present value of a financial instrument or a portfolio of instruments due to a change of one basis point in interest rates. It also provides a quick tool to evaluate the impact on profit and loss due to a basis point movement in interest rates.

(i) **Interest rate risk**

The Group's interest rate exposures arise from lending, deposit taking as well as treasury activities. Interest rate risk primarily results from the timing differences in the repricing of interest-bearing assets, liabilities and commitments, which may apply to both banking book and trading book. It also relates to positions from non-interest bearing liabilities including shareholders' funds and current accounts, as well as from certain fixed rate loans and liabilities. The Group's interest rate risk is monitored by the ALMCO within limits approved by the Board, including interest rate gap limit, product limit and PVBP limit. The Group also uses interest rate swaps and other derivatives to manage interest rate risk.

Interest rate sensitivity set out below is for risk management reported to ALMCO only in simplified scenario. Actual changes in the Group's profit before tax resulting from the change in interest rates may differ from the result of the sensitivity analysis. The effect on interest-bearing financial instruments and interest rate swaps has been included in this calculation.

	2015	2014
	Increase/(decrease) in Group's profit before tax	Increase/(decrease) in Group's profit before tax
Increase in 10 basis points	20,397	25,438
Decrease in 10 basis points	(20,397)	(25,438)

34. Management of risks (continued)

(c) Market risk management (continued)

(i) Interest rate risk (continued)

Structural interest rate risk arises primarily from the deployment of non-interest bearing liabilities, including shareholders' funds and current accounts, as well as from certain fixed rate loans and liabilities. Structural interest rate risk is monitored by ALMCO.

The following tables indicate the expected next repricing dates for the assets and liabilities at the reporting date.

	2015					
	Total	Within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Non-interest bearing
Assets						
Cash and balances with banks, central banks and other financial institutions	4,742,130	3,219,765	–	–	–	1,522,365
Placements with banks, central banks and other financial institutions	6,914,867	6,434,544	480,323	–	–	–
Amounts due from ultimate holding company and fellow subsidiaries	9,640,759	9,350,088	–	–	–	290,671
Trading assets	2,014,546	58,301	383,638	373,039	285,129	914,439
Financial assets designated at fair value through profit or loss	6,567,450	136,670	660,476	5,041,314	728,990	–
Advances to customers and other accounts	152,051,877	129,183,150	9,776,535	10,797,983	320,089	1,974,120
Trade bills	3,852,718	1,004,969	2,847,749	–	–	–
Available-for-sale financial assets	32,547,690	17,547,704	4,969,136	8,076,904	1,493,671	460,275
Loans to associated companies	11,661	11,661	–	–	–	–
Other assets	6,624,529	–	–	–	–	6,624,529
Total assets	224,968,227	166,946,852	19,117,857	24,289,240	2,827,879	11,786,399
Liabilities						
Deposits and balances of banks, central banks and other financial institutions	691,288	338,339	–	–	–	352,949
Amounts due to ultimate holding company and fellow subsidiaries	2,304,865	2,302,625	–	–	–	2,240
Deposits from customers	180,399,232	149,119,347	16,262,847	2,858,299	263	12,158,476
Certificates of deposit issued	8,650,384	4,011,993	3,128,521	1,009,870	500,000	–
Trading liabilities	893,269	–	–	–	–	893,269
Other liabilities	3,116,852	52,735	–	–	–	3,064,117
Subordinated liabilities	3,236,237	–	–	3,236,237	–	–
Total liabilities	199,292,127	155,825,039	19,391,368	7,104,406	500,263	16,471,051
Derivatives (in the banking book) net long/(short) position (notional amount)	–	–	–	–	–	–
Interest rate sensitivity gap	25,676,100	11,121,813	(273,511)	17,184,834	2,327,616	(4,684,652)

Notes to the Financial Statements

34. Management of risks (continued)

(c) Market risk management (continued)

(i) Interest rate risk (continued)

			2014			
	Total	Within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Non-interest bearing
Assets						
Cash and balances with banks, central banks and other financial institutions	7,583,054	5,909,607	–	–	–	1,673,447
Placements with banks, central banks and other financial institutions	19,645,875	15,802,439	3,843,436	–	–	–
Amounts due from ultimate holding company and fellow subsidiaries	7,031,024	7,015,735	–	–	–	15,289
Trading assets	1,916,608	4,288	1,045,015	200,422	–	666,883
Financial assets designated at fair value through profit or loss	7,094,386	100,941	1,048,328	5,142,310	802,807	–
Advances to customers and other accounts	152,808,953	128,728,433	11,165,308	10,407,951	179,192	2,328,069
Trade bills	6,641,482	3,378,439	3,263,043	–	–	–
Available-for-sale financial assets	26,209,405	14,835,900	3,618,902	6,558,650	880,824	315,129
Loans to associated companies	58,432	58,432	–	–	–	–
Other assets	6,319,219	–	–	–	–	6,319,219
Total assets	235,308,438	175,834,214	23,984,032	22,309,333	1,862,823	11,318,036
Liabilities						
Deposits and balances of banks, central banks and other financial institutions	2,312,768	2,010,859	–	–	–	301,909
Amounts due to ultimate holding company and fellow subsidiaries	1,909,896	1,652,491	253,528	–	–	3,877
Deposits from customers	195,255,992	150,997,469	26,760,835	5,667,258	127,043	11,703,387
Certificates of deposit issued	5,167,145	1,649,794	996,792	2,020,559	500,000	–
Trading liabilities	568,789	–	–	–	–	568,789
Other liabilities	3,416,775	60,607	–	–	–	3,356,168
Subordinated liabilities	3,269,087	–	–	3,269,087	–	–
Total liabilities	211,900,452	156,371,220	28,011,155	10,956,904	627,043	15,934,130
Derivatives (in the banking book) net long/(short) position (notional amount)	–	–	–	–	–	–
Interest rate sensitivity gap	23,407,986	19,462,994	(4,027,123)	11,352,429	1,235,780	(4,616,094)

34. Management of risks *(continued)*

(c) Market risk management *(continued)*

(i) Interest rate risk *(continued)*

The following table indicates the effective interest rates for the last month of the year:

	2015 %	2014 %
Placement with banks, central banks and other financial institutions	1.39	2.44
Advances to customers and trade bills	2.92	3.21
Debt securities	1.68	2.37
	2.54	2.97
Deposits and balances of banks, central banks and other financial institutions	0.40	0.76
Deposits from customers	1.02	1.47
Certificates of deposit issued	1.22	2.24
Subordinated liabilities	5.89	5.89
	1.09	1.55

(ii) Currency risk

The Group's foreign exchange positions, which arise from foreign exchange dealing, commercial banking operations and structural foreign currency exposures arising from capital investment in subsidiaries and branches outside Hong Kong, mainly in US dollars, Macau Patacas and Renminbi, are managed by ALMCO. All foreign exchange positions are managed by the ALMCO within limits approved by the Board of Directors.

The net positions or net structural positions in foreign currencies are disclosed below where each currency constitutes 10% or more of the respective total net position or total net structural position in all foreign currencies.

The net option position is calculated on the basis of delta-weighted positions of all foreign exchange options contracts. The net structural position includes the Bank's overseas branch, banking subsidiaries and other subsidiaries substantially involved in foreign exchange trading and include structural assets or liabilities as follow:

- investments in overseas subsidiaries and related companies; and
- subordinated liabilities.

Notes to the Financial Statements

34. Management of risks *(continued)*

(c) Market risk management *(continued)*

(ii) Currency risk *(continued)*

<i>(In millions of HK\$ equivalent)</i>	2015			2014		
	US\$	Chinese Renminbi	Total	US\$	Chinese Renminbi	Total
Spot assets	48,567	24,876	94,511	42,879	42,529	100,717
Spot liabilities	(42,362)	(27,177)	(95,923)	(35,460)	(43,260)	(96,138)
Forward purchases	19,827	10,867	37,820	5,791	5,868	15,360
Forward sales	(23,518)	(6,284)	(31,614)	(13,454)	(2,131)	(17,161)
Net option positions	(1,956)	(2,324)	(4,273)	580	(2,705)	(2,111)
Net long/(short) positions	558	(42)	521	336	301	667

<i>(In millions of HK\$ equivalent)</i>	2015			
	Macau Patacas	Chinese Renminbi	US\$	Total
Net structural positions	1,424	2,204	498	4,126

<i>(In millions of HK\$ equivalent)</i>	2014			
	Macau Patacas	Chinese Renminbi	US\$	Total
Net structural positions	1,043	2,529	498	4,070

(iii) Equity risk

The Group's equities exposures in 2015 and 2014 are mainly in long-term equity investments which are reported as "Available-for-sale financial assets" set out in note 16. Equities held for trading purpose are included under "Trading assets" set out in note 13. These are subject to trading limits and risk management control procedures and other market risk regime.

(d) Operational risk management

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The Group's risk management framework is established to control risks at both corporate and departmental levels. The underlying management principle is built upon a long-standing culture of high integrity and risk awareness fostered by senior executives of the Group.

The framework consists of governing policies with control measures to ascertain absolute compliance by all operating units. These measures are directed, controlled and held to account by operational management committees chaired by senior executives. Regular reviews are performed by the committees to ensure proper functioning of internal controls and to identify improvement opportunities.

Furthermore, independent reviews are conducted by the Group's Internal Audit Division to measure the effectiveness of the Group's system of internal controls. This division reports to the Audit Committee to ensure the framework is managed with high standards of probity.

34. Management of risks *(continued)*

(e) Capital management

The Group's policy is to maintain a strong capital base to support the development of the Group's business and to meet the statutory capital ratio. In addition to meeting the requirements from the HKMA, the Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might otherwise be possible with greater gearing and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions. The amount of minimum capital requirements held for credit, market and operational risks are calculated in accordance with the Basel II requirements and the regulations from the HKMA.

Capital is allocated to the various activities of the Bank depending on the risk taken by each business division. Where the subsidiaries are directly regulated by overseas regulators, they are required to maintain minimum capital according to those regulators' rules. The Bank and certain financial subsidiaries, as specified by the HKMA, are subject to the HKMA's capital requirements for its regulatory supervision purposes. The Group and its individually regulated subsidiaries have complied with all externally imposed capital requirements throughout the year ended 31st December, 2015 and 2014 and are well above the minimum required ratio set by the HKMA.

The capital ratios as at 31st December, 2015 are computed on a consolidated basis including 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 ("the Capital Rules").

(f) Transfers of financial assets

As of 31st December, 2015, the Group entered into repurchase agreements with certain banks and customers to sell debt securities of carrying amount of HK\$222,914,000 (2014: HK\$652,083,000) which subject to the simultaneous agreements ("repurchase agreements") to repurchase these securities at the agreed dates and prices.

The carrying amounts of debt securities sold under repurchase agreements by nature are as follows:

	2015	2014
Available-for-sale financial assets	106,948	319,800
Financial assets designated at fair value through profit or loss	115,966	332,283
	222,914	652,083

Notes to the Financial Statements

34. Management of risks *(continued)*

(f) Transfers of financial assets *(continued)*

The consideration received under these repurchase agreements for the Group totaling HK\$212,660,000 (2014: HK\$617,994,000) was reported as "Deposits and balances of banks, central banks and other financial institutions" and "Deposits from customers" at 31st December, 2015 and 31st December, 2014. The details are as follows:

	2015	2014
Deposits and balances of banks, central banks and other financial institutions	74,258	145,871
Deposits from customers	138,402	472,123
	212,660	617,994

As stipulated in the repurchase agreements, there was no transfer of the legal ownership of these securities to the counterparties during the covered period. However, the Group was not allowed to sell or pledge these securities during the covered period unless both parties mutually agree with such arrangement. Accordingly, these securities were not derecognised from the financial statements but regarded as "collateral" for the secured lending from these counterparties. Normally, the counterparties could only claim from the collateral when there exists an event of default on the secured lending.

As at 31st December, 2015 and 31st December, 2014, there were no outstanding transferred financial assets in which the Group have a continuing involvement, that were derecognised in their entirety.

35. Staff benefits

(a) Retirement schemes

	2015	2014
Retirement benefit costs (note 5(e))	76,607	72,262

The Group operates both a Mandatory Provident Fund Exempt ORSO Scheme ("the ORSO Scheme") which is registered under the Hong Kong Occupational Retirement Schemes Ordinance and two Mandatory Provident Fund Schemes ("the MPF Schemes") established under the Hong Kong Mandatory Provident Fund Ordinance to cover all qualifying employees in Hong Kong. As from 1st August, 2004, the ORSO Scheme has been frozen as employees and the employer have made the contributions to MPF Schemes instead. In addition, a defined contribution scheme was established on 3rd January, 2001 to cover all qualifying employees in Macau at various funding rates, in accordance with the local practice and requirements. The costs of these schemes are charged to the statement of profit or loss as incurred and the assets of these schemes are held separately from the Group. Any forfeiture amount under the MPF Schemes is refunded to the Group when the member leaves employment prior to the employer's voluntary contributions being vested fully.

35. Staff benefits *(continued)*

(b) Equity compensation benefits

(i) Share Option Scheme

Pursuant to the approved Share Option Scheme, the directors are authorised, at their discretion, to invite certain executive, to take up options to purchase ordinary shares in the Bank as an incentive to them. Prior to 1st September, 2001, the exercise price was 80% of the average closing price on The Stock Exchange of Hong Kong Limited ("SEHK") on the five business days immediately preceding the date of offer of such options. After 1st September, 2001, the exercise price should be at least the higher of the closing price of the shares on SEHK on the date of the grant, which must be a trading day, and the average closing price of the shares on SEHK for the five business days immediately preceding the date of grant.

(1) *Movements in share options*

	2015		2014	
	Weighted average exercise price HK\$	Number of shares	Weighted average exercise price HK\$	Number of shares
Outstanding at 1st January	–	–	47.28	460,000
Exercised	–	–	47.28	(460,000)
Outstanding and exercisable at 31st December	–	–	–	–

No share options were granted during 2015 and 2014.

At 31st December, 2015, there was no option outstanding. Therefore, the weighted average remaining contractual life of share options is not applicable (2014: nil).

(2) *Details of share options exercised during the year*

Exercise date	Exercise price HK\$	Weighted average closing price per share at preceding day before exercise date HK\$	Proceeds received HK\$	2015 Number of shares	2014 Number of shares
03/04/2014	43.80	123.60	10,512,000	–	240,000
03/04/2014	51.25	123.60	9,225,000	–	180,000
03/04/2014	50.25	123.60	2,010,000	–	40,000
				–	460,000

The weighted average share price at the exercise date for share options exercised in 2015 was nil (2014: HK\$123.90).

Notes to the Financial Statements

35. Staff benefits (continued)

(b) Equity compensation benefits (continued)

(i) Share Option Scheme (continued)

(3) Fair value of share options and assumptions

The fair value per option at the dates of grant was measured based on the Binominal pricing model. The Binominal pricing model was used in estimating the fair value of share options after taking into account the exercise price and the life of the option. Such option pricing model requires the input of highly subjective assumptions including the risk-free interest rate, expected volatility and dividend yield of the shares. The changes in subjective input assumptions can materially affect the fair value estimate.

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information. Expected dividends are based on historical dividends.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. The fair values of the options were measured at the grant date and are charged to the statement of profit or loss and credited to shareholders' funds between the grant date and vesting date. There were no market conditions associated with the share option grants.

(ii) EIP

Pursuant to the approved EIP, the directors are authorised, at their discretion, to invite certain executives, to take up awards to vesting ordinary shares in the Bank as incentive for them to remain in employment with the Bank. The EIP was approved on 30th April, 2009 for the purposes of renewing the employee incentive plan which was approved on 22nd April, 2004 and has expired in April 2009. Under the EIP, the directors may grant awards to certain executives to acquire ordinary shares in the Bank during the first five years after the EIP was approved. The number of shares to be issued under EIP may not exceed one million shares.

The Group grants awards to certain employees to acquire ordinary shares in the Bank at no consideration under the EIP. The shares will be acquired at a nominal value of HK\$1.00 per share under the award. If the Board of Directors determines to select the cash option when shares are vested, which is available under the plan, no new shares will be issued on the date of vesting. The percentage of awards vested between the sixth to the tenth anniversaries after the date of grant is as follows:

Date	Percentage of Award vesting
Sixth anniversary of the date of grant	5%
Seventh anniversary of the date of grant	10%
Eighth anniversary of the date of grant	15%
Ninth anniversary of the date of grant	20%
Tenth anniversary of the date of grant	50%

35. Staff benefits *(continued)*

(b) Equity compensation benefits *(continued)*

(ii) EIP *(continued)*

Movement in EIP during the year is as follow:

	2015 Number of awards	2014 Number of awards
Outstanding at 1st January	–	1,811,500
Exercised	–	(495,500)
Cancelled	–	(1,316,000)
Outstanding and exercisable at 31st December	–	–

All the awards under EIP had been cancelled following the acquisition by OCBC. At 31st December, 2015, there were no EIP awards outstanding.

The fair value per award at the date of grant is determined based on the closing price of the shares of the Bank less the exercise price of the award. There were no awards being granted during the year (2014: nil).

36. Fair values of financial instruments

(a) Financial instruments measured at fair value

Financial instruments measured at fair value on an ongoing basis include trading assets and liabilities, financial instruments designated at fair value, and financial instruments classified as available-for-sale.

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This category includes all instruments where the valuation technique includes inputs not based on observable market data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Notes to the Financial Statements

36. Fair values of financial instruments *(continued)*

(a) Financial instruments measured at fair value *(continued)*

Fair values of financial instruments that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments that are not traded in the active markets, the Group determines fair values using valuation techniques. Valuation techniques include net present value of expected future cash flows and discounted cash flow models based on “no-arbitrage” principles, standard option pricing models across the industry for vanilla derivative products. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm’s length.

The majority of valuation techniques employ only observable market data. Hence, the reliability of the fair values measurement is high. However, certain financial instruments are valued on the basis of one or more significant market inputs that are not observable. The fair value derived is more judgemental. “Not observable” does not mean there is absolutely no market data available but there is little or no current market data available from which to determine the level at which an arm’s length transaction would likely occur. Examples of observable inputs include foreign exchange spot and forward rates, benchmark interest rate curves and volatility surfaces for commonly traded option products. Examples of unobservable inputs include volatility surfaces for less commonly traded option products and correlations between market factors.

Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the valuation uncertainty associated with determination of fair values. The availability varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Group uses the broker pricing service, which adopts proprietary valuation models, as inputs to a fair value measurement. These models usually are developed from recognised valuation models across the industry with some or all of the inputs into these models being unobservable in the market.

Fair values are subject to a control framework that aims to ensure that they are either determined, or validated, by a function independent of the risk-taker. To this end, ultimate responsibility for the determination of fair values lies with Middle Office. Middle Office establishes procedures governing valuation, and is responsible for ensuring that these comply with all relevant accounting standards.

36. Fair values of financial instruments *(continued)*

(a) Financial instruments measured at fair value *(continued)*

The table below analyses financial instruments measured at fair value at the reporting date according to the level in the fair value hierarchy into which they are categorised:

	2015			
Recurring fair value measurements	Level 1	Level 2	Level 3	Total
Assets				
Amounts due from ultimate holding company and fellow subsidiaries				
– Certificates of deposit held	–	3,443,465	–	3,443,465
– Other debt securities	–	3,174,767	–	3,174,767
	–	6,618,232	–	6,618,232
Trading assets				
– Treasury bills	746,075	–	–	746,075
– Other debt securities	337,188	16,844	–	354,032
– Equity securities	1,848	–	–	1,848
– Positive fair values of derivative financial instruments held for trading	–	912,591	–	912,591
	1,085,111	929,435	–	2,014,546
Financial assets designated at fair value through profit or loss				
– Treasury bills	162,797	–	–	162,797
– Certificates of deposit held	118,913	–	–	118,913
– Other debt securities	6,225,299	60,441	–	6,285,740
	6,507,009	60,441	–	6,567,450
Available-for-sale financial assets				
– Treasury bills	4,908,168	484,573	–	5,392,741
– Certificates of deposit held	568,768	11,377,899	–	11,946,667
– Other debt securities	12,673,624	2,074,383	–	14,748,007
– Equity securities	138,171	34,995	287,109	460,275
	18,288,731	13,971,850	287,109	32,547,690
	25,880,851	21,579,958	287,109	47,747,918
Liabilities				
Trading liabilities				
– Negative fair values of derivative financial instruments held for trading	–	893,269	–	893,269
Subordinated liabilities				
– Subordinated liabilities designated at fair value through profit or loss	–	3,236,237	–	3,236,237
	–	4,129,506	–	4,129,506

Notes to the Financial Statements

36. Fair values of financial instruments *(continued)*

(a) Financial instruments measured at fair value *(continued)*

	2014			
Recurring fair value measurements	Level 1	Level 2	Level 3	Total
Assets				
Trading assets				
– Treasury bills	1,049,303	–	–	1,049,303
– Other debt securities	75,562	124,860	–	200,422
– Equity securities	661	–	–	661
– Positive fair values of derivative financial instruments held for trading	–	666,222	–	666,222
	1,125,526	791,082	–	1,916,608
Financial assets designated at fair value through profit or loss				
– Treasury bills	69,339	–	–	69,339
– Other debt securities	6,410,665	614,382	–	7,025,047
	6,480,004	614,382	–	7,094,386
Available-for-sale financial assets				
– Treasury bills	8,460,128	315,066	–	8,775,194
– Certificates of deposit held	1,000,383	2,615,908	–	3,616,291
– Other debt securities	11,781,490	1,721,301	–	13,502,791
– Equity securities	116,713	30,270	168,146	315,129
	21,358,714	4,682,545	168,146	26,209,405
	28,964,244	6,088,009	168,146	35,220,399
Liabilities				
Trading liabilities				
– Negative fair values of derivative financial instruments held for trading	–	568,789	–	568,789
Subordinated liabilities				
– Subordinated liabilities designated at fair value through profit or loss	–	3,269,087	–	3,269,087
	–	3,837,876	–	3,837,876

During the year ended 31st December, 2015, there were no material transfers between Level 1 and Level 2, or transfers into or out of Level 3 (31st December, 2014: nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

36. Fair values of financial instruments *(continued)*

(a) Financial instruments measured at fair value *(continued)*

(i) Valuation of financial instruments with significant unobservable inputs

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

		2015	
	Financial assets designated at fair value through profit or loss – Debt securities	Available- for-sale financial assets – Equity securities	Total
Assets			
At 1st January	–	168,146	168,146
Sales	–	–	–
Settlements	–	–	–
Others	–	–	–
Net realised gains recognised in the statement of profit or loss	–	–	–
Changes in fair value recognised in the statement of profit or loss:			
– Net gains from financial instruments designated at fair value through profit or loss	–	–	–
Changes in fair value recognised in the other comprehensive income	–	118,962	118,962
At 31st December	–	287,108	287,108
Total gains or losses for the year included in investment revaluation reserve of the other comprehensive income for assets held at the reporting date	–	118,962	118,962
Total gains or losses for the year included in the statement of profit or loss for assets held at the reporting date			
– Net gains from financial instruments designated at fair value through profit or loss	–	–	–

Notes to the Financial Statements

36. Fair values of financial instruments *(continued)*

(a) Financial instruments measured at fair value *(continued)*

(i) Valuation of financial instruments with significant unobservable inputs *(continued)*

		2014	
	Financial assets designated at fair value through profit or loss – Debt securities	Available- for-sale financial assets – Equity securities	Total
Assets			
At 1st January	–	17,068	17,068
Sales	–	–	–
Settlements	–	–	–
Others	–	68,765	68,765
Net realised gains recognised in the statement of profit or loss	–	–	–
Changes in fair value recognised in the statement of profit or loss:			
– Net gains from financial instruments designated at fair value through profit or loss	–	–	–
Changes in fair value recognised in the other comprehensive income	–	82,313	82,313
At 31st December	–	168,146	168,146
Total gains or losses for the year included in investment revaluation reserve of the other comprehensive income for assets held at the reporting date	–	82,313	82,313
Total gains or losses for the year included in the statement of profit or loss for assets held at the reporting date			
– Net gains from financial instruments designated at fair value through profit or loss	–	–	–

36. Fair values of financial instruments *(continued)*

(a) Financial instruments measured at fair value *(continued)*

(ii) Effect of changes in significant non-observable assumptions to reasonably possible alternatives assumptions

The fair value of financial instruments are, in certain circumstances, measured using valuation models that incorporate assumptions that are not supported by prices from observable current market transactions in the same instrument and are not based on observable market data. The following table shows the sensitivity of fair values in Level 3 due to parallel movement of plus or minus 10 percent of change in fair value to reasonably possible alternative assumptions. This Level 3 sensitivity analysis assumes a one way market move and does not consider offsets for hedges.

	2015			
	Reflected in profit/(loss)		Reflected in other comprehensive income	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
Available-for-sale financial assets				
– Equity securities	–	–	28,711	(28,711)
	–	–	28,711	(28,711)
	2014			
	Reflected in profit/(loss)		Reflected in other comprehensive income	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
Available-for-sale financial assets				
– Equity securities	–	–	16,815	(16,815)
	–	–	16,815	(16,815)

Notes to the Financial Statements

36. Fair values of financial instruments *(continued)*

(b) Fair values of financial instruments carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31st December, 2015 and 31st December, 2014 except for the following financial instruments, for which their carrying amounts and fair value and the level of fair value hierarchy are disclosed below:

		2015			
	Carrying value	Fair value	Level 1	Level 2	Level 3
Financial liabilities					
Certificates of deposit issued at amortised cost	8,650,384	8,698,279	–	8,698,279	–
		2014			
	Carrying value	Fair value	Level 1	Level 2	Level 3
Financial liabilities					
Certificates of deposit issued at amortised cost	5,167,145	5,197,123	–	5,197,123	–

The following methods and significant assumptions have been applied in determining the fair values of financial instruments presented in above.

- (i) the fair value of demand deposits and savings accounts with no specific maturity is assumed to be the amount payable on demand at the reporting date.
- (ii) the fair value of variable rate financial instruments is assumed to approximate their carrying amounts and, in the case of loans and unquoted debt securities, does not, therefore, reflect changes in their credit quality, as the impact of credit risk is recognised separately by deducting the amount of the impairment loss and allowances from both the carrying amount and fair value.
- (iii) the fair value of fixed rate loans and mortgages carried at amortised cost is estimated by comparing market interest rates when the loans were granted with current market rates offered on similar loans. Changes in the credit quality of loans within the portfolio are not taken into account in determining gross fair values, as the impact of credit risk is recognised separately by deducting the amount of the impairment loss and allowances from both the carrying amount and fair value.
- (iv) the fair value of unquoted equity investments is estimated, if possible, using applicable price/earnings ratios for similar listed companies adjusted to reflect the specific circumstances of the issuers.

37. Bank-level statement of financial position

	2015	2014
ASSETS		
Cash and balances with banks, central banks and other financial institutions	968,110	1,223,262
Placements with banks, central banks and other financial institutions	5,105,789	11,560,122
Amounts due from ultimate holding company and fellow subsidiaries	9,640,759	6,875,749
Trading assets	2,036,531	1,910,128
Financial assets designated at fair value through profit or loss	6,567,450	7,094,386
Advances to customers and other accounts	98,086,108	97,777,336
Amounts due from subsidiaries	21,878,070	21,057,180
Available-for-sale financial assets	29,986,749	22,345,304
Investments in subsidiaries	2,720,571	2,720,571
Investments in associated companies	193,661	240,432
Tangible fixed assets		
– Other properties, plants and equipment	3,430,716	3,102,405
Goodwill	847,422	847,422
Total assets	181,461,936	176,754,297
EQUITY AND LIABILITIES		
Deposits and balances of banks, central banks and other financial institutions	690,701	2,269,812
Amounts due to ultimate holding company and fellow subsidiaries	2,304,865	1,551,602
Deposits from customers	136,473,229	136,784,732
Certificates of deposit issued	8,650,385	5,167,145
Trading liabilities	877,225	551,849
Current tax payable	127,349	57,652
Deferred tax liabilities	70,761	67,722
Other accounts and provisions	1,545,511	1,640,331
Amounts due to subsidiaries	8,469,516	8,064,124
Subordinated liabilities	3,236,237	3,269,087
Total liabilities	162,445,779	159,424,056
Share capital	1,740,750	1,740,750
Reserves	17,275,407	15,589,491
Total equity	19,016,157	17,330,241
Total equity and liabilities	181,461,936	176,754,297

Approved and authorised for issue by the Board of Directors on 31st March, 2016.

Patrick Y B FUNG
W B NA

Chairman
Executive Director and Chief Executive

Notes to the Financial Statements

38. Ultimate controlling party

At 31st December, 2015, the directors consider the ultimate controlling party of the Bank to be Oversea-Chinese Banking Corporation Limited which is incorporated in Singapore.

39. Possible impact of amendments, new standards and Interpretations issued but not yet effective for the year ended 31st December, 2015

Up to the date of issue of these financial statements, the HKICPA has issued a few amendments and new standards which are not yet effective for the year ended 31st December, 2015 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Annual improvements to HKFRSs 2012-2014 cycle	1st January, 2016
Amendments to HKAS 16 and HKAS 38, <i>Clarification of acceptable methods of depreciation and amortisation</i>	1st January, 2016
Amendments to HKAS 1, <i>Disclosure initiative</i>	1st January, 2016
HKFRS 15, <i>Revenue from contracts with customers</i>	1st January, 2018
HKFRS 9, <i>Financial instruments</i>	1st January, 2018

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position except for HKFRS 9 which may have an impact on the Group's results and financial position arising from changes in the Group's classification and measurement of financial instruments.

40. Approval of the financial statements

These financial statements were approved and authorised for issue by the Board of Directors on 31st March, 2016.

41. Non-adjusting events after the reporting period

On 4th January, 2016, CBRC has conditionally approved the Bank's acquisition on OCBC China. For details, please refer to note 33(a).

The Bank's ultimate holding company, OCBC, granted 419,828 deferred shares under the OCBC Deferred Share Plan and 979,707 share options under the OCBC Share Option Scheme 2001 to eligible employees as deferred variable incentive bonus for the year end 31st December, 2015 on 14th March, 2016 and 16th March, 2016 respectively.

OCBC Deferred Share Plan

50% of the deferred shares will be vested on the second anniversary of the date of grant on 14th March, 2018, with the remaining 50% will be vested on the third anniversary of the date of grant on 14th March, 2019.

OCBC Share Option Scheme 2001

One-third of share options granted will be vested on the first anniversary of the date of grant (i.e. 16th March, 2017), one-third of share options will be vested on the second anniversary of the date of grant (i.e. 16th March, 2018) and the remaining 34% of share options will be vested on the third anniversary of the date of grant (i.e. 16th March, 2019). The share options are exercisable after the date of vesting, but within 10 years from the date of grant. The exercise price for the option is to be determined by the Remuneration Committee of OCBC.

42. Restatement of prior periods

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

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(Expressed in thousands of Hong Kong dollars unless otherwise stated)

The notes to the consolidated financial statements and the following unaudited supplementary financial information are prepared to comply with the Banking (Disclosure) Rules.

(a) Capital and liquidity ratios

(i) Capital ratio

	2015	2014
Total capital ratio as at 31st December	17.2%	15.3%
Tier 1 capital ratio as at 31st December	13.6%	11.7%
Common Equity Tier 1 capital ratio as at 31st December	13.6%	11.7%

As mentioned in note 34(e) of "Notes to the financial statements" on the capital management of the Group, the calculation of the regulatory capital and capital charges are in accordance with the Banking (Capital) Rules.

In calculating the capital ratio of the Group, the following subsidiaries are excluded from the regulatory scope of consolidation which are mainly securities and insurance companies that are authorised and supervised by a regulator and are subject to supervisory arrangements regarding the maintenance of adequate capital to support business activities comparable to those prescribed for authorised institutions under the Capital Rules and the Banking Ordinance:

Subsidiaries	Principal activities	2015		2014	
		Total assets	Total equity	Total assets	Total equity
CF Limited	Dormant/to be liquidated	–	–	–	–
Chekiang First Bank (Nominees) Limited	Nominee Services	10	10	10	10
Chekiang First Bank (Trustees) Limited	Trustee Services	3,943	3,931	3,959	3,938
Chekiang First Limited	Dormant	1	1	1	1
Chekiang First Securities Company Limited	Dormant	6,515	6,451	6,582	6,524
Honfirst Investment Limited	Futures Trading	16,490	16,426	16,422	16,359
OCBC Wing Hang (Nominees) Limited	Nominee Services	10	10	10	10
OCBC Wing Hang (Trustee) Limited	Trustee Services	3,640	3,603	3,622	3,568
OCBC Wing Hang Insurance Agency Limited	Insurance Agency	51,514	38,937	38,513	26,140
OCBC Wing Hang Insurance Brokers Limited	Insurance Broker	27,675	19,509	20,744	13,034
OCBC Wing Hang Shares Brokerage Company Limited	Securities Dealing	390,622	282,069	606,468	251,960

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(a) Capital and liquidity ratios *(continued)*

(i) Capital ratio *(continued)*

As at 31st December, 2015, there are no subsidiaries which are included within both the accounting scope of consolidation and the regulatory scope of consolidation but the method of consolidation differs.

There are also no subsidiaries which are included within the regulatory scope of consolidation but not included within the accounting scope of consolidation.

The detailed disclosure required by the Banking (Disclosure) Rules will be disclosed before 30th April, 2016 under "Regulatory Disclosure" on the website of the Bank (www.ocbcwhhk.com).

(ii) Average liquidity maintenance ratio and average liquidity ratio

	2015	2014
Average liquidity maintenance ratio for the year	36.4%	–
Average liquidity ratio for the year	–	37.5%

The average liquidity maintenance ratio for 2015 and the average liquidity ratio for 2014 include the liquidity positions of the Bank and certain of its financial subsidiaries. The basis of computation have been agreed with the Hong Kong Monetary Authority ("HKMA"). The ratio as of 31st December, 2015 is compiled in accordance with the Banking (Liquidity) Rule effective from 1st January, 2015, whereas the ratio as of 31st December, 2014 was compiled in accordance with the Fourth Schedule of the Hong Kong Banking Ordinance as in force immediately before 1st January, 2015. Accordingly, the ratios of the two years are not directly comparable.

(b) Advances to customers analysed by geographical area

The geographical information is classified by the geographical location of the counterparties after taking into account any risk transfer. In general, such transfer of risk takes place if the claims are guaranteed by a party in a geographical location which is different from that of the borrower or if the claims are on an overseas branch of a bank whose head office is located in another geographical location.

	Gross advances to customers	Impaired advances to customers	2015 Overdue advances to customers for over three months	Individual impairment allowances	Collective impairment allowances
Hong Kong	113,211,251	236,693	172,820	103,800	118,579
Macau	20,436,783	25,069	27,206	22,753	11,849
Mainland China	15,639,788	590,642	568,770	50,234	86,311
Others	1,194,797	7,649	3,369	254	5,811
	150,482,619	860,053	772,165	177,041	222,550

(b) Advances to customers analysed by geographical area *(continued)*

			2014 Overdue advances to customers for over three months	Individual impairment allowances	Collective impairment allowances
	Gross advances to customers	Impaired advances to customers			
Hong Kong	108,296,095	172,068	96,104	37,079	105,153
Macau	19,709,825	25,430	33,053	22,739	8,411
Mainland China	21,846,991	350,880	284,666	145,641	98,811
Others	986,565	3,598	14,949	57	5,492
	150,839,476	551,976	428,772	205,516	217,867

(c) Further analysis of advances to customers by industry sectors

The following information concerning the further analysis of advances to customers by industry sectors is prepared by classifying the advances according to the usage of the advances in respect of industry sectors which constitute not less than 10% of gross advances to customers.

			2015			
	Gross advances to customers	Overdue advances to customers for over three months	Individual impairment allowances	Collective impairment allowances	Impairment allowances charged to statement of profit or loss during the year	Impairment allowances written off during the year
Property investment	20,360,131	–	–	14,326	917	–
Advances for the purchase of other residential properties	34,473,856	9,125	–	33,109	1,945	–
Advances for use outside						
Hong Kong						
– Mainland China	22,565,148	630,047	70,921	120,798	58,540	148,440
– Macau	21,246,727	26,944	22,753	11,162	4,163	4,066

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(c) Further analysis of advances to customers by industry sectors *(continued)*

	2014					
	Gross advances to customers	Overdue advances to customers for over three months	Individual impairment allowances	Collective impairment allowances	Impairment allowances (released)/ charged to statement of profit or loss during the year	Impairment allowances written off during the year
Property investment	19,645,482	–	–	13,804	(645)	–
Advances for the purchase of other residential properties	30,014,249	320	–	29,098	1,754	10
Advances for use outside Hong Kong						
– Mainland China	28,954,954	328,891	152,246	128,122	190,727	61,669
– Macau	20,816,317	33,053	22,739	7,868	23,890	2,640

(d) Overdue and rescheduled assets

(i) Overdue and rescheduled advances to customers

	2015		2014	
Gross advances to customers which have been overdue with respect to either principal or interest for periods of:	Amount	% of total advances to customers	Amount	% of total advances to customers
– 6 months or less but over 3 months	422,153	0.28	118,186	0.08
– 1 year or less but over 6 months	140,996	0.09	47,722	0.03
– Over 1 year	209,016	0.14	262,864	0.17
	772,165	0.51	428,772	0.28
Covered portion of overdue advances	685,113		312,810	
Uncovered portion of overdue advances	87,052		115,962	
	772,165		428,772	
Current market values of collateral held against covered portion of overdue advances	1,383,231		1,244,930	
Individual impairment allowances made on overdue advances	132,493		157,206	

(d) Overdue and rescheduled assets *(continued)*

(i) Overdue and rescheduled advances to customers *(continued)*

Collateral held with respect to overdue advances to customers are mainly properties and vehicles.

Advances with a specific repayment date are classified as overdue when the principal or interest is overdue and remains unpaid at the year end. Loans repayable by regular instalments are treated as overdue when an instalment payment is overdue and remains unpaid at year end. Loans repayable on demand are classified as overdue either when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the demand notice, and/or when the loans have remained continuously outside the approved limit advised to the borrower for more than the overdue period in question.

Rescheduled advances are those advances which have been restructured or renegotiated because of a deterioration in the financial position of the borrower, or of the inability of the borrower to meet the original repayment schedule and for which the revised repayment terms are non-commercial to the Group. Rescheduled advances are stated net of any advances that have subsequently become overdue for over 3 months and can be analysed as follows:

	2015		2014	
	Amount	% of total advances to customers	Amount	% of total advances to customers
Rescheduled advances to customers	15,097	0.01	14,761	0.01

There were no advances to banks which were overdue nor rescheduled as at 31st December, 2015 and 31st December, 2014.

(ii) Other overdue assets

	2015	2014
Trade bills which have been overdue with respect to either principal or interest for periods of:		
– 6 months or less but over 3 months	–	–
– 1 year or less but over 6 months	–	–
– Over 1 year	–	398
	–	398

There are no overdue debt securities included in “Financial assets designated at fair value through profit or loss” and “Available-for-sale financial assets” as at 31st December, 2015 and 31st December, 2014.

Included in “Other assets” as at 31st December, 2015 and 31st December, 2014, there are no receivables which are overdue.

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(e) Non-bank Mainland China exposures

The analysis on non-bank Mainland China exposures includes exposures of the Bank and certain of its subsidiaries on the basis agreed with the HKMA.

(In millions of HK\$ equivalent)	On-balance sheet exposures	2015	
		Off-balance sheet exposures	Total exposures
(i) Central government, central government-owned entities and their subsidiaries and Joint Ventures ("JVs")	8,471	269	8,740
(ii) Local government, local government-owned entities and their subsidiaries and JVs	2,241	240	2,481
(iii) PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	16,028	4,019	20,047
(iv) Other entities of central government not reported in item (i) above	475	139	614
(v) Other entities of local government not reported in item (ii) above	1,563	–	1,563
(vi) PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in the Mainland China	4,282	110	4,392
(vii) Other counterparties where the exposures are considered by the Group to be non-bank Mainland China exposures	5,114	–	5,114
Total	38,174	4,777	42,951
Total assets after provisions	203,594		
On-balance sheet exposures as % of total assets	18.75%		

(e) Non-bank Mainland China exposures *(continued)*

<i>(In millions of HK\$ equivalent)</i>	On-balance sheet exposures	2014 Off-balance sheet exposures	Total exposures
(i) Central government, central government-owned entities and their subsidiaries and JVs	8,399	85	8,484
(ii) Local government, local government-owned entities and their subsidiaries and JVs	1,807	–	1,807
(iii) PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	17,607	10,019	27,626
(iv) Other entities of central government not reported in item (i) above	1,095	140	1,235
(v) Other entities of local government not reported in item (ii) above	1,261	–	1,261
(vi) PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in the Mainland China	3,078	186	3,264
(vii) Other counterparties where the exposures are considered by the Group to be non-bank Mainland China exposures	4,403	–	4,403
Total	37,650	10,430	48,080
Total assets after provisions	214,314		
On-balance sheet exposures as % of total assets	17.57%		

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(f) International claims

Analysis of the Bank's international claims by location and by type of counterparty is as follows:

2015					
	Banks	Official sector	Non-bank private sector		Total
			Non-bank financial institutions	Non-financial private sector	
Offshore centres, of which					
– Hong Kong	5,693	4,340	5,127	114,565	129,725
– Macau	454	1,083	49	20,601	22,187
– Singapore	9,994	84	38	547	10,663
Developing Asia-Pacific, of which					
– Mainland China	15,700	2,986	752	22,298	41,736
	31,841	8,493	5,966	158,011	204,311
2014					
	Banks	Official sector	Non-bank private sector		Total
			Non-bank financial institutions	Non-financial private sector	
Offshore centres, of which					
– Hong Kong	2,579	6,756	17,014	95,793	122,142
– Macau	51	691	34	20,020	20,796
– Singapore	7,066	–	190	695	7,951
Developing Asia-Pacific, of which					
– Mainland China	25,913	6,660	1,380	29,495	63,448
	35,609	14,107	18,618	146,003	214,337

The above analysis is disclosed on a net basis after taking into account the effect of any recognised risk transfer.

(g) Additional disclosures on credit risk management

(i) Capital requirement

In calculating the capital ratio of the Group for regulating reporting purposes, the Group's capital requirements are calculated under the Standardised (Credit Risk) Approach, except for Wing Hang Bank (China) Limited and Banco OCBC Weng Hang, S.A. which the capital requirements are calculated under the Basic Approach. The Group uses the following external credit assessment institutions ("ECAIs") to calculate its capital adequacy requirements prescribed in the Banking (Capital) Rules:

- Fitch Ratings
- Moody's Investors Service, Inc.
- Standard & Poor's Ratings Services
- Rating and Investment Information, Inc.

The following capital requirement is made by multiplying the Group's risk-weighted amount derived from the relevant calculation approach by 8%. It does not reflect the Group's actual regulatory capital.

- (1) The capital requirements on each class of exposure calculated under the Standardised (Credit Risk) Approach at the reporting date can be analysed as follow:

	2015	2014
Classes of exposure:		
– Sovereign	1,076	2,837
– Public sector entity	65,223	87,207
– Bank	1,040,106	1,190,571
– Securities firm	7,281	4,070
– Corporate	3,674,634	3,651,566
– Cash items	1,973	2,973
– Regulatory retail	935,320	865,582
– Residential mortgage loans	1,399,801	1,243,829
– Other exposures which are not past due	482,837	470,742
– Past due	8,925	6,587
Total capital requirements for on-balance sheet exposures	7,617,176	7,525,964
– Direct credit substitutes	26,820	84,377
– Transaction-related contingencies	1,338	1,321
– Trade-related contingencies	9,781	13,900
– Other commitments	53,677	57,865
– Exchange rate contracts	71,534	39,965
– Interest rate contracts	12,099	16,142
– Equity contracts	3,255	2,756
– Default risk exposures – securities financing transactions	1,054	1,653
Total capital requirements for off-balance sheet exposures	179,558	217,979
	7,796,734	7,743,943

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(g) Additional disclosures on credit risk management *(continued)*

(i) Capital requirement *(continued)*

- (2) The capital requirements on each class of exposure calculated under the Basic Approach at the reporting date can be analysed as follow:

	2015	2014
Classes of exposure:		
– Sovereign	37,046	45,421
– Public sector entity	–	–
– Bank	47,465	185,035
– Cash items	1	1
– Residential mortgage loans	877,583	900,032
– Other exposures	1,451,203	1,746,162
Total capital requirements for on-balance sheet exposures	2,413,298	2,876,651
– Direct credit substitutes	11,179	18,094
– Transaction-related contingencies	870	943
– Trade-related contingencies	1,791	2,095
– Other commitments	22,201	22,639
– Exchange rate contracts	3,888	1,723
– Interest rate contracts	–	–
– Default risk exposures – securities financing transactions	1,135	16,119
Total capital requirements for off-balance sheet exposures	41,064	61,613
	2,454,362	2,938,264

(g) Additional disclosures on credit risk management *(continued)*

(ii) Credit risk exposures

Credit ratings from above-mentioned ECAs are used for all classes of credit exposures mentioned below. The Group follows the process prescribed in Part 4 of the Banking (Capital) Rules to map the ratings to the exposures booked in the Bank's banking book.

An analysis of the credit risk calculated under Standardised (Credit Risk) Approach by class of exposures at the reporting date is as follows:

	2015						Total exposure covered by recognised guarantees or recognised credit derivative contracts
	Total exposures	Exposures after recognised credit risk mitigation		Risk-weighted amounts		Total risk-weighted amounts	
		Rated	Unrated	Rated	Unrated		
On-balance Sheet:							
– Sovereign	4,419,886	4,588,028	–	13,456	–	13,456	–
– Public sector entity	613,881	1,779,658	2,139,239	387,442	427,848	815,290	23,334
– Multilateral development bank	28,686	28,686	–	–	–	–	–
– Bank	34,846,491	36,024,130	273,837	12,862,297	139,022	13,001,319	–
– Securities firm	1,771,044	–	182,025	–	91,013	91,013	1,589,020
– Corporate	56,505,073	10,718,673	39,467,522	6,465,403	39,467,522	45,932,925	4,072,357
– Cash items	713,041	–	713,041	–	24,668	24,668	–
– Regulatory retail	16,147,110	–	15,588,663	–	11,691,498	11,691,498	241,806
– Residential mortgage loans	46,659,213	–	44,196,784	–	17,497,506	17,497,506	100,956
– Other exposures which are not past due exposures	6,251,293	135,058	5,554,014	135,058	5,900,409	6,035,467	562,221
– Past due exposures	109,758	25,792	83,966	2,816	108,744	111,560	33,741
	168,065,476	53,300,025	108,199,091	19,866,472	75,348,230	95,214,702	6,600,101
Off-balance sheet:							
– off-balance sheet exposures other than OTC derivative transactions or credit derivative contracts	1,252,296	39,018	1,139,264	22,261	1,122,933	1,145,194	74,014
– OTC derivative transactions	1,789,458	839,142	780,941	310,226	775,874	1,086,100	169,375
– Default risk exposures -securities financing transactions	234,645	17,617	4,367	8,809	4,367	13,176	212,661
	3,276,399	895,777	1,924,572	341,296	1,903,174	2,244,470	456,050
	171,341,875	54,195,802	110,123,663	20,207,768	77,251,404	97,459,172	7,056,151
Exposures deducted from capital base	–						

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(g) Additional disclosures on credit risk management (continued)

(ii) Credit risk exposures (continued)

	2014						Total exposure covered by recognised guarantees or recognised credit derivative contracts	
	Total exposures	Exposures after recognised credit risk mitigation		Risk-weighted amounts		Total risk-weighted amounts	Total exposure covered by recognised collateral	
		Rated	Unrated	Rated	Unrated			
On-balance Sheet:								
–Sovereign	6,714,294	7,395,289	–	35,465	–	35,465	–	–
–Public sector entity	1,496,177	3,058,801	2,391,627	611,760	478,326	1,090,086	–	460,790
–Multilateral development bank	33,795	33,795	–	–	–	–	–	–
–Bank	36,827,415	34,184,887	4,693,187	12,588,872	2,293,269	14,882,141	3,878,934	–
–Securities firm	694,285	–	101,746	–	50,873	50,873	591,909	630
–Corporate	57,891,654	11,713,606	37,916,279	7,728,302	37,916,279	45,644,581	700,099	7,561,670
–Cash items	812,771	–	812,771	–	37,168	37,168	–	–
–Regulatory retail	15,032,115	–	14,426,378	–	10,819,783	10,819,783	258,718	347,019
–Residential mortgage loans	41,901,308	–	39,145,014	–	15,547,859	15,547,859	100,774	2,655,520
–Other exposures which are not past due exposures	5,760,734	719,433	4,822,788	719,433	5,164,838	5,884,271	218,513	–
–Past due exposures	83,839	24,092	59,747	3,189	79,148	82,337	19,734	24,092
	167,248,387	57,129,903	104,369,537	21,687,021	72,387,543	94,074,564	5,768,681	11,049,721
Off-balance sheet:								
– off-balance sheet exposures other than OTC derivative transactions or credit derivative contracts	2,175,174	375,333	1,718,104	270,030	1,698,258	1,968,288	81,737	7,445
– OTC derivative transactions	1,246,182	682,189	454,241	285,652	450,133	735,785	109,752	–
– Default risk exposures -securities financing transactions	652,083	26,853	7,235	13,427	7,235	20,662	617,995	–
	4,073,439	1,084,375	2,179,580	569,109	2,155,626	2,724,735	809,484	7,445
	171,321,826	58,214,278	106,549,117	22,256,130	74,543,169	96,799,299	6,578,165	11,057,166
Exposures deducted from capital base	–							

The above exposures are principal amount or credit equivalent amount, as applicable, net of individual impairment allowances.

(g) Additional disclosures on credit risk management *(continued)*

(iii) Counterparty credit risk-related exposures calculated under the Standardised (Credit Risk) Approach

In respect of the Group's counterparty credit risk which arises from over-the-counter ("OTC") derivative transactions, repo-style transactions and credit derivative contracts (other than recognised credit derivative contracts), all credit limits are established in advance of transacting the business and credit and settlement risk must be correctly captured, monitored and reported in accordance with the Group risk methodologies. Credit exposures are measured in book or market value terms depending on the product involved. These methods of calculating credit exposure apply to all counterparties or reference entities in transaction.

The policy for secured collateral on derivatives is guided by the Group's Loaning Manual ensuring the due-diligence necessary to fully understand the effectiveness of netting and collateralisation by jurisdiction, counterparty, product and agreement type is fully assessed and that the due-diligence standards are high and consistently applied.

Under the terms of our current collateral obligations under derivative contracts, the Group estimate based on the positions as at 31st December, 2015 that the Bank would not be required to post additional collateral in the event of one or two notch downgrade in the Bank's credit ratings (2014: nil).

Wrong-way risk is an aggravated form of concentration risk and arises when there is a strong correlation between the probability of default of counterparty and the mark-to-market value of the underlying transaction. The Group uses a range of procedures to monitor and control wrong-way risk, including requiring front offices to obtain prior approval before undertaking wrong way risk transactions outside pre-agreed guidelines.

(1) Analysis of the major classes of its exposures by counterparty type

	2015		2014	
	OTC derivative transactions	Repo-styles transactions	OTC derivative transactions	Repo-styles transactions
Notional amounts:				
– Banks	55,996,737	80,079	33,625,488	152,405
– Corporates	27,090,006	154,567	19,693,510	499,678
– Others	1,320,399	–	1,429,900	–
	84,407,142	234,646	54,748,898	652,083
Credit equivalent amounts or net credit exposures net of recognised collateral:				
– Banks	835,505	5,821	683,297	6,533
– Corporates	727,047	16,164	409,493	27,555
– Others	57,531	–	43,640	–
	1,620,083	21,985	1,136,430	34,088
Risk-weighted amounts:				
– Banks	308,407	2,910	286,207	3,267
– Corporates	725,228	10,266	409,492	17,395
– Others	52,465	–	40,086	–
	1,086,100	13,176	735,785	20,662

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(g) Additional disclosures on credit risk management *(continued)*

(iii) Counterparty credit risk-related exposures calculated under the Standardised (Credit Risk) Approach *(continued)*

(2) Analysis of the counterparty party credit risk exposures

	2015		2014	
	OTC derivative transactions	Repo-styles transactions	OTC derivative transactions	Repo-styles transactions
Gross total positive fair value which are not repo-style transactions	836,044	–	637,533	–
Recognised collateral held before any haircuts:				
– cash on deposit with the Bank	407,408	212,660	262,256	617,994
– equity securities	14,141	–	11,214	–
– others	788,580	–	431,435	–
	1,210,129	212,660	704,905	617,994
Credit equivalent amounts or net credit exposures net of recognised collateral held	1,620,083	21,985	1,136,430	34,088
Risk weighted amounts	1,086,100	13,176	735,785	20,662

- (3) Credit derivative contracts which create exposures to counterparty credit risk
There are no credit derivative contracts which are used for management of the Group's credit portfolio as at 31st December, 2015 and 31st December, 2014.

(g) Additional disclosures on credit risk management *(continued)*

(iv) Credit risk mitigation

The Group's policy provides that netting is only to be applied where it has the legal right to do so.

Under the Banking (Capital) Rules, recognised netting is defined as any netting done pursuant to a valid bilateral netting arrangement. Consistent with the Banking (Capital) Rules, only bilateral netting arrangements are included for capital adequacy credit risk mitigation calculation. While the use of multi-lateral netting arrangement is allowed for internal credit risk management, it is not a valid credit risk mitigation under the Banking (Capital) Rules.

It is the Group's policy that all corporate and institutional facilities be reviewed (and hence revalued) at least on an annual basis. Where facilities have been overdue for more than 90 days and are tangibly secured, the collateral must be revalued not less than every 3 months.

For residential mortgage loans that are more than 90 days past due, the mortgaged property must be revalued not less than every 3 months.

The main types of recognised collateral taken by the Group are those as stated in Section 80 of the Banking (Capital) Rules, including (but not limited to) cash on deposit, gold bullion, equities listed in a main index and/or a recognised exchange and various recognised debt securities.

As stated in Sections 98 and 99 of the Banking (Capital) Rules, certain guarantees and credit derivative contracts are recognised for credit risk mitigation purposes. The main types of guarantees are from sovereigns, corporate and banks. With corporate guarantees, in order for it to be recognised as a credit risk mitigants, it must have a credit rating of A- or better by Standard & Poor's Ratings Services, Fitch Ratings and Rating and Investment Information, Inc, or a credit rating of A3 or better by Moody's Investors Service.

There were immaterial credit and market risk concentrations within the credit risk mitigants (recognised collateral and guarantees) used by the Group.

(v) Asset securitisation

The Group has no asset securitisation exposures under the Standardised (Credit Risk) Approach and Basic Approach at 31st December, 2015 and 31st December, 2014.

(vi) Market risk capital charge

The capital charge for market risk calculated in accordance with the Standardised (Market Risk) Approach at the reporting date is as follow:

	2015	2014
Capital charge for market risk		
– Interest rate exposures (including options)	217,302	280,219
– Equity rate exposures (including options)	826	146
– Foreign exchange exposures (including gold and options)	287,800	312,305
	505,928	592,670

Unaudited Supplementary Financial Information

(g) Additional disclosures on credit risk management *(continued)*

(vii) Operational risk capital charge

The capital charge for operational risk calculated in accordance with the Basic Indicator Approach at the reporting date is as follow:

	2015	2014
Capital charge for operational risk	643,493	606,058

(viii) Equity exposures in banking's book

Investments in equity shares which are intended to be held on a continuing basis, but which do not comprise investments in associates or subsidiaries, are classified as available-for-sale securities and are reported in the statement of financial position as "Available-for-sale financial assets". Available-for-sale securities are measured at fair value as described in notes 2(f)(ii) and (iii) of "Notes to the financial statements" on the financial statements. Included within this category are investments made by the Group for strategic purposes, which are subject to additional internal procedures and approvals to ensure that the investment is in accordance with the Group's strategy and to ensure compliance with all relevant regulatory and legal restrictions.

	2015	2014
Cumulative realised gains from sales and liquidations	–	3,528
Unrealised gains:		
– recognised in reserve but not through statement of profit or loss	361,757	217,670
– deducted from the supplementary capital	–	–

(ix) Interest rate exposures in banking's book

Interest rate exposures are calculated under the Price Value of a Basis Point ("PVBP") methodology. For the information of the nature and measurement of the risk, please refer to note 34(c) of "Notes to the financial statements".

	2015		2014	
	HK dollars	US dollars	HK dollars	US dollars
Interest rate changes by				
10 basis points				
– increase in earnings by				
increasing 10 basis points	18,245	(4,553)	13,683	(1,564)
– decrease in earnings by				
decreasing 10 basis points	(18,245)	4,553	(13,683)	1,564

(h) Countercyclical Capital Buffer Ratio

There is no information disclosed relating to the countercyclical capital buffer ratio pursuant to section 24B of the Banking (Disclosure) Rules for this year because the applicable JCCyB ratios for Hong Kong and for jurisdiction outside Hong Kong are at 0% before 1st January, 2016 according to section 3P and section 3Q of the Banking (Capital) Rules.

(i) Corporate Governance

The Group is committed to high standards of corporate governance. The Group has fully complied with the requirements set out in the guideline on "Corporate Governance of Locally Incorporated Authorised Institutions" under Supervisory Policy Manual issued by the HKMA. The Group established a number of committees under the Board of Directors including the Executive Committee, Credit Committee, Management Committee, Asset and Liability Management Committee, Audit Committee, Director Nomination Committee, Risk Management Committee and Remuneration Committee. The compositions and functions are explained in the "Corporate Governance Report".

List of Branches

HONG KONG

Main Branch	161 Queen's Road Central, Central
Aberdeen Branch	170-172 Aberdeen Main Road, Aberdeen
Causeway Bay Branch	443-445 Hennessy Road, Causeway Bay
Central Branch	G/F, Henley Building, 5 Queen's Road Central, Central
Fortress Hill Branch	Shop B2A, 318-328 King's Road, Fortress Hill
Gloucester Road Branch	Shop 1-3, G/F, Tung Wai Commercial Building 109-111 Gloucester Road, Wanchai
Gold & Silver Exchange Branch	1/F, 12-18 Mercer Street, Sheung Wan
Happy Valley Branch	Shop 2, 15-17 King Kwong Street, Happy Valley
Johnston Road Branch	131-133 Johnston Road, Wanchai
North Point Branch	441-443 King's Road, North Point
Shaukeiwan Branch	Perfect Mount Gardens, 1 Po Man Street, Shaukeiwan
Taikoo Shing Branch	Shop G12, Wah Shan Mansion, 17 Taikoo Shing Road
United Centre Branch	Shop 2007-9, 2/F, United Centre, 95 Queensway, Admiralty
Western Branch	139-141 Des Voeux Road West, Sai Ying Pun
Auto & Equipment Finance	
Main Office	5/F, Eastern Central Plaza, 3 Yiu Hing Road, Shaukeiwan

KOWLOON

Castle Peak Road Branch	Shop 2, 253-259 Castle Peak Road, Cheung Sha Wan
Cheung Sha Wan Branch	T-301, 1/F, Administration Block, Cheung Sha Wan Wholesale Food Market
Hoi Yuen Road Branch	Unit 2, G/F, 60 Hoi Yuen Road, Kwun Tong
Hunghom Branch	104 Ma Tau Wai Road, Hunghom
Kowloon Branch	298 Nathan Road, Jordan
Kowloon City Branch	37 Nga Tsin Wai Road, Kowloon City
Kwun Tong Branch	22-24 Fu Yan Street, Kwun Tong
Mei Foo Branch	Shop N52, G/F, Mount Sterling Mall, Mei Foo Sun Chuen
Mongkok Road Branch	16 Mongkok Road, Mongkok
Ngau Tau Kok Road Branch	347-349 Ngau Tau Kok Road, Kwun Tong
San Po Kong Branch	G/F, 66-70 Tseuk Luk Street, San Po Kong
Shamshuipo Branch	57 Cheung Sha Wan Road, Shamshuipo
Tai Kok Tsui Branch	51-67 Tung Chau Street, Tai Kok Tsui
Tokwawan Branch	237A Tokwawan Road, Tokwawan
Tsimshatsui Branch	54 Cameron Road, Tsimshatsui
Tsimshatsui East Branch	Shop 17-18, G/F, Houston Centre, Tsimshatsui
Whampoa Estate Branch	8-10 Tak Man Street, Whampoa Estate, Hunghom
Yaumati Branch	507 Nathan Road, Yaumati

NEW TERRITORIES

Kwai Chung Branch	Kwai Chung Centre, 100 Kwai Hing Road, Kwai Chung
Sha Tsui Road Branch	345-347 Sha Tsui Road, Tsuen Wan
Shatin Branch	Shop 16A & B, Level 1, Shatin Lucky Plaza, Shatin
Sheung Shui Branch	104-104A San Fung Avenue, Sheung Shui
Tai Po Branch	Shop F, 12-26 Tai Wing Lane, Tai Po
Tai Wai Branch	32-34 Tai Wai Road, Shatin
Tseung Kwan O Branch	Shop 1022-23, Level 1, Metro City Phase II, Tseung Kwan O
Tsuen Wan Branch	35 Chung On Street, Tsuen Wan
Tuen Mun Branch	Shops Nos. 1 & 2, G/F, Man Cheung Mansion, 52-62 Tuen Mun Heung Sze Wui Road, Tuen Mun
Yuen Long Branch	Shop 1-3, G/F, 40-54 Castle Peak Road, Yuen Long

Auto & Equipment Finance

Yuen Long Center	10/F., HSBC Building, 150 Castle Peak Road, Yuen Long
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List of Branches

OCBC Wing Hang Credit Ltd.

Main Branch	14/F, Tai Yau Building, 181 Johnston Road, Wanchai
Central Wing On Centre Branch	Unit 1202, 12/F, Wing On Centre, 111 Connaught Road Central, Central
Central Manning House Branch	Room 1005, 10/F, Manning House, 48 Queen's Road Central, Central
Wanchai Johnston Road Branch	14/F, Tai Yau Building, 181 Johnston Road, Wanchai
Wanchai Hennessy Road Branch	Unit 705, 7/F, Emperor Group Centre, 288 Hennessy Road, Wanchai
Causeway Bay Branch	Unit B, 19/F, McDonald's Building, 46-54 Yee Wo Street, Causeway Bay
North Point Branch	Rooms 1509-10, 15/F, Olympia Plaza, 255 King's Road, North Point
Tsimshatsui Branch	Units 1401 & 1402, 14/F, Carnarvon Plaza, 20 Carnarvon Road, Tsimshatsui
Jordan Branch	Unit 1204, 12/F, Fourseas Building, 208-212 Nathan Road, Jordan
Mongkok Branch	Unit 1106, 11/F, Wai Fung Plaza, 664 Nathan Road, Mongkok
Prince Edward Branch	Units 1115 & 1116, 11/F, Pioneer Centre, 750 Nathan Road, Mongkok
San Po Kong Branch	G/F, On Keung Building, 51 Hong Keung Street, San Po Kong
Kowloon Bay Branch	Unit 1512, 15/F, Telford House, 16 Wang Hoi Road, Kowloon Bay
Kwun Tong Hong Ning Road Branch	G/F, 71 Hong Ning Road, Kwun Tong
Kwun Tong Kwun Tong Road Branch	Unit 1104, 11/F, Kwun Tong View, 410 Kwun Tong Road, Kwun Tong
Kwai Fong Branch	Units 1909-1912, 19/F, Tower II, Metroplaza, 223 Hing Fong Road, Kwai Fong
Tsuen Wan Nan Fung Branch	Unit 1521, 15/F, Nan Fung Centre, 264-298 Castle Peak Road, Tsuen Wan
Tsuen Wan KOLOUR Branch	Unit 2210, 22/F, KOLOUR • Tsuen Wan I, 68 Chung On Street, Tsuen Wan
Shatin Branch	Shop No. 13, Level 1, Shatin Lucky Plaza, 1-15 Wang Pok Street, Shatin
Tai Po Branch	G/F, 7 Kwong Fuk Road, Tai Po
Sheung Shui Branch	Units 1303A-1305, Level 13, Landmark North, 39 Lung Sum Avenue, Sheung Shui
Yuen Long Branch	Unit 804, 8/F, HSBC Building Yuen Long, 150-160 Castle Peak Road, Yuen Long
Revolving Credit Centre	6/F, Wing Hang Insurance Building, 11 Wing Kut Street, Central
Property Loans Centre	Units 1401 & 1402, 14/F, Carnarvon Plaza, 20 Carnarvon Road, Tsimshatsui
Online Loan Centre	Units 1909-1912, 19/F, Tower II, Metroplaza, 223 Hing Fong Road, Kwai Fong

CHINA

Head Office	8/F Shun Hing Square, Di Wang Commercial Centre, 5002 Shennan Dong Road, Shenzhen
Shenzhen Branch	5/F, Unit M02 & Units 08-09, 1/F, Shun Hing Square, Di Wang Commercial Centre, 5002 Shennan Dong Road, Shenzhen
Shenzhen Fumin Sub-branch	Units 807-09, 25, 26, G/F & Unit 04, 13/F, Zhiben Building, 12 Fumin Road, Futian District, Shenzhen
Shenzhen Chegongmiao Sub-branch	Units 102-5, Main Building of Tianan Cyber Times, Chegongmiao, Futian District, Shenzhen
Shenzhen Huaqiang Sub-branch	1D, Hangyuan Building, Zhenhua Road, Futian District, Shenzhen
Shenzhen Qianhai Sub-branch	L1-06 & Room C1606, Tiley Central Plaza II, East to Houhai Road, Nanshan District, Shenzhen
Shenzhen Longgang Sub-branch	Rooms 104-105, Lijing Center, Building 12, Xinhong Garden, Longxiang Road, Center, Longgang District, Shenzhen
Huizhou Sub-branch	Units 103-105, Huamao Building, 7 Wenchang Yi Road, Jiangbei, Huizhou
Guangzhou Branch	Unit 07, 1/F, Rooms 2102-2105 & Rooms 2504-2509, Goldlion Digital Network Center, 138 Tiyu Road East, Tianhe District, Guangzhou
Guangzhou Talent Center Sub-branch	Unit 01, 1/F, Talent Center, 45-4 Tianhe Road, Yuexiu District, Guangzhou
Guangzhou Haizhu Sub-branch	Unit 02, 1/F & Rooms 901-902, Vertical City, No. 238 Changgang Zhong Road, Haizhu District, Guangzhou
Foshan Sub-branch	Units 12-15, G/F, One City Mall, 268 Dongle Road, Daliang, Shunde District, Foshan
Zhuhai Branch	Unit 2, G/F & Units 1-2, 1/F, Shuiwan Da Sha, 82 Jingshan Road, Jida, Zhuhai
Shanghai Branch	23/F, 21st Century Center Building, 210 Century Avenue, Pudong New Area, Shanghai
Shanghai Hongqiao Sub-branch	1/F, 321 Xianxia Road, Changning District, Shanghai
Beijing Branch	Units 2809-2818, 28F, Tower B, Gemdale Plaza, No.91, Jianguo Road, Chaoyang District, Beijing

MACAU

Main Branch	241 Avenida de Almeida Ribeiro
Ho Lan Un Branch	3D Avenida do Conselheiro Ferreira de Almeida
Hong Kai Si Branch	85 Avenida Horta e Costa
San Kiu Branch	19-21 Estrada de Adolfo Loureiro
Hak Sa Van Branch	32C-F Estrada de Marginal do Hipodromo
Toi San Branch	338 Avenida de A.T. Barbosa
Kou Tei Vu Kai Branch	29A Rua Pedro Coutinho R/C
Iao Hon Branch	195 Rua Oito do Bairro Iao Hon
Ho Pin San Kai Branch	75-79 Rua Almirante Sergio
San Hau On Branch	286 Alameda Dr. Carlos D'Assumpcao R/C
StarWorld Hotel Branch	Shop A, Level 2 of StarWorld Hotel, Avenida de Amizade
Flower City Branch	356-366, Rua de Evora, Edif. Lei Fung, Taipa
Fai Chi Kei Branch	Avenida do Conselheiro Borja Nos. 309-315, Mayfair Garden Bloco 5 D-R/C



Registered Office: 161 Queen's Road Central, Hong Kong

