



2017

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*)

Ms KNG Hwee Tin

Non-executive Directors

Mr SOON Tit Koon

Mr Samuel N TSIEN

Independent Non-executive Directors

Mr CHIM Wai Kin

Mr LAU Hon Chuen Ambrose GBS, JP

Mr OOI Sang Kuang

Mr TSE Hau Yin Aloysius

Audit Committee

Mr TSE Hau Yin Aloysius

Mr CHIM Wai Kin

Mr SOON Tit Koon

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 CHIM Wai Kin

Mr TSE Hau Yin Aloysius

Mr SOON Tit Koon

Company Secretary

Mr LEUNG Chiu Wah

Auditors

KPMG

Certified Public Accountants

Registered Office

161 Queen's Road Central, Hong Kong

A subsidiary of Oversea-Chinese Banking Corporation Limited

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, 2017.

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 16 and 32 to the financial statements.

Results and Dividend

The results of the Group for the year ended 31st December, 2017 and the state of affairs of the Group and the Bank as at 31st December, 2017 are set out in the financial statements on pages 18 to 132.

The Directors did not recommend the payment of interim and final dividend for the year ended 31st December, 2017 (2016: Nil).

Reserves

Profit attributable to shareholders of HK\$2,407,598,000 (2016: HK\$2,046,812,000) 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.

Tangible Fixed Assets

Details of the movements in tangible fixed assets of the Group during the year are set out in note 18 to the financial statements.

Share Capital

During the year, the Bank did not issue any ordinary shares (2016: 44,534,848 ordinary shares issued). 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\$1,356,000 (2016: HK\$1,511,000).

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*)

Ms KNG Hwee Tin

Non-executive Directors

Mr SOON Tit Koon

Mr Samuel N TSIEN

Independent Non-executive Directors

Mr CHIM Wai Kin (*appointed on 15 November 2017*)

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 (resigned on 1 January 2018)*)

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

In accordance with the Bank's Articles of Association and the Tenure Policy, Mr NA Wu Beng, Ms KNG Hwee Tin, Mr Samuel N TSIEN, Mr CHIM Wai Kin, Mr LAU Hon Chuen Ambrose and Mr OOI Sang Kuang will retire from office at the coming Annual General Meeting ("AGM"). These retiring Directors (except Mr LAU), being eligible, have offered themselves for re-election at the AGM. Mr LAU will not offer himself for re-election at the forthcoming AGM. The Board confirmed that Mr LAU has no disagreement with the Board and there are no matters relating to his retirement that need to be brought to the attention of shareholder of the Bank. Other remaining Directors of the Bank will continue in office.

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

Certain directors of the Bank received remuneration from the holding company of the Bank, Oversea-Chinese Banking Corporation Limited ("OCBC") and related corporations as directors or employees of those companies and were entitled to benefits under the OCBC Share Option Scheme 2001, OCBC Deferred Share Plan and/or OCBC Employee Share Purchase Plan (the "Share-Based Payment Schemes") administered by OCBC. During the year, Mr NA Wu Beng, Mr Frank John WANG, Ms KNG Hwee Tin, Mr Samuel N TSIEN, and Mr FUNG Yuk Sing Michael were granted options or awards under the Share-Based Payment Schemes. Details of the Share-Based Payment Schemes are set out in note 35 of the financial statements. Apart from the above, 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.

Indemnity of Directors

The Bank's Articles of Association provide that the Directors and officers are entitled to be indemnified out of the funds of the Bank against certain liabilities incurred by them, to the extent permitted by the Companies Ordinance.

Directors & Officers Liability Insurance has been arranged to indemnify the directors and officers of the Bank and its subsidiaries.

Directors' interests in transactions, arrangements or contracts

Save for the disposal of Discovery Bay Golf Club memberships to Dr FUNG Yuk Bun Patrick and Mr FUNG Yuk Sing Michael, no contract of significance to which the Bank, or any of its holding company, subsidiaries or fellow 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.

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, 2017 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, 29th March, 2018

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, 2017.

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 ten members, of whom three are Executive Directors. Amongst the seven Non-executive Directors (including the Chairman), four 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*)

Ms KNG Hwee Tin

Non-executive Directors

Mr SOON Tit Koon

Mr Samuel N TSIEN

Independent Non-executive Directors

Mr CHIM Wai Kin

Mr LAU Hon Chuen Ambrose GBS, JP

Mr OOI Sang Kuang

Mr TSE Hau Yin Aloysius

All Directors have no relationship with each other.

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

Directors' Attendance at Board and Board Committee Meetings

Attendance records of the Directors at meetings of the Board ("BM"), Audit Committee ("ACM"), Risk Management Committee ("RMCM"), Remuneration Committee ("RCM") and Nomination Committee ("NCM") held in 2017 are as follows:

Name of Director	Number of meetings attended/held in 2017				
	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	4/4	N/A	N/A
Mr Frank John WANG	4/4	N/A	N/A	N/A	N/A
Ms KNG Hwee Tin	4/4	N/A	N/A	N/A	N/A
Mr SOON Tit Koon	4/4	4/4	4/4	N/A	N/A
Mr Samuel N TSIEN	4/4	N/A	N/A	1/1	1/1
Mr CHIM Wai Kin	N/A	N/A	N/A	N/A	N/A
Mr LAU Hon Chuen Ambrose	4/4	3/4	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	4/4	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 as necessary to enable them to perform their roles effectively.

The Bank has in place training and development arrangements for Directors throughout the year.

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.

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 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.

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 objectives, people strategy, short-term and long-term performance, business and economic conditions, market practices and risk management factors, 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 lines, performance criteria and metrics are taken into consideration, including key financial indicators such as pre-tax earnings, loan growth, return on average shareholders' funds and impaired loans ratio. 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 and the Chairman 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 2017. The fees for members of Remuneration Committee for the year are as follows:

HK\$'000

Chairman	60
Member	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 taken into account risk management factors.

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 as follows:

A) Senior management	2017		2016	
No. of beneficiaries	11		7	
	Non-deferred HK\$'000	Deferred HK\$'000	Non-deferred HK\$'000	Deferred HK\$'000
Fixed remuneration				
– Cash	43,617	–	35,259	–
Variable remuneration				
– Cash	36,803	507	27,971	–
– Share-based payment	–	19,562	–	17,647

B) Key personnel	2017		2016	
No. of beneficiaries	12		13	
	Non-deferred HK\$'000	Deferred HK\$'000	Non-deferred HK\$'000	Deferred HK\$'000
Fixed remuneration				
– Cash	29,723	–	34,020	–
Variable remuneration				
– Cash	8,928	–	11,280	–
– Share-based payment	–	1,936	–	2,680

Aggregate amount of deferred variable remuneration is set out below:

	2017		2016	
	Awarded for performance year 2017 HK\$'000	Awarded for prior performance years HK\$'000	Awarded for performance year 2016 HK\$'000	Awarded for prior performance years HK\$'000
Senior management and key personnel				
Vested and paid out during the year				
– Cash	–	–	–	7,537
– Share-based payment	–	2,203	–	66
Outstanding and unvested At 31st December				
– Cash	507	–	–	–
– Share-based payment	21,498	41,310	20,327	23,186

The share-based payment represented the fair value of deferred shares and share options granted to senior management and key personnel on 22nd March, 2018, as deferred variable incentive bonus for 2017. The share options and deferred shares were issued by the Bank's ultimate holding company, OCBC, under its OCBC Share Option Scheme 2001 and OCBC Deferred Share Plan respectively.

No forfeiture of deferred variable remuneration in 2017 (2016: HK\$1,330,080).

One senior management is not paid by the Bank but receive remuneration from the Bank's holding company.

Details of Directors' emoluments are set out in note 9 to the financial statements.

Corporate Governance Report

The Bank's remuneration package consists of both fixed and variable components. 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 includes basic salary, double pay, sign-on payment, allowances and pension contributions.

Variable remuneration comprises 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 horizon 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 will 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, internal audit and other units independent of business units shall be obtained.

Variable remuneration comprises cash bonus and share-based payment, the payment of which is subject to the fulfillment of the relevant pre-defined vesting schedule and performance conditions. Claw-back mechanism applies to share-based payment while for senior executives who are defined as material risk takers of the Group, claw-back mechanism will apply to both the cash bonus and share-based payment.

No sign-on payment, severance payment and guaranteed bonuses were made for directors, senior management and key personnel in 2017 and 2016.

Except for one forfeiture of deferred variable deferred remuneration in 2016, there were no implicit and explicit adjustments of deferred remuneration and retained remuneration on employee exposures in 2017 and 2016.

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 not less than 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 Audit Committee shall have at least three Non-executive Directors, the majority of whom including the Chairman shall be independent. Currently, members of the Audit Committee are Mr TSE Hau Yin Aloysius (Chairman), Mr CHIM Wai Kin, Mr SOON Tit Koon and Mr 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 also 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.

The Bank's Whistle Blowing Program provides a channel for employees and external parties to raise concerns relating to suspected fraud, misconduct or any other irregularities within the Bank. The Audit Committee will be updated on a regular basis on cases received (if any) from whistleblower(s) and appropriate action(s) taken. The whistle-blower's interest will be safeguarded at all times, including the right to appeal to the Audit Committee if reprisals are taken against him/her.

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 Independent Non-executive Directors. Currently, members of the Risk Management Committee are Messrs CHIM Wai Kin (Chairman), TSE Hau Yin Aloysius and Mr SOON Tit Koon.

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. In addition, the Committee also oversees culture related matters of the Group.

Corporate Governance Report

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, Deputy Chief Executive, Chief Risk Officer, Chief Credit Officer and head of Corporate Banking 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, Deputy Chief Executive, Group Executive, Chief Financial Officer, Chief Information Officer, Chief Operations Officer, Chief Risk Officer, heads of Retail Banking Division, Corporate Banking Division, Treasury Division and Macau 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, Deputy Chief Executive, Group Executive, Chief Financial Officer, Chief Risk Officer and heads of Treasury Division, Corporate Banking Division and Retail Banking Division.

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 higher 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.

Corporate Governance Report

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, 29th March, 2018

Independent Auditor's Report



Independent auditor's report to the member of OCBC Wing Hang Bank Limited

(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of OCBC Wing Hang Bank Limited ("the Bank") and its subsidiaries ("the Group") set out on pages 18 to 132, which comprise the consolidated statement of financial position as at 31st December, 2017, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31st December, 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent Auditor's Report

Information other than the consolidated financial statements and auditor's report thereon

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

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

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

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

Responsibilities of the directors for the consolidated financial statements

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

KPMG

Certified Public Accountants

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

29th March, 2018

Consolidated Statement of Profit or Loss

For the year ended 31st December, 2017

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

	Notes	2017	2016
Interest income	5(a)	7,254,629	5,853,074
Interest expense	5(b)	(2,845,366)	(2,157,145)
Net interest income		4,409,263	3,695,929
Fees and commissions (net)	5(c)	819,951	746,627
Dividends	5(d)	12,525	9,208
Rental income	5(e)	11,736	5,449
Other income	5(f)	403,069	564,758
Other operating income		1,247,281	1,326,042
Operating income		5,656,544	5,021,971
Operating expenses	5(g)	(2,963,450)	(2,673,204)
Operating profit before impairment losses and allowances		2,693,094	2,348,767
Impairment losses and allowances	14(e)	27,926	(98,762)
Operating profit after impairment losses and allowances		2,721,020	2,250,005
Realised/unrealised gains on subordinated liabilities		44,499	91,761
Share of net gains of associated companies	17	64,754	42,771
Profit before taxation		2,830,273	2,384,537
Taxation	6(a)	(422,675)	(337,725)
Profit for the year attributable to equity shareholders of the Bank	7	2,407,598	2,046,812

The notes on pages 23 to 132 form part of these financial statements. Details of dividends payable to equity shareholders of the Bank are set out in note 8.

Consolidated Statement of Comprehensive Income

For the year ended 31st December, 2017

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

	Notes	2017	2016
Profit for the year		2,407,598	2,046,812
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	18	605,164	88,953
– Deferred taxes	6(d)	(27,671)	30,114
– Share of surplus on revaluation of bank premises of associated companies	17	13,541	1,939
		591,034	121,006
Items that will be reclassified subsequently to profit or loss			
– Exchange adjustments on translation of financial statements of subsidiaries		540,853	(450,842)
		540,853	(450,842)
– Available-for-sale financial assets			
– Fair value changes			
– on debt securities		(57,560)	(59,692)
– on equity securities		201,830	140,902
– Transfer to consolidated statement of profit or loss			
– gains on disposal	5(f)	(251,174)	(53,574)
– Deferred taxes	6(d)	46,588	(8,507)
– Share of fair value changes of available-for-sale financial assets of associated companies	17	8,718	628
		(51,598)	19,757
– Cash flow hedging reserve			
– Fair value changes taken to equity	30(e)	(6,903)	(6,925)
– Deferred taxes	6(d)	1,139	1,143
		(5,764)	(5,782)
– Unappropriated profits			
– Bank premises			
– Deferred taxes		11,297	19,851
		494,788	(417,016)
Other comprehensive income for the year, net of tax		1,085,822	(296,010)
Total comprehensive income for the year attributable to equity shareholders of the Bank		3,493,420	1,750,802

The notes on pages 23 to 132 form part of these financial statements.

Consolidated Statement of Financial Position

As at 31st December, 2017

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

	Notes	2017	2016
ASSETS			
Cash and balances with banks, central banks and other financial institutions	10	10,950,901	9,622,651
Placements with banks, central banks and other financial institutions	11	7,995,727	6,237,703
Amounts due from ultimate holding company, fellow subsidiaries and fellow associates	33	8,744,644	8,170,829
Trading assets	12	8,786,769	5,780,612
Financial assets designated at fair value through profit or loss	13	19,990	2,292,953
Advances to customers and other accounts	14(a)	191,142,758	167,510,656
Available-for-sale financial assets	15	85,731,033	55,050,258
Investments in associated companies	17	134,127	353,756
Tangible fixed assets	18		
– Investment properties		359,793	338,895
– Other properties, plants and equipment		5,305,292	4,852,011
Goodwill	19	1,306,430	1,306,430
Current tax recoverable	6(c)	399	3,216
Deferred tax assets	6(d)	174,936	13,722
Assets of a disposal group classified as held for sale	17, 20	271,674	–
Total assets		320,924,473	261,533,692
EQUITY AND LIABILITIES			
Deposits and balances of banks, central banks and other financial institutions	21	4,457,691	4,245,654
Amounts due to ultimate holding company and fellow subsidiaries	33	44,422,137	17,302,857
Deposits from customers	22	222,459,498	193,153,230
Certificates of deposit issued	23	4,380,410	3,843,176
Trading liabilities	24, 30	3,782,205	2,485,215
Current tax payable	6(c)	341,132	159,806
Deferred tax liabilities	6(d)	192,053	241,563
Other accounts and provisions	25	4,335,857	3,895,602
Subordinated liabilities	26	–	3,146,519
Total liabilities		284,370,983	228,473,622
Share capital	28(a)	7,307,606	7,307,606
Reserves		29,245,884	25,752,464
Total equity		36,553,490	33,060,070
Total equity and liabilities		320,924,473	261,533,692

Approved and authorised for issue by the Board of Directors on 29th March, 2018.

FUNG Yuk Bun Patrick

Chairman

NA Wu Beng

Executive Director and Chief Executive

The notes on pages 23 to 132 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2017

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

2017						
	At 1st January	Acquisition of subsidiary	Transfer to/(from) reserve	Profit for the year	Other comprehensive income for the year	At 31st December
Share capital	7,307,606	–	–	–	–	7,307,606
Capital reserve	336,389	–	12,939	–	–	349,328
Statutory reserve	398,366	–	31,077	–	–	429,443
General reserve	1,613,305	–	–	–	540,853	2,154,158
Bank premises revaluation reserve	2,890,220	–	(32,767)	–	591,034	3,448,487
Investment revaluation reserve	335,384	–	–	–	(51,598)	283,786
Cash flow hedging reserve	5,322	–	–	–	(5,764)	(442)
Unappropriated profits	20,173,478	–	(11,249)	2,407,598	11,297	22,581,124
Total equity	33,060,070	–	–	2,407,598	1,085,822	36,553,490

2016						
	At 1st January	Acquisition of subsidiary*	Transfer to/(from) reserve	Profit for the year	Other comprehensive income for the year	At 31st December
Share capital	1,740,750	5,566,856	–	–	–	7,307,606
Capital reserve	311,643	–	24,746	–	–	336,389
Statutory reserve	396,382	–	1,984	–	–	398,366
General reserve	2,064,147	–	–	–	(450,842)	1,613,305
Bank premises revaluation reserve	2,818,706	–	(49,492)	–	121,006	2,890,220
Investment revaluation reserve	315,627	–	–	–	19,757	335,384
Cash flow hedging reserve	11,104	–	–	–	(5,782)	5,322
Unappropriated profits	18,017,741	66,312	22,762	2,046,812	19,851	20,173,478
Total equity	25,676,100	5,633,168	–	2,046,812	(296,010)	33,060,070

* Equity arising from the acquisition of the entire equity interest of OCBC Bank (China) Limited on 18th July, 2016 at a total consideration of HK\$5,566,856,000.

The notes on pages 23 to 132 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31st December, 2017

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

	Notes	2017	2016
Net cash inflow from operating activities	31(a)	11,797,418	2,054,667
Investing activities			
Purchase of available-for-sale financial assets		(33,286,433)	(23,939,875)
Sale and redemption of available-for-sale financial assets		32,496,729	23,556,928
Net cash inflow from acquisition of a subsidiary		–	2,820,063
Dividends received from associated company		34,968	30,088
Loans repaid by an associated company		–	11,661
Purchase of properties and equipment	18	(89,758)	(96,736)
Sale of properties and equipment		3,493	393
Net cash (outflow)/inflow from investing activities		(841,001)	2,382,522
Financing activities			
Redemption of subordinated liabilities		(3,110,556)	–
Interest paid on subordinated liabilities		(56,441)	(186,275)
Net cash outflow from financing activities		(3,166,997)	(186,275)
Increase in cash and cash equivalents		7,789,420	4,250,914
Cash and cash equivalents at 1st January		17,896,290	14,095,157
Effects of foreign exchange rate changes		549,312	(449,781)
Cash and cash equivalents at 31st December	31(b)	26,235,022	17,896,290
Analysis of the balances of cash and cash equivalents			
Cash and balances with banks, central banks and other financial institutions		10,202,566	7,739,299
Placements with banks, central banks and other financial institutions with an original maturity within three months		7,422,699	4,642,693
Amounts due from ultimate holding company, fellow subsidiaries and fellow associates with an original maturity within three months		6,424,709	4,409,750
Treasury bills with an original maturity within three months		2,185,048	1,104,548
		26,235,022	17,896,290
Cash flows from operating activities included:			
Interest received		7,169,781	5,800,908
Interest paid		2,237,427	2,517,694
Dividend received		12,525	9,208

The notes on pages 23 to 132 form part of these financial statements.

Notes to the Financial Statements

For the year ended 31st December, 2017

(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 and 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, 2017 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)(vi));
- other freehold land and buildings (note 2(k)(v)); 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)).

Notes to the Financial Statements

2. Principal accounting policies *(continued)*

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

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, 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.

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 the statement of 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 unless it is included in a disposal group that is classified as held for sale (see note 2(t)). Under the equity method, the investment 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 note 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 the 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 the statement of 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), this excess is recognised immediately in the statement of 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 group 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 will normally 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 purchase or sale of financial assets and financial liabilities is recognised using settlement date accounting. 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 short 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 for which 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 two 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.

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(d) respectively.

Notes to the Financial Statements

2. Principal accounting policies (continued)

(f) Financial instruments (continued)

(ii) Classification (continued)

Available-for-sale financial assets (continued)

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 first-in first-out method to determine realised gains or losses to be recognised in the statement of profit or loss on derecognition.

(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.

2. Principal accounting policies *(continued)*

(f) Financial instruments *(continued)*

(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 designate 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.

(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 is 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.

Notes to the Financial Statements

2. Principal accounting policies *(continued)*

(f) Financial instruments *(continued)*

(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 to the counterparties 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 from the counterparties 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.

(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.

2. Principal accounting policies *(continued)*

(h) Revenue recognition *(continued)*

(i) Interest income *(continued)*

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.

(iv) Rental income from operating lease

Rental income receivable 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.

Notes to the Financial Statements

2. Principal accounting policies *(continued)*

(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.

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.

2. Principal accounting policies *(continued)*

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

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 end of the reporting period. 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.

The results of an overseas operation are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statements of financial position items are translated into Hong Kong dollars at the foreign exchange rates ruling at the end of the reporting period. 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.

Notes to the Financial Statements

2. Principal accounting policies *(continued)*

(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 end of the reporting period. 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 80AA 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.
- (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 fair 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.

2. Principal accounting policies *(continued)*

(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)).

(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.

Notes to the Financial Statements

2. Principal accounting policies *(continued)*

(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 have 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 have considered. 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.

(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.

2. Principal accounting policies *(continued)*

(p) Related parties *(continued)*

(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) The Bank's ultimate holding company, Oversea-Chinese Banking Corporation Limited, granted equity instruments under the OCBC Deferred Share Plan ("DSP") and OCBC Share Option Scheme 2001 ("2001 Scheme") to eligible employees of the Group as deferred compensation plans.

The compensation plans are recognised as expense in the profit and loss based on the fair value of the equity instruments at the date of the grant. The expense is recognised in the statement of profit and loss over the vesting period of the grant.

At each reporting date, the Group revises its estimates of the number of equity instruments expected to be vested, and the impact of the change to the original estimates, if any, is recognised in the statement of profit and loss over the remaining vesting period.

On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of equity instruments that vest. Details of the plans are set out in note 35.

(t) **Assets of a disposal group classified as held for sale**

A disposal group is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the disposal group is available for sale in its present condition. A disposal group is a Group of assets to be disposed of together as a Group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

Immediately before classification as held for sale, the measurement of all individual assets and liabilities in a disposal group is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group and the Bank are concerned are deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries, associates and joint ventures) and investment properties. These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 2.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in the statement of profit or loss. As long as a non-current asset is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortised.

3. Accounting estimates and judgements

Notes 18, 19 and 36 contain information about the assumptions and their risk factors relating to valuation of investment property and bank premises held for administrative use, goodwill impairment 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.

(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:

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 have still been treated as a building held for own use.

4. Changes in accounting policies

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these impact on the accounting policies of the Group. However, additional disclosure has been included in note 31(c) to satisfy the new disclosure requirements introduced by the amendments to HKAS 7, *Statement of cash flows: Disclosure initiative*, which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

Notes to the Financial Statements

5. Operating profit

(a) Interest income

	2017	2016
Interest income arising from:		
– financial assets not measured at fair value through profit or loss	7,028,068	5,609,272
– trading assets	226,561	159,120
– financial assets designated at fair value through profit or loss	–	84,682
	7,254,629	5,853,074
of which:		
– interest income from listed investments	1,449,533	519,865
– interest income from unlisted investments	481,089	368,652
– interest income from impaired financial assets	24,712	21,386

The above interest income from impaired financial assets includes interest income on unwinding of discount on loan impairment loss of HK\$16,465,000 (2016: HK\$18,231,000) (note 14(e)) for the year ended 31st December, 2017.

(b) Interest expense

	2017	2016
Interest expense arising from:		
– financial liabilities not measured at fair value through profit or loss	2,696,246	1,839,309
– trading liabilities	92,679	131,561
– financial liabilities designated at fair value through profit or loss	56,441	186,275
	2,845,366	2,157,145
of which:		
– interest expense for certificates of deposit issued	122,928	84,294
– interest expense for deposits from customers	1,991,426	1,665,365
– interest expense for deposits and balances of banks, central banks and other financial institutions	581,892	89,650
– interest expense for subordinated liabilities (note 31(a))	56,441	186,275

5. Operating profit *(continued)*

(c) Fee and commission (net)

	2017	2016
Fees and commission		
Credit commission and fees	188,864	193,643
Credit card related fees	239,368	223,977
Trade related fees	65,901	54,373
Insurance commission	129,674	146,309
Stockbroking fees	126,400	91,270
Trust fees	34	40
Wealth management fees	48,030	36,430
Other fees and commission income	143,504	112,665
Less: Fees and commission expenses	(121,824)	(112,080)
	819,951	746,627
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	285,211	268,078
– fees and commission expenses	(4)	(4)
	285,207	268,074

(d) Dividends

	2017	2016
Dividend income from unlisted available-for-sale financial assets	11,591	8,170
Dividend income from listed available-for-sale financial assets	800	929
Dividend income from listed trading investments	134	109
	12,525	9,208

(e) Rental income

	2017	2016
Rental income from investment properties less direct expenses of HK\$303,000 (2016: HK\$399,000)	11,736	5,449
	11,736	5,449

Notes to the Financial Statements

5. Operating profit *(continued)* (f) Other income

	2017	2016
Foreign exchange	19,299	381,552
Hedging activities		
– Fair value hedges		
– hedged items	(18,709)	(47,143)
– hedging instruments	15,652	44,232
Interest rate and other derivatives	33,925	(28,105)
Trading securities	7,782	(7,204)
Fair value through profit or loss securities	8,689	103,235
Others	1,108	1,997
Net trading income	67,746	448,564
Gains transferred from investment revaluation reserve upon disposal	251,174	53,574
Disposal of available-for-sale financial assets	36,778	45,956
Total gains on disposal of available-for-sale finance assets (note 31(a))	287,952	99,530
Revaluation of investment properties (note 18 & 31(a))	21,468	(11,884)
Disposal of tangible fixed assets	(13,527)	(88)
Others	39,430	28,636
	403,069	564,758

(g) Operating expenses

	2017	2016
Staff costs		
Salaries and other staff costs	1,823,286	1,586,924
Retirement benefit costs (note 35(a))	83,907	85,384
Share-based payment expenses (note 35(b))	33,130	14,683
	1,940,323	1,686,991
Premises and equipment expenses, excluding depreciation	498,998	414,791
Depreciation (notes 18 & 31(a))	225,268	237,000
Other expenses		
Auditor's remuneration		
Audit services	7,076	6,559
Other services	2,009	1,183
Others	289,776	326,680
	298,861	334,422
	2,963,450	2,673,204

6. Taxation

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

	2017	2016
Current tax – Provision for Hong Kong profits tax		
Provision for the year	313,843	312,055
Overprovision in respect of prior years	(4,135)	(38,365)
	309,708	273,690
Current tax – Provision for tax outside Hong Kong		
Provision for the year	296,444	59,599
Overprovision in respect of prior years	(4,106)	(7,652)
	292,338	51,947
Deferred taxation		
Origination and reversal of temporary differences	(179,371)	12,088
	422,675	337,725

The provision for Hong Kong profits tax for 2017 is calculated at 16.5% (2016: 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.

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

	2017	2016
Profit before tax	2,830,273	2,384,537
Notional tax on profit before tax, calculated at the rates applicable to profits in the region concerned	463,672	383,460
Tax effect of non-deductible expenses	6,444	2,504
Tax effect of non-taxable revenue	(59,744)	(16,083)
Tax effect of unused tax losses not recognised	(5)	(4)
Tax effect of unused tax losses recognised	11	31
Overprovision in respect of prior years	(8,241)	(46,016)
Others	20,538	13,833
Actual tax expense	422,675	337,725

Notes to the Financial Statements

6. Taxation *(continued)*

(c) Current tax recoverable and payable

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

	2017	2016
Current tax recoverable		
Provision for Hong Kong profits tax	1,264	1,760
Provisional profits tax paid	(1,663)	(4,976)
	(399)	(3,216)
Provision for tax outside Hong Kong	–	–
	(399)	(3,216)
Current tax payable		
Provision for Hong Kong profits tax	312,579	310,295
Provisional profits tax paid	(233,165)	(208,060)
	79,414	102,235
Provision for tax outside Hong Kong	261,718	57,571
	341,132	159,806

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

6. 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:

	2017						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	120,634	140,208	84,490	1,051	(33,012)	(85,530)	227,841
Charged/(credited) to consolidated statement of profit or loss	9,733	–	–	–	37,357	(226,461)	(179,371)
Credited to unappropriated profits	–	(11,297)	–	–	–	–	(11,297)
Charged/(credited) to reserves	–	27,671	(46,588)	(1,139)	–	–	(20,056)
At 31st December	130,367	156,582	37,902	(88)	4,345	(311,991)	17,117

	2016						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	20,941	191,063	55,713	2,194	5,336	(48,878)	226,369
Through acquisition of a subsidiary	94,164	–	17,939	–	(68,866)	(11,252)	31,985
Charged/(credited) to consolidated statement of profit or loss	5,529	(890)	2,331	–	30,518	(25,400)	12,088
Credited to unappropriated profits	–	(19,851)	–	–	–	–	(19,851)
Charged/(credited) to reserves	–	(30,114)	8,507	(1,143)	–	–	(22,750)
At 31st December	120,634	140,208	84,490	1,051	(33,012)	(85,530)	227,841

	2017	2016
Net deferred tax assets recognised on the statement of financial position	(174,936)	(13,722)
Net deferred tax liabilities recognised on the statement of financial position	192,053	241,563
	17,117	227,841

Notes to the Financial Statements

7. Profit attributable to the shareholders of the Bank

The profit attributable to the shareholders of the Bank includes an amount of HK\$1,649,629,000 (2016: HK\$1,736,871,000) 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 8.

8. Dividends

(a) Dividends attributable to the year

The Bank did not propose the payment of final dividend for the year ended 31st December, 2017 (2016: nil).

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

The Bank did not propose any payment of dividends in respect of the prior year during the year ended 31st December, 2017 (2016: nil).

9. 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:

	2017	2016
Directors' fee	6,756	5,704
Salaries, allowances and benefits in kind*	25,188	23,368
Pension contributions	1,777	1,686
Performance bonuses	21,542	21,723
Share-based payments	9,587	5,378
	64,850	57,859

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

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

	2017	2016
Cash balances	915,243	870,321
Balances with central banks	9,318,097	7,809,593
Balances with banks	717,561	942,737
	10,950,901	9,622,651

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

	2017	2016
Remaining maturity		
– Within 1 month	7,762,089	5,469,404
– Over 1 month but within 1 year	233,638	768,299
	7,995,727	6,237,703

12. Trading assets

	2017	2016
Debt securities:		
Listed in Hong Kong	761,686	300,216
Listed outside Hong Kong	3,843,017	2,133,458
	4,604,703	2,433,674
Unlisted	941,220	989,224
	5,545,923	3,422,898
Equity securities listed in Hong Kong	1,108	2,333
Total trading securities	5,547,031	3,425,231
Positive fair values of derivative financial instruments held for trading (note 30(a)(i))	3,239,738	2,355,381
	8,786,769	5,780,612
Trading debt securities include:		
Treasury bills	832,143	697,613
Certificates of deposit held	1,719,288	154,766
Other trading debt securities	2,994,492	2,570,519
	5,545,923	3,422,898

Notes to the Financial Statements

12. Trading assets *(continued)*

Trading securities analysed by counterparty are as follows:

	2017	2016
Issued by:		
Sovereigns	832,143	697,613
Public sector entities	–	5
Banks	3,985,426	2,343,110
Corporates	729,462	384,503
	5,547,031	3,425,231

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

	2017	2016
Debt securities:		
Listed in Hong Kong	–	1,157,505
Listed outside Hong Kong	19,990	1,068,600
	19,990	2,226,105
Unlisted	–	66,848
	19,990	2,292,953
Debt securities designated at fair value through profit or loss include:		
Other debt securities designated at fair value through profit or loss	19,990	2,292,953
	19,990	2,292,953

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

	2017	2016
Issued by:		
Banks	19,990	755,102
Corporates	–	1,537,851
	19,990	2,292,953

14. Advances to customers and other accounts

(a) Advances to customers and other accounts

	2017	2016
Gross advances to customers	179,583,530	161,968,980
Individual impairment allowances for impaired loans and advances (note 14(e))	(173,003)	(220,228)
Collective impairment allowances for loans and advances (note 14(e))	(476,163)	(571,522)
Net advances to customers	178,934,364	161,177,230
Gross trade bills	3,316,618	983,168
Individual impairment allowances for impaired trade bills (note 14(e))	–	–
Collective impairment allowances for trade bills (note 14(e))	(41)	(31)
Net trade bills	3,316,577	983,137
Advances to banks	4,922,693	1,913,710
Customer liability under acceptances	1,622,378	1,526,426
Interest receivables	742,179	657,331
Positive fair values of derivative financial instruments held for hedging (note 30(a)(ii))	27,568	62,838
Other accounts	1,576,999	1,189,984
	191,142,758	167,510,656

Notes to the Financial Statements

14. 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.

		2017			2016	
	Gross advances to customers	% of gross advances covered by collateral	Impaired advances to customers	Gross advances to customers	% of gross advances covered by collateral	Impaired advances to customers
Advances for use in Hong Kong						
Industrial, commercial and financial						
– Property development	5,389,762	25.3	–	2,851,517	46.1	–
– Property investment	22,124,359	97.8	13,848	19,218,597	99.2	44,349
– Financial concerns	4,843,504	9.1	–	4,238,982	7.9	–
– Stockbrokers	4,501,436	57.1	–	2,528,634	48.1	–
– Wholesale and retail trade	5,613,729	65.2	54,342	6,053,435	68.3	76,781
– Manufacturing	2,984,606	52.2	64,855	2,777,384	56.8	44,434
– Transport and transport equipment	7,389,891	98.4	17,959	8,403,828	92.2	19,767
– Information technology	51,852	42.7	–	67,753	68.4	–
– Share financing	368,938	89.2	–	420,185	91.1	–
– Recreational activities	676	–	–	–	–	–
– Others	4,077,605	64.7	14,933	3,347,054	84.5	17,431
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	1,600,765	100.0	–	1,813,920	100.0	–
– Advances for the purchase of other residential properties	40,837,593	100.0	18,192	35,594,945	100.0	19,010
– Credit card advances	265,317	0.9	1,274	284,711	0.8	1,619
– Others	14,471,409	70.2	12,757	13,475,406	75.7	16,415
	114,521,442	82.1	198,160	101,076,351	85.3	239,806
Trade finance	4,919,655	47.4	37,371	4,343,377	57.2	102,556
Advances for use outside Hong Kong						
– Mainland China	32,978,562	57.7	623,803	36,300,818	66.2	1,086,585
– Macau	20,433,657	91.8	11,446	20,015,228	90.4	9,968
– Others	6,730,214	99.3	–	233,206	97.6	–
	60,142,433	73.9	635,249	56,549,252	74.9	1,096,553
	179,583,530	78.4	870,780	161,968,980	80.9	1,438,915

14. 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:

	2017	2016
Gross impaired advances to customers	870,780	1,438,915
Gross impaired advances to customers as a percentage of total advances to customers	0.48%	0.89%
Market value of collateral held with respect to impaired advances to customers	743,621	839,317
Individual impairment allowances	173,003	220,228

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, 2017 and 31st December, 2016.

(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:

	2017		2016	
	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	4,748,712	5,197,916	5,095,114	5,591,326
After 1 year but within 5 years	6,615,410	6,984,161	7,280,219	7,687,455
After 5 years	1,529	1,564	549	559
	11,365,651	12,183,641	12,375,882	13,279,340
Unearned future income on finance lease	–	(817,990)	–	(903,458)
	11,365,651	11,365,651	12,375,882	12,375,882
Individual impairment allowances for impaired loans and advances	(29,243)		(35,810)	
Collective impairment allowances for loans and advances	(4,977)		(6,701)	
Net investment in finance leases and hire purchase contracts	11,331,431		12,333,371	

Notes to the Financial Statements

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

(e) Impairment allowances for loans and advances

	Individual	2017 Collective	Total
At 1st January	220,228	571,553	791,781
Additions	253,765	–	253,765
Releases	(122,570)	(159,121)	(281,691)
Net charges/(releases) to consolidated statement of profit or loss	131,195	(159,121)	(27,926)
Unwind of discount of loan impairment losses (note 5(a))	(16,465)	–	(16,465)
Recoveries of advances written off in prior years	48,436	–	48,436
Amounts written off	(219,607)	–	(219,607)
Currency translation	9,216	63,772	72,988
At 31st December	173,003	476,204	649,207
Representing impairment allowances for:			
Trade bills (note 14(a))	–	41	41
Advances to customers (note 14(a))	173,003	476,163	649,166
	173,003	476,204	649,207
		2016	
	Individual	Collective	Total
At 1st January	177,041	222,606	399,647
Additions through acquisition of a subsidiary	16,143	451,646	467,789
Additions	231,251	–	231,251
Releases	(29,790)	(102,699)	(132,489)
Net charges/(releases) to consolidated statement of profit or loss	201,461	(102,699)	98,762
Unwind of discount of loan impairment losses (note 5(a))	(18,231)	–	(18,231)
Recoveries of advances written off in prior years	30,318	–	30,318
Amounts written off	(186,504)	–	(186,504)
At 31st December	220,228	571,553	791,781
Representing impairment allowances for:			
Trade bills (note 14(a))	–	31	31
Advances to customers (note 14(a))	220,228	571,522	791,750
	220,228	571,553	791,781

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

(f) Repossessed assets

During the year ended 31st December, 2017, the Group has taken possession of collateral it holds as security as follows:

Nature

	2017	2016
Industrial properties	32,657	30,550
Residential properties	166,360	113,830
Vehicles	23,448	24,577
Others	11,715	12,811
	234,180	181,768

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, 2017, repossessed assets obtained as securities for impaired advances to customers totalled HK\$108,362,000 (2016: HK\$88,334,000) for the Group.

15. Available-for-sale financial assets

	2017	2016
Available-for-sale debt securities:		
Listed in Hong Kong	10,048,319	8,639,324
Listed outside Hong Kong	42,927,842	20,105,790
	52,976,161	28,745,114
Unlisted	32,182,995	25,703,967
	85,159,156	54,449,081
Available-for-sale equity securities:		
Listed outside Hong Kong	–	173,770
Unlisted	571,877	427,407
	571,877	601,177
	85,731,033	55,050,258
Available-for-sale debt securities include:		
Treasury bills	18,124,784	16,735,028
Certificates of deposit held	43,883,284	15,560,739
Other available-for-sale debt securities	23,151,088	22,153,314
	85,159,156	54,449,081

Notes to the Financial Statements

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

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

	2017	2016
Issued by:		
Sovereigns	18,124,784	16,735,028
Public sector entities	66,949	462,513
Banks	55,162,732	26,614,308
Corporates	12,376,568	11,238,409
	85,731,033	55,050,258

16. Investments in subsidiaries

The following list contains 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
OCBC Wing Hang Bank (China) Limited	People's Republic of China	RMB5,000,000,000	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

17. Investments in associated companies

	2017	2016
Share of net assets	134,127	353,756

On 20th March, 2017, the Bank entered into a share sale agreement with an independent third party to dispose of the Group's interest in 33.33% of the issued share capital of Hong Kong Life Insurance Limited for a cash consideration of approximately HK\$2,366,667,000 before transaction related expenses.

Interests in Hong Kong Life Insurance Limited was re-classified from "Investments in associated companies" to "Assets of a disposal group classified as held for sale" and transferred to note 20 in 2017.

The following list contains only the particulars of a material associated company:

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

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

Note: 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.

The above associated company is accounted for using the equity method in the consolidated financial statements.

In respect of the year ended 31st December, 2017 the share of the results of Bank Consortium Holding Limited was included in these financial statements based on accounts drawn up to 30th November, 2017. 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.

Notes to the Financial Statements

17. Investments in associated companies *(continued)*

Summarised financial information of the material associated company, 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	
	2017	2016
Gross amounts of the associated companies		
Assets	814,283	726,629
Liabilities	87,912	60,852
Net assets	726,371	665,777
Total operating income	596,989	498,745
Profit after tax	159,948	132,089
Other comprehensive income	510	12
Total comprehensive income	160,458	132,101
Dividends received from the associated companies	33,480	28,600
Reconciled to the Group's interests in the associated companies		
Gross amounts of net assets of the associated companies	726,371	665,777
Group's effective interest	27%	27%
Group's share of net assets of the associated companies	193,699	177,541
Dividends received from the associated companies	(33,480)	(28,600)
Elimination of unrealised gain on transfer of bank premises to the associated companies	(37,610)	(37,610)
Carrying amount in the consolidated financial statements	122,609	111,331

17. Investments in associated companies (continued)

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

	2017	2016
Aggregate carrying amount of individually immaterial associated company in the consolidated financial statements	11,518	11,201
Aggregate amounts of the Group's share of net assets of the associated company	11,518	11,201
Total operating income	150,068	143,914
Profit after tax	23,285	28,394
Total comprehensive income	23,285	28,394
Reconciliation of carrying amounts to the Group's total interests in the associated companies		
Carrying amount of material associated companies		
– Bank Consortium Holding Limited	122,609	111,331
– Hong Kong Life Insurance Limited	–	231,224
Carrying amount of the individually immaterial associated company	11,518	11,201
Investment in associated companies in the consolidated financial statements	134,127	353,756

Notes to the Financial Statements

18. Tangible fixed assets

	2017				
	Investment properties	Bank premises	Equipment	Bank premises and equipment	Total
Cost or valuation					
At 1st January	363,546	4,812,540	1,599,575	6,412,115	6,775,661
Additions	–	6,149	83,609	89,758	89,758
Disposals	–	–	(176,418)	(176,418)	(176,418)
Surplus on revaluation					
– credited to bank premises revaluation reserve	–	605,164	–	605,164	605,164
– credited to consolidated statement of profit or loss (note 5(f))	21,468	–	–	–	21,468
Elimination of accumulated depreciation on revalued bank premises	–	(65,458)	–	(65,458)	(65,458)
Exchange adjustment	2,394	1,072	1,555	2,627	5,021
At 31st December	387,408	5,359,467	1,508,321	6,867,788	7,255,196
The analysis of cost or valuation of the above assets is as follows:					
At cost	–	1,354,746	1,508,321	2,863,067	2,863,067
At valuation					
2017 (note 18(a))	387,408	4,004,721	–	4,004,721	4,392,129
	387,408	5,359,467	1,508,321	6,867,788	7,255,196
Accumulated depreciation					
At 1st January	24,651	322,468	1,237,636	1,560,104	1,584,755
Charge for the year (note 5(g))	1,194	96,680	127,394	224,074	225,268
Written back on disposals	–	–	(159,398)	(159,398)	(159,398)
Elimination of accumulated depreciation on revalued bank premises	–	(65,458)	–	(65,458)	(65,458)
Exchange adjustment	1,770	431	2,743	3,174	4,944
At 31st December	27,615	354,121	1,208,375	1,562,496	1,590,111
Net book value					
At 31st December	359,793	5,005,346	299,946	5,305,292	5,665,085

18. Tangible fixed assets (continued)

	2016				
	Investment properties	Bank premises	Equipment	Bank premises and equipment	Total
Cost or valuation					
At 1st January	182,900	4,811,285	1,202,785	6,014,070	6,196,970
Additions					
– through acquisition of a subsidiary	193,905	3,926	372,979	376,905	570,810
– others	–	25	96,711	96,736	96,736
Disposals	–	–	(71,691)	(71,691)	(71,691)
Surplus/(deficit) on revaluation					
– credited to bank premises revaluation reserve	–	88,953	–	88,953	88,953
– charged to consolidated statement of profit or loss (note 5(f))	(11,884)	–	–	–	(11,884)
Elimination of accumulated depreciation on revalued bank premises	–	(91,713)	–	(91,713)	(91,713)
Exchange adjustment	(1,375)	64	(1,209)	(1,145)	(2,520)
At 31st December	363,546	4,812,540	1,599,575	6,412,115	6,775,661
The analysis of cost or valuation of the above assets is as follows:					
At cost	–	1,347,525	1,599,575	2,947,100	2,947,100
At valuation					
2016 (note 18(a))	363,546	3,465,015	–	3,465,015	3,828,561
	363,546	4,812,540	1,599,575	6,412,115	6,775,661
Accumulated depreciation					
At 1st January	–	291,916	942,763	1,234,679	1,234,679
Addition through acquisition of a subsidiary	24,995	143	254,363	254,506	279,501
Charge for the year (note 5(g))	707	122,937	113,356	236,293	237,000
Written back on disposals	–	–	(71,210)	(71,210)	(71,210)
Elimination of accumulated depreciation on revalued bank premises	–	(91,713)	–	(91,713)	(91,713)
Exchange adjustment	(1,051)	(815)	(1,636)	(2,451)	(3,502)
At 31st December	24,651	322,468	1,237,636	1,560,104	1,584,755
Net book value					
At 31st December	338,895	4,490,072	361,939	4,852,011	5,190,906

Notes to the Financial Statements

18. 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 is not available.
- Level 3: Fair value measured using significant unobservable inputs.

	2017			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Investment properties	–	–	387,408	387,408
Bank premises held for administrative use	–	–	4,004,721	4,004,721
	–	–	4,392,129	4,392,129

	2016			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Investment properties	–	–	363,546	363,546
Bank premises held for administrative use	–	–	3,465,015	3,465,015
	–	–	3,828,561	3,828,561

During the year ended 31st December, 2017, 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 independent firms of surveyors, Savills Valuation and Professional Services Limited, who have among their staff Fellows of the Hong Kong Institute of Surveyors, and Shanghai BDGH Chartered Valuation Surveyors Co., Ltd, who is registered with Royal Institution of Chartered Surveyors. Both firms have recent experience in the location and category of the properties being valued.

18. 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	-25% to 25%

The fair value of investment properties and bank premises are determined using the direct comparison approach by reference to recent sales prices 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 characteristics of the properties including the location, size, view, floor level, year of completion and other factors collectively. Higher premiums 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:

	2017		2016	
	Investment properties	Bank premises	Investment properties	Bank premises
Cost or valuation				
At 1st January	363,546	3,465,015	182,900	3,467,775
Addition through acquisition of a subsidiary	–	–	193,905	–
Additions	–	–	–	–
Disposals	–	–	–	–
Depreciation charge for the year	–	(65,458)	–	(91,713)
Depreciation written back on disposals for the year	–	–	–	–
Surplus/(deficit) on revaluation				
– credited to bank premises revaluation reserve	–	605,164	–	88,953
– credited/(charged) to consolidated statement of profit or loss	21,468	–	(11,884)	–
Exchange difference	2,394	–	(1,375)	–
At 31st December	387,408	4,004,721	363,546	3,465,015

Fair value adjustment of investment properties is recognised in the line item "Other income" on the face of the consolidated statement of profit or loss.

Surplus on revaluation of bank premises is recognised in other comprehensive income as "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.

Notes to the Financial Statements

18. 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\$577,493,000 (2016: HK\$119,067,000) have been recognised in other comprehensive income and accumulated in the bank premises revaluation reserve of the Group.
- (iv) The carrying amount of the Group's bank premises held for administrative use would have been HK\$813,970,000 (2016: HK\$835,625,000) had they been stated at cost less accumulated depreciation.

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

	2017	2016
FREEHOLD		
– Held outside Hong Kong	274,280	264,620
LEASEHOLD		
– Held in Hong Kong		
Long-term leases (over 50 years unexpired)	2,442,434	2,139,604
Medium-term leases (10 to 50 years unexpired)	1,717,910	1,536,064
– Held outside Hong Kong		
Long-term leases (over 50 years unexpired)	5,049	5,635
Medium-term leases (10 to 50 years unexpired)	563,935	539,280
Short-term leases (less than 10 years unexpired)	361,531	343,764
	5,365,139	4,828,967

(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 of all fixed assets under non-cancellable operating leases are receivables as follows:

	2017	2016
Within 1 year	12,522	4,649
After 1 year but within 5 years	6,757	2,068
	19,279	6,717

19. Goodwill

(a) Goodwill

	2017	2016
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:

	2017	2016
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 3.00% (2016: 3.00%). 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 12.28% (2016: 12.59%). The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

20. Assets of a disposal group classified as held for sale

On 20th March, 2017, the Bank entered into a share sale agreement with an independent third party to dispose of the Group's interest in 33.33% of the issued share capital of Hong Kong Life Insurance Limited for a cash consideration of approximately HK\$2,366,667,000 before transaction related expenses. The Bank has received a deposit of HK\$236,667,000, being 10% of the consideration.

Completion of the transaction is subject to certain conditions including obtaining the necessary approvals from the relevant authorities, which based on the management's view shall be obtained within 12 months. Accordingly, interests in Hong Kong Life Insurance Limited was re-classified from "Investments in associated companies" to "Assets of a disposal group classified as held for sale".

Notes to the Financial Statements

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

	2017	2016
Deposits from central banks	644,614	4,140,741
Deposits from banks	3,813,077	104,913
	4,457,691	4,245,654

22. Deposits from customers

	2017	2016
Demand deposits and current accounts	52,751,649	40,367,275
Savings deposits	31,779,680	29,887,362
Time, call and notice deposits	137,928,169	122,898,593
	222,459,498	193,153,230

23. Certificates of deposit issued

	2017	2016
Certificates of deposit issued at amortised cost	4,380,410	3,293,618
Certificates of deposit issued designated at fair value through profit or loss	–	549,558
	4,380,410	3,843,176

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

	2017	2016
Acceptances outstanding	1,622,379	1,526,426
Interest payable	508,550	588,832
Negative fair value of derivative financial instruments held for hedging (note 30(a)(ii))	1,684	141
Other payables	2,203,244	1,780,203
	4,335,857	3,895,602

26. Subordinated liabilities

	2017	2016
US\$400 million 6.00% step-up perpetual subordinated notes, designated at fair value through profit or loss	–	3,146,519

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. The notes were fully redeemed on 20th April, 2017.

Notes to the Financial Statements

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.

	2017							
	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	10,950,901	-	-	-	-	-	-	10,950,901
Placements with banks, central banks and other financial institutions	-	7,762,089	233,638	-	-	-	-	7,995,727
Amounts due from ultimate holding company, fellow subsidiaries and fellow associates	-	4,641,147	3,103,647	591,368	408,482	-	-	8,744,644
Trading assets	-	1,358,566	674,175	2,155,929	948,897	408,356	3,240,846	8,786,769
Financial assets designated at fair value through profit or loss	-	-	-	19,990	-	-	-	19,990
Advances to customers	2,467,972	20,371,105	10,862,815	25,927,548	47,791,287	71,293,587	220,050	178,934,364
Trade bills	5,389	1,098,627	1,756,824	444,149	-	356	11,232	3,316,577
Advances to banks	-	284,226	3,894,388	744,079	-	-	-	4,922,693
Available-for-sale financial assets	-	12,510,111	21,038,277	32,778,692	17,298,615	1,533,461	571,877	85,731,033
Other assets	2,335	1,800,350	1,317,709	157,698	202,689	6,595	7,762,725	11,250,101
Assets of a disposal group classified as held for sale	-	-	-	-	-	-	271,674	271,674
Total assets	13,426,597	49,826,221	42,881,473	62,819,453	66,649,970	73,242,355	12,078,404	320,924,473
Liabilities								
Deposits and balances of banks, central banks and other financial institutions	1,261,296	3,183,337	13,058	-	-	-	-	4,457,691
Amounts due to ultimate holding company and fellow subsidiaries	573,788	8,451,466	7,643,296	21,665,359	6,088,228	-	-	44,422,137
Deposits from customers	84,407,237	58,184,143	53,835,369	24,066,679	1,966,070	-	-	222,459,498
Certificates of deposit issued	-	781,018	778,417	109,971	2,511,004	200,000	-	4,380,410
Trading liabilities	-	-	-	-	-	-	3,782,205	3,782,205
Other liabilities	-	1,823,451	1,595,724	562,329	385,273	-	502,265	4,869,042
Total liabilities	86,242,321	72,423,415	63,865,864	46,404,338	10,950,575	200,000	4,284,470	284,370,983
Net assets/(liabilities) gap	(72,815,724)	(22,597,194)	(20,984,391)	16,415,115	55,699,395	73,042,355	7,793,934	36,553,490
of which:								
Certificates of deposit held								
- included in trading assets	-	596,039	535,948	587,301	-	-	-	1,719,288
- included in available-for-sale financial assets	-	8,727,222	13,844,760	20,301,377	1,009,925	-	-	43,883,284
Debt securities								
- included in trading assets	-	762,527	138,227	1,568,628	948,897	408,356	-	3,826,635
- included in financial assets designated at fair value through profit or loss	-	-	-	19,990	-	-	-	19,990
- included in available-for-sale financial assets	-	3,782,889	7,193,517	12,477,315	16,288,690	1,533,461	-	41,275,872

27. Maturity profile (continued)

		2016						
	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	9,622,651	–	–	–	–	–	–	9,622,651
Placements with banks, central banks and other financial institutions	–	5,469,404	768,299	–	–	–	–	6,237,703
Amounts due from ultimate holding company, fellow subsidiaries and fellow associates	–	3,347,018	1,942,322	2,497,970	383,519	–	–	8,170,829
Trading assets	–	1,153,079	957,183	802,702	509,934	–	2,357,714	5,780,612
Financial assets designated at fair value through profit or loss	–	–	50,370	1,115,841	1,110,101	16,641	–	2,292,953
Advances to customers	2,342,437	14,808,705	8,357,308	24,993,617	47,535,596	62,716,215	423,352	161,177,230
Trade bills	8,851	170,165	670,219	133,542	–	–	360	983,137
Advances to banks	4	278,078	627,302	1,008,326	–	–	–	1,913,710
Available-for-sale financial assets	–	3,456,010	10,804,663	20,951,074	17,671,716	1,565,618	601,177	55,050,258
Other assets	1,484	1,594,164	885,059	393,274	119,454	23,358	7,287,816	10,304,609
Total assets	11,975,427	30,276,623	25,062,725	51,896,346	67,330,320	64,321,832	10,670,419	261,533,692
Liabilities								
Deposits and balances of banks, central banks and other financial institutions	2,628,964	1,527,957	10,064	78,669	–	–	–	4,245,654
Amounts due to ultimate holding company and fellow subsidiaries	365,934	2,673,660	4,885,464	2,345,898	7,031,901	–	–	17,302,857
Deposits from customers	70,144,378	49,425,918	47,567,599	23,662,221	2,353,114	–	–	193,153,230
Certificates of deposit issued	–	–	–	2,633,259	1,009,917	200,000	–	3,843,176
Trading liabilities	–	–	–	–	–	–	2,485,215	2,485,215
Subordinated liabilities	–	–	–	3,146,519	–	–	–	3,146,519
Other liabilities	–	1,794,186	1,076,049	651,625	197,553	–	577,558	4,296,971
Total liabilities	73,139,276	55,421,721	53,539,176	32,518,191	10,592,485	200,000	3,062,773	228,473,622
Net assets/(liabilities) gap	(61,163,849)	(25,145,098)	(28,476,451)	19,378,155	56,737,835	64,121,832	7,607,646	33,060,070

of which:

Certificates of deposit held								
– included in trading assets	–	–	154,766	–	–	–	–	154,766
– included in financial assets designated at fair value through profit or loss	–	–	–	–	–	–	–	–
– included in available-for-sale financial assets	–	1,964,350	4,493,615	7,580,986	1,521,788	–	–	15,560,739
Debt securities								
– included in trading assets	–	1,153,079	802,417	802,702	509,934	–	–	3,268,132
– included in financial assets designated at fair value through profit or loss	–	–	50,370	1,115,841	1,110,101	16,641	–	2,292,953
– included in available-for-sale financial assets	–	1,491,660	6,311,048	13,370,088	16,149,928	1,565,618	–	38,888,342

Notes to the Financial Statements

28. Share capital and reserves

(a) Share capital

	2017		2016	
	No. of shares		No. of shares	
Issued and fully paid:				
At 1st January	352,915,070	7,307,606	308,380,222	1,740,750
Shares issued for the Group reorganisation	–	–	44,534,848	5,566,856
At 31st December	352,915,070	7,307,606	352,915,070	7,307,606

In accordance with section 135 of the Hong Kong Companies Ordinance, the ordinary shares of the company do not have a par value.

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.

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 2017					
	General reserve	Bank premises revaluation reserve	Investment revaluation reserve	Cash flow hedging reserve	Unappro- priated profits	Total
At 1st January	1,801,949	2,115,685	170,213	5,322	14,976,830	19,069,999
Transfer (from)/to reserve	–	(21,883)	–	–	21,883	–
	–	(21,883)	–	–	21,883	–
Other comprehensive income:						
– fair value changes on cash flow hedges net of deferred tax	–	–	–	(5,764)	–	(5,764)
– fair value changes on available- for-sale financial assets net of deferred tax	–	–	186,407	–	–	186,407
– fair value changes on available- for-sale financial assets transferred to statement of profit or loss on disposal net of deferred tax	–	–	(198,398)	–	–	(198,398)
– surplus on revaluation net of deferred tax	–	507,031	–	–	–	507,031
– deferred tax credit to unappropriated profits	–	–	–	–	149	149
– profit attributable to shareholders of the Bank for the year	–	–	–	–	1,649,629	1,649,629
Total comprehensive income for the year, net of tax	–	507,031	(11,991)	(5,764)	1,649,778	2,139,054
At 31st December	1,801,949	2,600,833	158,222	(442)	16,648,491	21,209,053

Notes to the Financial Statements

28. Share capital and reserves (continued)

(b) Reserves (continued)

	The Bank 2016					
	General reserve	Bank premises revaluation reserve	Investment revaluation reserve	Cash flow hedging reserve	Unappro- priated profits	Total
At 1st January	1,801,949	2,056,240	185,756	11,104	13,220,358	17,275,407
Transfer (from)/to reserve	–	(19,454)	–	–	19,454	–
	–	(19,454)	–	–	19,454	–
Other comprehensive income:						
– fair value changes on cash flow hedges net of deferred tax	–	–	–	(5,782)	–	(5,782)
– fair value changes on available- for-sale financial assets net of deferred tax	–	–	38,004	–	–	38,004
– fair value changes on available- for-sale financial assets transferred to statement of profit or loss on disposal net of deferred tax	–	–	(53,547)	–	–	(53,547)
– surplus on revaluation net of deferred tax	–	78,899	–	–	–	78,899
– deferred tax credit to unappropriated profits	–	–	–	–	147	147
– profit attributable to shareholders of the Bank for the year	–	–	–	–	1,736,871	1,736,871
Total comprehensive income for the year, net of tax	–	78,899	(15,543)	(5,782)	1,737,018	1,794,592
At 31st December	1,801,949	2,115,685	170,213	5,322	14,976,830	19,069,999

28. Share capital and reserves *(continued)*

(b) Reserves *(continued)*

The Group's unappropriated profits as at 31st December, 2017 included the accumulated gains of HK\$411,064,000 (2016: HK\$346,310,000) of the associated companies and a regulatory reserve of HK\$1,786,589,000 (2016: HK\$1,550,271,000). 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").

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 OCBC 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 OCBC 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 do not represent realised profits and are not available for distribution.

At 31st December, 2017, 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 in the cash flow hedging reserve was HK\$16,617,662,000 (2016: HK\$15,725,988,000).

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.

Notes to the Financial Statements

29. Contingent liabilities and commitments

(a) Contingent liabilities and commitments to extend credit

Contingent liabilities and commitments arise from forward asset purchases, amounts owing to 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 are 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:

	2017	2016
Direct credit substitutes	3,290,887	2,832,826
Transaction-related contingencies	604,414	276,227
Trade-related contingencies	1,647,937	1,238,228
Forward forward deposits	–	500,000
Other commitments:		
With an original maturity of not more than one year	319,906	322,094
With an original maturity over one year	3,660,086	1,848,512
Which are unconditionally cancellable	33,457,452	31,897,540
Total	42,980,682	38,915,427
Credit risk weighted amounts	5,378,746	3,975,311

29. Contingent liabilities and commitments *(continued)*

(b) Capital commitments

Capital commitments for acquisition of tangible fixed assets outstanding at 31st December, 2017 not provided for in the financial statements are as follows:

	2017	2016
Expenditure authorised and contracted for	55,300	49,563
Expenditure authorised but not contracted for	–	–
	55,300	49,563

(c) Lease commitments

At 31st December, 2017, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2017	2016
Properties		
Within 1 year	113,986	121,157
After 1 year but within 5 years	103,422	136,874
After 5 years	13,971	19,768
	231,379	277,799
Others		
Within 1 year	2,923	4,061
After 1 year but within 5 years	2,500	2,082
	5,423	6,143

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 include contingent rentals.

Notes to the Financial Statements

30. Derivative financial instruments

Derivatives refer to financial contracts for which the 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 derivative 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.

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

	2017			
	Qualifying for hedge accounting	Managed in conjunction with financial instruments designated at fair value through profit or loss	Others, including held for trading	Total
Exchange rate contracts				
Forwards	–	–	224,770,013	224,770,013
Options purchased	–	–	21,684,006	21,684,006
Options written	–	–	20,205,249	20,205,249
Interest rate contracts				
Swaps	8,604,786	–	191,978,701	200,583,487
Equity contracts				
Options purchased	–	–	109,009	109,009
Options written	–	–	106,903	106,903
Credit derivative contracts				
Credit defaults swaps purchased	–	–	5,238,124	5,238,124
Credit defaults swaps written	–	–	5,202,234	5,202,234
	8,604,786	–	469,294,239	477,899,025

30. Derivative financial instruments (continued)

		2016 Managed in conjunction with financial instruments designated at fair value through profit or loss	Others, including held for trading	Total
Exchange rate contracts	Qualifying for hedge accounting			
Forwards	–	–	107,665,840	107,665,840
Options purchased	–	–	17,821,693	17,821,693
Options written	–	–	17,713,408	17,713,408
Interest rate contracts				
Swaps	5,792,331	6,824,594	143,745,481	156,362,406
Equity contracts				
Options purchased	–	–	223,881	223,881
Options written	–	–	218,721	218,721
Credit derivative contracts				
Credit defaults swaps purchased	–	–	5,041,967	5,041,967
Credit defaults swaps written	–	–	4,943,590	4,943,590
	5,792,331	6,824,594	297,374,581	309,991,506

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

(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 derivative entered into by the Group:

	2017		2016	
	Assets	Liabilities	Assets	Liabilities
Exchange rate contracts	2,775,850	3,329,917	1,484,662	1,573,497
Interest rate contracts	460,596	448,988	865,135	906,295
Equity contracts	957	945	3,279	3,152
Credit derivative contracts	2,335	2,355	2,305	2,271
Total (notes 12 and 24)	3,239,738	3,782,205	2,355,381	2,485,215

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

	2017		2016	
	Assets	Liabilities	Assets	Liabilities
Interest rate contracts (notes 14 and 25)	27,568	1,684	62,838	141
	27,568	1,684	62,838	141

Notes to the Financial Statements

30. Derivative financial instruments *(continued)*

(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.

	2017			Total
	Within 1 year	Over 1 year but within 5 years	Over 5 years	
Exchange rate contracts	256,660,269	9,998,999	–	266,659,268
Interest rate contracts	132,094,768	67,211,749	1,276,970	200,583,487
Equity contracts	215,912	–	–	215,912
Credit derivative contracts	9,735,785	704,573	–	10,440,358
	398,706,734	77,915,321	1,276,970	477,899,025

	2016			Total
	Within 1 year	Over 1 year but within 5 years	Over 5 years	
Exchange rate contracts	138,502,980	4,697,961	–	143,200,941
Interest rate contracts	101,815,870	51,011,791	3,534,745	156,362,406
Equity contracts	328,414	114,188	–	442,602
Credit derivative contracts	7,630,621	2,354,936	–	9,985,557
	248,277,885	58,178,876	3,534,745	309,991,506

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

	2017	2016
Exchange rate contracts	3,169,168	1,011,694
Interest rate contracts	193,124	770,832
Equity contracts	1,465	19,934
Credit derivative contracts	467	489
	3,364,224	1,802,949

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.

30. Derivative financial instruments *(continued)*

(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, 2017, the positive fair value of derivatives held as fair value hedges was HK\$26,413,000 (2016: HK\$56,324,000).

The gains on the hedging instruments for the year were HK\$15,652,000 (2016: HK\$44,232,000). The losses on the hedged items attributable to the hedged risk for the year were HK\$18,709,000 (2016: HK\$47,143,000).

(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 assets and fixed rate liabilities. At 31st December, 2017, the negative fair value of derivatives held as cash flow hedges was HK\$529,000 (2016: positive fair value of HK\$6,373,000). During the year, there was no ineffectiveness recognised in the statement of profit or loss that arose from cash flow hedges (2016: 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:

	2017			Total
	Less than 1 year	1 to 5 years	Over 5 years	
Forecast receivable cash flows	–	229,918	–	229,918
Forecast payable cash flows	–	(112,177)	–	(112,177)
Forecast net payable cash flows	–	117,741	–	117,741

	2016			Total
	Less than 1 year	1 to 5 years	Over 5 years	
Forecast receivable cash flows	–	–	–	–
Forecast payable cash flows	(17,993)	–	–	(17,993)
Forecast net payable cash flows	(17,993)	–	–	(17,993)

Notes to the Financial Statements

31. Notes to the consolidated cash flow statement

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

	2017	2016
Operating profit	2,721,020	2,250,005
Depreciation (note 5(g))	225,268	237,000
Interest expense on subordinated liabilities (note 5(b))	56,441	186,275
Losses on disposal of tangible fixed assets	13,527	88
Net gains from disposal of available-for-sales financial instruments (note 5(f))	(287,952)	(99,530)
(Gains)/losses on revaluation of investment properties (note 5(f))	(21,468)	11,884
Profits tax paid	(417,903)	(403,398)
Change in treasury bills with original maturity of three months or above	(443,786)	(9,627,510)
Change in placements with banks, central banks and other financial institutions with original maturity of three months or above	1,021,982	3,831,009
Change in amounts due from ultimate holding company, fellow subsidiaries and fellow associates maturing after three months	1,778,015	3,283,880
Change in certificates of deposit held	(29,887,067)	(202,721)
Change in trading assets	(1,311,730)	(371,278)
Change in financial assets designated at fair value through profit or loss	2,272,963	4,111,700
Change in advances to customers and other accounts	(23,632,102)	10,655,910
Change in deposits and balances of banks, central banks and other financial institutions	1,347,054	(552,029)
Change in amounts due to ultimate holding company and fellow subsidiaries	26,782,409	5,865,709
Change in deposits from customers	29,306,268	(11,821,554)
Change in certificates of deposit issued	537,234	(4,807,208)
Change in trading liabilities	1,296,990	581,972
Change in other accounts and provision	440,255	(1,075,537)
Net cash inflow from operating activities	11,797,418	2,054,667

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

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

	2017	2016
Cash and balances with banks, central banks and other financial institutions	10,950,901	9,622,651
Placements with banks, central banks and other financial institutions	7,995,727	6,237,703
Amounts due from ultimate holding company, fellow subsidiaries and fellow associates	7,910,557	7,354,832
Treasury bills	18,956,927	17,432,641
Amounts shown in the consolidated statement of financial position	45,814,112	40,647,827
Less: Amounts with an original maturity of three months or above	(18,493,884)	(20,868,185)
Deposits and balances of banks, central banks and other financial institutions that are repayable on demand	(1,085,206)	(1,883,352)
Cash and cash equivalents in the consolidated cash flow statement	26,235,022	17,896,290

(c) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the cash flow statement as cash flows from financing activities.

	2017	2016
At 1st January	3,146,519	3,236,237
Redemption of subordinated liabilities	(3,110,556)	–
Exchange adjustment	8,536	2,043
Realised/unrealised gain on subordinated liabilities	(44,499)	(91,761)
At 31st December	–	3,146,519

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.

Notes to the Financial Statements

32. Segment reporting *(continued)*

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.

Mainland China segment

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

Macau segment

This comprises the business of Banco OCBC Weng Hang, S.A., for which the main business is 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 (including equipment of the Group and overseas bank premises), balance and placement with banks, central banks and other financial institutions and advances to customers and banks 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 fees 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' funds 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.

	2017						
	Hong Kong						
	Retail banking	Corporate banking	Treasury	Total	Mainland China	Macau	Total
Net interest income	1,734,773	437,650	349,243	2,521,666	1,205,459	554,046	4,281,171
Non-interest income	719,330	46,968	315,541	1,081,839	(83,672)	240,943	1,239,110
Reportable segment revenue	2,454,103	484,618	664,784	3,603,505	1,121,787	794,989	5,520,281
Operating expenses	(1,266,016)	(193,585)	(103,314)	(1,562,915)	(988,189)	(331,891)	(2,882,995)
Operating profit before impairment losses and allowances	1,188,087	291,033	561,470	2,040,590	133,598	463,098	2,637,286
Impairment losses and allowances	(33,992)	(999)	–	(34,991)	69,209	(6,292)	27,926
Operating profit	1,154,095	290,034	561,470	2,005,599	202,807	456,806	2,665,212
Realised gains on subordinated liabilities	–	–	44,499	44,499	–	–	44,499
Share of net gains of associated companies	–	–	–	–	–	88	88
Reportable segment profit before tax	1,154,095	290,034	605,969	2,050,098	202,807	456,894	2,709,799
Depreciation	23,071	201	3,779	27,051	82,224	27,264	136,539
Reportable segment assets	82,252,876	46,292,588	54,188,346	182,733,810	94,765,758	32,838,929	310,338,497
Addition to non-current segment assets	6,737	28	45	6,810	45,939	16,231	68,980
Reportable segment liabilities	152,296,446	768,800	9,444,251	162,509,497	85,582,486	28,950,926	277,042,909

Notes to the Financial Statements

32. Segment reporting *(continued)*

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

	2016						
	Hong Kong						
	Retail banking	Corporate banking	Treasury	Total	Mainland China	Macau	Total
Net interest income	1,789,718	511,622	372,701	2,674,041	574,892	569,462	3,818,395
Non-interest income	545,541	54,958	213,180	813,679	234,465	174,452	1,222,596
Reportable segment revenue	2,335,259	566,580	585,881	3,487,720	809,357	743,914	5,040,991
Operating expenses	(1,257,947)	(189,690)	(113,505)	(1,561,142)	(733,081)	(341,478)	(2,635,701)
Operating profit before impairment losses and allowances	1,077,312	376,890	472,376	1,926,578	76,276	402,436	2,405,290
Impairment losses and allowances	(79,921)	(35,934)	–	(115,855)	18,563	(1,470)	(98,762)
Operating profit	997,391	340,956	472,376	1,810,723	94,839	400,966	2,306,528
Unrealised gains on subordinated liabilities	–	–	91,761	91,761	–	–	91,761
Share of net gains of associated companies	–	–	–	–	–	88	88
Reportable segment profit before tax	997,391	340,956	564,137	1,902,484	94,839	401,054	2,398,377
Depreciation	26,753	459	3,791	31,003	84,662	36,426	152,091
Reportable segment assets	71,193,316	37,199,424	47,732,658	156,125,398	60,935,419	30,963,701	248,024,518
Addition to non-current segment assets	14,179	47	101	14,327	25,285	9,448	49,060
Reportable segment liabilities	132,558,151	1,041,533	860,951	134,460,635	52,384,586	27,547,930	214,393,151

32. Segment reporting *(continued)*

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

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

	2017	2016
Revenue		
Reportable segment revenue	5,520,281	5,040,991
Other revenue	328,557	456,661
Elimination of inter-segment revenue	(192,294)	(475,681)
Consolidated operating income	5,656,544	5,021,971
	2017	2016
Profit before taxation		
Reportable segment profit before taxation	2,709,799	2,398,377
Share of net gains of associated companies	64,666	42,683
Other net gains	55,808	234,739
Elimination of inter-segment profit	–	(291,262)
Consolidated profit before taxation	2,830,273	2,384,537
	2017	2016
Assets		
Reportable segment assets	310,338,497	248,024,518
Balance and placements with banks, central banks and other financial institutions	3,356,222	4,014,735
Amounts due from ultimate holding company, fellow subsidiaries and fellow associates	2,612,204	6,351,174
Investments in associated companies	134,127	353,756
Tangible fixed assets	4,281,331	3,807,512
Goodwill	1,306,430	1,306,430
Current tax recoverable	399	3,216
Deferred tax assets	11,341	13,722
Assets of a disposal group classified as held for sale	271,674	–
Other assets	11,121,817	9,711,071
Elimination of inter-segment assets	(12,509,569)	(12,052,442)
Consolidated total assets	320,924,473	261,533,692

Notes to the Financial Statements

32. Segment reporting *(continued)*

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

	2017	2016
Liabilities		
Reportable segment liabilities	277,042,909	214,393,151
Deposits and balances of banks, central banks and other financial institutions	852,356	1,911,718
Amounts due to ultimate holding company and fellow subsidiaries	2,787,291	8,908,013
Current tax payable	82,676	105,731
Deferred tax liabilities	79,503	73,221
Other liabilities	4,808,357	4,716,389
Elimination of inter-segment liabilities	(1,282,109)	(1,634,601)
Consolidated total liabilities	284,370,983	228,473,622

(b) Other geographical information

	2017				
	Hong Kong	Mainland China	Macau	Less: inter-segment elimination	Total
Specified non-current assets	5,765,881	666,064	662,311	11,386	7,105,642
Contingent liabilities and commitments (note 29(a))	16,924,773	22,544,192	4,213,645	(701,928)	42,980,682
	2016				
	Hong Kong	Mainland China	Macau	Less: inter-segment elimination	Total
Specified non-current assets	5,529,770	673,371	636,525	11,426	6,851,092
Contingent liabilities and commitments (note 29(a))	18,830,142	17,798,333	3,321,073	(1,034,121)	38,915,427

33. Material related party transactions

(a) Ultimate holding company

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

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:

	2017	2016 (restated)
(i) Income and expense during the year		
Interest income	163,966	159,007
Interest expense	459,738	108,719
(ii) Average on-balance sheet outstanding during the year		
Amounts due from ultimate holding company	6,293,590	9,880,641
Amounts due to ultimate holding company	43,894,924	9,196,821
(iii) On-balance sheet outstanding at the reporting date		
Amounts due from ultimate holding company	7,473,027	7,665,840
Amounts due to ultimate holding company	44,345,425	15,807,708
(iv) Derivative financial instruments outstanding (notional amounts) at the reporting date		
Exchange rate contracts	40,394,072	13,202,456
Interest rate contracts	28,873,683	26,747,763
Equity contracts	106,903	218,721
Credit derivative contracts	5,238,124	5,041,967

Notes to the Financial Statements

33. Material related party transactions *(continued)*

(a) Ultimate holding company *(continued)*

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

On 18th July, 2016, the Bank completed the acquisition of the entire equity interest of OCBC Bank (China) Limited. On the same date, the Bank's wholly owned subsidiary, Wing Hang Bank (China) Limited merged into OCBC Bank (China) Limited. The combined entity was renamed OCBC Wing Hang Bank (China) Limited. OCBC entered into an agreement with the Bank and provided a financial guarantee to reimburse the Bank upon demand for any defaults in respect of the loans, credit facility amounts or advances granted by the original OCBC Bank (China) Limited as of 18th July, 2016. The aggregate of all reimbursements shall not exceed Renminbi 900,000,000 for the defaults that have those occurred or will occur before 18th July 2018, except for defaults of those restructured loans already in place at the time of reorganisation.

On 30th October, 2017, OCBC Wing Hang Bank (China) Limited sold its gross loan outstanding of HK\$434,218,000 to OCBC, which an impairment provision of HK\$215,459,000 was made prior to the sale. The Group is entitled to the reimbursement of HK\$215,459,000 under the financial guarantee arrangement above, hence no impairment provision was recognised in the consolidated financial statements.

(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 outstanding at the reporting date are:

	2017	2016 (restated)
(i) Income and expense during the year		
Interest income	19,846	11,194
Interest expense	19,979	8,072
(ii) Average on-balance sheet outstanding during the year		
Amounts due from fellow subsidiaries	422,769	468,244
Amounts due to fellow subsidiaries	62,587	1,488,947
(iii) On-balance sheet outstanding at the reporting date		
Amounts due from fellow subsidiaries	437,530	393,266
Amounts due to fellow subsidiaries	76,712	1,495,149

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 outstanding at the reporting date are:

	2017	2016
(i) Income and expense during the year		
Interest income	3,419	318
(ii) Average on-balance sheet outstanding during the year		
Amounts due from fellow associates	629,290	9,310
(iii) On-balance sheet outstanding at the reporting date		
Amounts due from fellow associates	834,087	111,723

(c) 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:

	2017	2016
(i) Income and expense during the year		
Interest income	528,087	489,856
Interest expense	66,449	87,594
Other operating income	155,262	421,340
Operating expense	77,476	71,337

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 from 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 fees paid to the Bank's subsidiaries by the Bank.

All income and expenses on these transactions are determined on an arm's length basis.

Notes to the Financial Statements

33. Material related party transactions *(continued)*

(c) Subsidiaries *(continued)*

	2017	2016
(ii) Average on-balance sheet outstanding during the year		
Amounts due from subsidiaries	23,724,361	21,895,677
Amounts due to subsidiaries	6,054,678	8,058,061
(iii) On-balance sheet outstanding at the reporting date		
Amounts due from subsidiaries	26,551,375	23,396,306
Amounts due to subsidiaries	6,695,653	5,597,060
No allowance for impairment losses has been made in respect of these balances as at 31st December, 2017 (2016: nil).		
(iv) Off-balance sheet outstanding (contract amounts) at the reporting date		
Direct credit substitutes	128,173	127,277
Transaction-related contingencies	–	200,000
Other commitments	1,597,379	3,149,083
(v) Derivative financial instruments outstanding (notional amounts) at the reporting date		
Exchange rate contracts	2,679,381	2,581,387
Interest rate contracts	515,632	400,000
Equity contracts	2,106	5,160

On 30th September, 2017, OCBC Wing Hang Bank (China) Limited sold four loan exposures to the Bank. The aggregate amount of the loan outstanding was HK\$276,217,000.

33. Material related party transactions *(continued)*

(d) 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 outstanding at the reporting date are:

	2017	2016
(i) Income and expense during the year		
Interest income	–	191
Interest expense	4,594	4,555
(ii) Average on-balance sheet outstanding during the year		
Loans to associated companies	–	5,022
Deposits from customers	712,878	1,082,456
(iii) On-balance sheet outstanding at the reporting date		
Loans to associated companies	–	–
Deposits from customers	675,174	410,124

Notes to the Financial Statements

33. Material related party transactions *(continued)*

(e) 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:

	2017	2016
(i) Income and expense during the year		
Interest income	135	128
Interest expense	33,571	40,010
(ii) Average on-balance sheet outstanding during the year		
Advances to customers	9,298	10,904
Deposits from customers	2,768,551	4,431,599
(iii) On-balance sheet outstanding at the reporting date		
Advances to customers	12,974	9,273
Deposits from customers	2,284,372	4,250,671
(iv) Emoluments for the year		
Remuneration for key management personnel, including amounts paid to the Bank's directors as disclosed in note 9 is as follows:		
	2017	2016
Short-term employee benefits	64,611	68,163
Post-employment benefits	2,226	2,595
Equity compensation benefits	13,131	7,803
	79,968	78,561

On 13th December 2017, the Bank sold two Discovery Bay Golf Club membership debentures to two key management personnel. The aggregate amount of the transactions was HK\$5,087,000, which was settled in cash.

33. Material related party transactions *(continued)*

(f) 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:

	2017	2016
Aggregate amount of relevant loans outstanding at 31st December	3,495	3,782
The maximum aggregate amount of relevant loans outstanding during the year	4,383	4,716

- (g) During the year, no allowance for impairment losses has been made in respect of the above advances to related parties (2016: 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 ("ALCO"). 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 Credit Policy, which is regularly reviewed and approved by the Credit Committee. The Credit Policy covers the delegated lending authorities, credit extension criteria, credit monitoring process, loan classification system, credit recovery and impairment policy.

Notes to the Financial Statements

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. 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, 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 risks 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.

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:

	Gross amounts of recognised financial assets	Gross liabilities set off in the statement of financial position	2017			
			Gross amounts of recognised financial assets presented 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	
					Financial instruments	Cash collateral received
						Net amount
Financial assets						
Amounts due from ultimate holding company, fellow subsidiaries and fellow associates	3,435,111	–	3,435,111	(3,435,111)	–	–
Positive fair values of derivative financial instruments held for trading	539,749	–	539,749	(191,279)	(259,735)	88,735
Interest receivable	9,407	(8,716)	691	–	–	691
	3,984,267	(8,716)	3,975,551	(3,626,390)	(259,735)	89,426

	Gross amounts of recognised financial liabilities	Gross assets set off in the statement of financial position	2017			
			Gross amounts of recognised financial liabilities presented 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	
					Financial instruments	Cash collateral pledged
						Net amount
Financial liabilities						
Deposits from banks	69,940	–	69,940	(69,940)	–	–
Amounts due to ultimate holding company and fellow subsidiaries	3,435,111	–	3,435,111	(3,435,111)	–	–
Negative fair values of derivative financial instruments held for trading	244,098	–	244,098	(191,279)	(30,557)	22,262
Interest payable	14,795	(8,716)	6,079	–	–	6,079
	3,763,944	(8,716)	3,755,228	(3,696,330)	(30,557)	28,341

Notes to the Financial Statements

34. Management of risks (continued)

(a) Credit risk management (continued)

(v) Master netting arrangements (continued)

			2016			
	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		
				Financial instruments	Cash collateral received	Net amount
Financial assets						
Placements with banks	188,736	–	188,736	(188,736)	–	–
Positive fair values of derivative financial instruments held for trading	327,953	–	327,953	(225,891)	(7,237)	94,825
Interest receivable	5,670	(4,973)	697	–	–	697
	522,359	(4,973)	517,386	(414,627)	(7,237)	95,522

			2016			
	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		
				Financial instruments	Cash collateral pledged	Net amount
Financial liabilities						
Deposits from banks	1,914,512	–	1,914,512	(1,914,510)	–	2
Deposits from customers	23,373	–	23,373	(23,373)	–	–
Negative fair values of derivative financial instruments held for trading	481,132	–	481,132	(225,891)	(164,995)	90,246
Interest payable	11,227	(4,973)	6,254	–	–	6,254
	2,430,244	(4,973)	2,425,271	(2,163,774)	(164,995)	96,502

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. The information of the advances to customers analysed by industry sectors and by geographical area are disclosed in note 14(b) of "Notes to the financial statements" and note (b) of "Unaudited supplementary financial information" respectively.

(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:

	2017	2016
Cash and balances with banks, central banks and other financial institutions	10,950,901	9,622,651
Placements with banks, central banks and other financial institutions	7,995,727	6,237,703
Amounts due from ultimate holding company, fellow subsidiaries and fellow associates	8,744,644	8,170,829
Trading assets	8,786,769	5,780,612
Financial assets designated at fair value through profit or loss	19,990	2,292,953
Advances to customers	178,934,364	161,177,230
Trade bills	3,316,577	983,137
Advances to banks	4,922,693	1,913,710
Available-for-sale financial assets	85,731,033	55,050,258
Financial guarantees and other credit related contingent liabilities	5,543,238	4,847,281
Loan commitments and other credit related commitments	37,437,444	34,068,146

Notes to the Financial Statements

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, 2017 and 2016, 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:

	2017	2016
Gross advances to customers		
– neither past due nor impaired	174,099,159	157,556,593
– past due but not impaired	4,613,591	2,973,473
– impaired (note 14(c))	870,780	1,438,915
	179,583,530	161,968,981

of which:

Gross advances to customers		
– Grade 1: Pass	178,026,559	159,542,592
– Grade 2: Special mention	686,191	987,474

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:

	2017	2016
Gross advances to customers that are past due but not impaired		
– past due 3 months or less	4,586,565	2,680,613
– 6 months or less but over 3 months	20,178	26,111
– 1 year or less but over 6 months	6,848	266,749
	4,613,591	2,973,473

At 31st December, 2017, advances to customers that were past due or impaired had the terms not been renegotiated amounted to HK\$14,637,000 (2016: HK\$19,941,000) for the Group. These are retained in impaired loans as long as the obligor will be able to substantially meet the renegotiated loan repayment terms.

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.

	2017	2016
AAA	12,096,120	15,976,696
AA-to AA+	5,573,100	18,047,841
A-to A+	44,429,213	20,850,302
BBB to BBB+	18,668,050	2,659,028
Lower than BBB	8,861,309	831,352
	89,627,792	58,365,219
Unrated	1,097,277	1,799,713
	90,725,069	60,164,932

There are no overdue debt securities included in "Financial assets designated at fair value through profit or loss" and "Available-for-sale financial assets" for the Group as at 31st December, 2017 (2016: nil).

Included in "Other assets" of the Group as at 31st December, 2017 and 31st December, 2016, there are no receivables which are overdue.

Notes to the Financial Statements

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:

	2017	2016
Fair value of collateral and other credit enhancements held against financial assets that are past due but not impaired	5,816,426	6,744,940

Analysis of credit risk concentration by the economic sector of the respective financial assets is disclosed in notes 12 to 15 and the geographical concentration of the Group's assets is disclosed in note 32.

(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 44.1% in 2017 (2016: 41.5%), which is well above the statutory requirement of 25%. The ratio as of 31st December, 2017 and 31st December, 2016 are compiled in accordance with the Banking (Liquidity) Rules effective from 1st January, 2015.

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 ("ALCO"), Investment Strategy Committee, Treasury Division, Financial Management Division, Risk Management Division, Corporate Banking Division and Retail Banking Division.

34. Management of risks *(continued)*

(b) Liquidity risk management *(continued)*

Liquidity is managed day-to-day by the Treasurer under the direction of ALCO. ALCO, 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 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 ALCO members on any material customers' deposits balance movement and strategy to tap deposits.

To cater for funding requirements during the ordinary course of business, sufficient liquid assets are held and 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.

The Treasury Division acts in accordance with the Liquidity Portfolio Framework and Debt Securities Investment Framework to address the issue of liquidity cushions. The objective of the Liquidity Portfolio Framework is 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 arrangements in relation to the use and application of funds. The 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.

Notes to the Financial Statements

34. Management of risks *(continued)*

(b) Liquidity risk management *(continued)*

Commensurate with the Group's business size, structure and complexity, the Group sets up targets 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 ratios, medium term funding ratios, maturity mismatch targets, loan to deposit ratios, etc. Those liquidity indicators are subject to the ALCO's review on a regular basis against the target.

The maintenance of liquidity maintenance ratio can serve the purpose of addressing short-term liquidity stability. The medium-term funding ratio gives a clear picture of the Group's medium-term funding. A medium term 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 ALCO to ensure the effectiveness of the stress testing process. Stress tests are performed regularly at the individual major entity level. The impact is further analysed on the 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 ALCO 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 the contingency funding plan.

The cash flows payable by the Group for 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.

34. Management of risks *(continued)*

(b) Liquidity risk management *(continued)*

			2017					
	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	1,261,296	3,190,183	15,174	–	12,341	–	–	4,478,994
Amounts due to ultimate holding company and fellow subsidiaries	573,788	8,453,799	7,649,190	21,671,681	6,088,228	–	–	44,436,686
Deposits from customers	84,407,237	58,308,552	54,101,806	24,375,139	2,136,354	–	–	223,329,088
Certificates of deposit issued	–	788,792	782,796	159,148	2,546,532	211,989	–	4,489,257
Subordinated liabilities	–	–	–	–	–	–	–	–
Other liabilities	–	1,714,945	1,437,777	406,443	299,768	–	502,265	4,361,198
	86,242,321	72,456,271	63,986,743	46,612,411	11,083,223	211,989	502,265	281,095,223
Unrecognised loan commitments	16,558,067	573,100	1,653,087	14,864,518	3,714,778	73,894	–	37,437,444
Financial guarantees and other credit related contingent liabilities	323,779	594,841	1,481,811	2,512,806	627,859	2,142	–	5,543,238
	16,881,846	1,167,941	3,134,898	17,377,324	4,342,637	76,036	–	42,980,682
Derivative cash flows								
Derivative financial instruments settled on net basis	–	7,307	17,425	67,302	164,667	4	–	256,705
Derivative financial instruments settled on a gross basis								
– total outflow	–	21,240,931	10,851,668	6,892,088	1,831,087	–	–	40,815,774
– total inflow	–	(21,701,402)	(10,983,188)	(7,464,161)	(2,063,610)	–	–	(42,212,361)
	–	(460,471)	(131,520)	(572,073)	(232,523)	–	–	(1,396,587)

Notes to the Financial Statements

34. Management of risks *(continued)*

(b) Liquidity risk management *(continued)*

			2016					
	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	2,628,964	1,528,984	10,197	90,269	–	–	–	4,258,414
Amounts due to ultimate holding company and fellow subsidiaries	365,934	2,674,390	4,897,615	2,355,857	7,031,901	–	–	17,325,697
Deposits from customers	70,144,378	49,538,477	47,813,108	24,009,221	2,525,234	–	–	194,030,418
Certificates of deposit issued	–	6,210	4,831	2,122,169	1,128,301	230,118	–	3,491,629
Subordinated liabilities	–	–	–	3,195,151	–	–	–	3,195,151
Other liabilities	–	1,684,984	912,324	431,088	102,559	–	577,558	3,708,513
	73,139,276	55,433,045	53,638,075	32,203,755	10,787,995	230,118	577,558	226,009,822
Unrecognised loan commitments	19,100,997	887,721	980,242	11,412,591	1,657,964	28,631	–	34,068,146
Financial guarantees and other credit related contingent liabilities	355,655	1,028,796	1,083,220	1,926,306	451,162	2,142	–	4,847,281
	19,456,652	1,916,517	2,063,462	13,338,897	2,109,126	30,773	–	38,915,427
Derivative cash flows								
Derivative financial instruments settled on net basis	–	44,754	50,601	113,074	219,660	13,680	–	441,769
Derivative financial instruments settled on a gross basis								
– total outflow	–	18,434,651	4,263,812	2,281,323	937,419	–	–	25,917,205
– total inflow	–	(18,160,063)	(3,920,673)	(2,799,252)	(1,259,161)	–	–	(26,139,149)
	–	274,588	343,139	(517,929)	(321,742)	–	–	(221,944)

The details 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.

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. The Group's market risk management strategy is established within its risk appetite, taking into account macroeconomic and market conditions. ALCO 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 ALCO 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 and Market Risk Management Unit have 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 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.

Notes to the Financial Statements

34. Management of risks *(continued)*

(c) Market risk management *(continued)*

(i) Interest rate risk

The Group's interest rate exposures arise from lending, deposit-taking and 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 books and trading books. 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 ALCO within limits approved by the Board, including interest rate gap limit, product limit and PVB 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 ALCO 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. The analysis is performed on the same basis as 2016.

	2017	2016
	Increase/(decrease) in Group's profit before tax	Increase/(decrease) in Group's profit before tax
Increase in 10 basis points	23,652	20,535
Decrease in 10 basis points	(23,652)	(20,535)

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 ALCO.

34. Management of risks *(continued)*

(c) Market risk management *(continued)*

(i) Interest rate risk *(continued)*

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

	2017					
	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	10,950,901	7,983,133	–	–	–	2,967,768
Placements with banks, central banks and other financial institutions	7,995,727	7,995,727	–	–	–	–
Amounts due from ultimate holding company, fellow subsidiaries and fellow associates	8,744,644	7,856,341	590,578	–	–	297,725
Trading assets	8,786,769	2,072,212	2,155,918	909,437	408,356	3,240,846
Financial assets designated at fair value through profit or loss	19,990	–	19,990	–	–	–
Advances to customers and other accounts	186,220,065	161,763,646	11,099,211	9,003,740	102,792	4,250,676
Advances to banks	4,922,693	4,120,260	802,433	–	–	–
Available-for-sale financial assets	85,731,033	39,517,701	31,183,915	12,955,251	1,502,288	571,878
Other assets	7,552,651	–	–	–	–	7,552,651
Total assets	320,924,473	231,309,020	45,852,045	22,868,428	2,013,436	18,881,544
Liabilities						
Deposits and balances of banks, central banks and other financial institutions	4,457,691	3,698,533	–	–	–	759,158
Amounts due to ultimate holding company and fellow subsidiaries	44,422,137	28,473,934	15,521,974	–	–	426,229
Deposits from customers	222,459,498	181,394,000	23,029,666	1,876,644	–	16,159,188
Certificates of deposit issued	4,380,410	3,122,588	109,970	947,852	200,000	–
Trading liabilities	3,782,205	–	–	–	–	3,782,205
Other liabilities	4,869,042	34,539	–	–	–	4,834,503
Subordinated liabilities	–	–	–	–	–	–
Total liabilities	284,370,983	216,723,594	38,661,610	2,824,496	200,000	25,961,283
Derivatives (in the banking book) net (short)/ long position (notional amount)	(178,279)	(1,154,459)	–	1,584,207	(608,027)	–
Interest rate sensitivity gap	36,375,211	13,430,967	7,190,435	21,628,139	1,205,409	(7,079,739)

Notes to the Financial Statements

34. Management of risks (continued)

(c) Market risk management (continued)

(i) Interest rate risk (continued)

			2016			
	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	9,622,651	5,048,413	–	–	–	4,574,238
Placements with banks, central banks and other financial institutions	6,237,703	6,237,703	–	–	–	–
Amounts due from ultimate holding company, fellow subsidiaries and fellow associates	8,170,829	5,654,181	2,496,379	–	–	20,269
Trading assets	5,780,612	2,160,186	858,747	403,964	–	2,357,715
Financial assets designated at fair value through profit or loss	2,292,953	68,213	1,115,841	1,092,258	16,641	–
Advances to customers and other accounts	165,596,946	140,297,605	12,247,743	9,436,494	237,363	3,377,741
Advances to banks	1,913,710	905,378	1,008,332	–	–	–
Available-for-sale financial assets	55,050,258	22,934,429	19,000,054	10,948,980	1,565,618	601,177
Other assets	6,868,030	–	–	–	–	6,868,030
Total assets	261,533,692	183,306,108	36,727,096	21,881,696	1,819,622	17,799,170
Liabilities						
Deposits and balances of banks, central banks and other financial institutions	4,245,654	4,136,565	78,669	–	–	30,420
Amounts due to ultimate holding company and fellow subsidiaries	17,302,857	14,770,424	2,016,349	–	–	516,084
Deposits from customers	193,153,230	153,496,784	22,929,652	2,977,570	–	13,749,224
Certificates of deposit issued	3,843,176	1,783,701	849,558	1,009,917	200,000	–
Trading liabilities	2,485,215	–	–	–	–	2,485,215
Other liabilities	4,296,971	47,565	–	–	–	4,249,406
Subordinated liabilities	3,146,519	–	3,146,519	–	–	–
Total liabilities	228,473,622	174,235,039	29,020,747	3,987,487	200,000	21,030,349
Derivatives (in the banking book) net long/(short) position (notional amount)	–	5,692,331	(2,249,014)	(2,551,467)	(891,850)	–
Interest rate sensitivity gap	33,060,070	14,763,400	5,457,335	15,342,742	727,772	(3,231,179)

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:

	2017 %	2016 %
Placement with banks, central banks and other financial institutions	2.02	1.86
Advances to customers and trade bills	2.96	2.90
Debt securities	2.78	1.69
	2.82	2.52
Deposits and balances of banks, central banks and other financial institutions	1.57	0.99
Deposits from customers	1.19	0.96
Certificates of deposit issued	2.11	2.09
Subordinated liabilities	–	5.89
	1.28	1.06

(ii) Currency risk

The Group's foreign exchange positions, which arise from foreign exchange dealings, 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 ALCO. All foreign exchange positions are managed by the ALCO 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 includes structural assets or liabilities as follows:

- investments in overseas subsidiaries and related companies

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>	2017			2016		
	US\$	Chinese Renminbi	Total	US\$	Chinese Renminbi	Total
Spot assets	70,571	74,124	169,857	59,610	45,802	124,738
Spot liabilities	(79,778)	(47,748)	(165,414)	(53,561)	(45,547)	(126,604)
Forward purchases	116,741	81,359	213,967	54,056	38,122	104,642
Forward sales	(105,619)	(110,755)	(219,838)	(54,772)	(39,858)	(98,830)
Net option positions	(2,457)	2,456	(1)	(4,177)	1,133	(3,055)
Net (short)/long positions	(542)	(564)	(1,429)	1,156	(348)	891

<i>(In millions of HK\$ equivalent)</i>	2017			
	Macau Patacas	Chinese Renminbi	US\$	Total
Net structural positions	3,063	6,612	1,689	11,364

<i>(In millions of HK\$ equivalent)</i>	2016			
	Macau Patacas	Chinese Renminbi	US\$	Total
Net structural positions	2,656	6,025	1,676	10,357

(iii) Equity risk

The Group's equities exposures in 2017 and 2016 are mainly in long-term equity investments which are reported as "Available-for-sale financial assets" set out in note 15. Equities held for trading purposes are included under "Trading assets" set out in note 12. These are subject to trading limits and risk management control procedures and other market risk regimes.

(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 commensurate 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 years ended 31st December, 2017 and 2016 and are well above the minimum required ratio set by the HKMA.

The capital ratios as at 31st December, 2017 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, 2017, the Group entered into repurchase agreements with certain banks and customers to sell debt securities with a carrying amount of HK\$5,536,838,000 (2016: HK\$2,081,823,000) which are subject to 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:

	2017	2016
Available-for-sale financial assets	4,415,411	631,737
Trading assets	1,121,427	1,450,086
	5,536,838	2,081,823

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\$5,240,884,000 (2016: HK\$1,937,885,000) was reported as “Deposits and balances of banks, central banks and other financial institutions” and “Deposits from customers” at 31st December, 2017 and 31st December, 2016. The details are as follows:

	2017	2016
Deposits and balances of banks, central banks and other financial institutions	1,805,773	1,914,512
Amounts due to ultimate holding company and fellow subsidiaries	3,435,111	–
Deposits from customers	–	23,373
	5,240,884	1,937,885

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, 2017 and 31st December, 2016, there were no outstanding transferred financial assets in which the Group has a continuing involvement that were derecognised in their entirety.

35. Staff benefits

(a) Retirement schemes

	2017	2016
Retirement benefit costs (note 5(g))	83,907	85,384

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

During the year, OCBC, the ultimate controlling party of the Group, granted 1,031,935 (2016: 1,108,771) options, to eligible employees of the Group to acquire ordinary shares in OCBC pursuant to OCBC Share Option Scheme 2001 ("2001 Scheme"). This included 605,526 (2016: 595,906) options granted to directors of the Group. 2001 Scheme was implemented in 2001 and was extended for another 10 years from 2011 to 2021. Executives of the Group ranked Manager and above and non-executive directors of the Group are eligible to participate in this scheme. OCBC will either issue new shares or transfer treasury shares to the participants upon the exercise of their options. The acquisition prices for these grants were equal to the average of the last traded price of the ordinary shares of OCBC on the Singapore Exchange over the five consecutive trading days immediately prior to the respective dates of grant. The fair value of the options granted is determined using the binomial valuation model. Significant inputs to the valuation model are set out below:

	2017	2016
Acquisition price (in Singapore \$)	9.60	8.81
Average share price from grant date to acceptance date (in Singapore \$)	9.64	8.95
Expected volatility based on last 250 days historical volatility as of acceptance date (in %)	14.73	20.08
Risk-free rate based on Singapore Government Securities ("SGS") bond yield at acceptance date (in %)	2.11	1.83
Expected dividend yield (in %)	4.27	4.02
Exercise multiple (times)	1.74	1.78
Option life (years)	10	10

Notes to the Financial Statements

35. Staff benefits (continued)

(b) Equity compensation benefits (continued)

(i) Share Option Scheme (continued)

The terms and conditions of the share options granted are as follows:

2017			
Options granted during the year	Number of options	Vesting conditions	Contractual life of options
Tranche 1	340,538	1 year from date of grant	10 years from date of grant
Tranche 2	340,538	2 years from date of grant	10 years from date of grant
Tranche 3	350,859	3 years from date of grant	10 years from date of grant
	1,031,935		

2016			
Options granted during the year	Number of options	Vesting conditions	Contractual life of options
Tranche 1	365,894	1 year from date of grant	10 years from date of grant
Tranche 2	365,894	2 years from date of grant	10 years from date of grant
Tranche 3	376,983	3 years from date of grant	10 years from date of grant
	1,108,771		

Movements in the number of options and fair value are as follows:

	2017		2016 (restated)	
	Number of options	Average price (in Singapore \$)	Number of options	Average price (in Singapore \$)
At 1st January	1,515,809	0.9872	–	–
Addition through acquisition of a subsidiary	–	–	536,102	1.1552
Exercised during the year	(150,654)	1.2582	–	–
Lapsed during the year	–	–	–	–
Granted and accepted	1,031,935	0.9172	979,707	0.8952
At 31st December	2,397,090	0.9400	1,515,809	0.9872
Exercisable at the end of the year	598,048	1.0255	323,620	1.2597

At 31st December, 2017, the weighted average remaining contractual life of outstanding share options was 8.4 years (2016: 9.9 years). The aggregate outstanding number of options held by directors of the Bank was 1,201,432 (2016: 595,906). The accounting treatment of share-based compensation plan is set out in note 2(s).

35. Staff benefits *(continued)*

(b) Equity compensation benefits *(continued)*

(ii) OCBC Deferred Share Plan

OCBC implemented the OCBC Deferred Share Plan ("DSP") in 2003. The DSP is a discretionary incentive and retention award programme extended to executives of the Group at the absolute discretion of the Remuneration Committee. Among the ordinary shares granted, 50% vests at 2 years from the date of grant and the remaining 50% vests at 3 years from the date of grant.

Awards of an aggregate of 418,054 (2016: 516,803) ordinary shares of OCBC (including awards of 176,223 (2016: 185,457) ordinary shares of OCBC granted to directors of the Group) were granted by OCBC to eligible executives under the DSP during the financial year ended 31st December, 2017. The fair value of the shares at grant date was Singapore \$4,038,402 (2016: Singapore \$4,853,978). In addition, awards are adjusted following the declarations of final dividend and interim dividend, if any.

The accounting treatment of share-based compensation plan is set out in note 2(s).

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 at the end of the reporting period on a recurring basis using the following fair value hierarchy as defined in HKFRS 13, *Fair value measurement* that reflects the observability and 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 for which 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 rather that 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. 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 are usually 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, the 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:

	2017			
Recurring fair value measurements	Level 1	Level 2	Level 3	Total
Assets				
Amounts due from ultimate holding company, fellow subsidiaries and fellow associates				
– Certificates of deposit held	–	834,087	–	834,087
	–	834,087	–	834,087
Trading assets				
– Treasury bills	832,143	–	–	832,143
– Certificates of deposit held	–	1,719,288	–	1,719,288
– Other debt securities	2,518,875	475,617	–	2,994,492
– Equity securities	1,108	–	–	1,108
– Positive fair values of derivative financial instruments held for trading	–	3,239,738	–	3,239,738
	3,352,126	5,434,643	–	8,786,769
Financial assets designated at fair value through profit or loss				
– Other debt securities	–	19,990	–	19,990
	–	19,990	–	19,990
Advances to customers and other accounts				
– Positive fair values of derivative financial instruments held for hedging	–	27,568	–	27,568
Available-for-sale financial assets				
– Treasury bills	13,736,204	4,388,580	–	18,124,784
– Certificates of deposit held	–	43,883,284	–	43,883,284
– Other debt securities	19,321,122	3,829,966	–	23,151,088
– Equity securities	–	1,018	570,859	571,877
	33,057,326	52,102,848	570,859	85,731,033
	36,409,452	58,419,136	570,859	95,399,447
Liabilities				
Trading liabilities				
– Negative fair values of derivative financial instruments held for trading	–	3,782,205	–	3,782,205
Other accounts and provisions				
– Negative fair values of derivative financial instruments held for hedging	–	1,684	–	1,684
	–	3,783,889	–	3,783,889

Notes to the Financial Statements

36. Fair values of financial instruments *(continued)* (a) Financial instruments measured at fair value *(continued)*

		2016		
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Assets				
Amounts due from ultimate holding company, fellow subsidiaries and fellow associates				
– Certificates of deposit held	–	815,996	–	815,996
	–	815,996	–	815,996
Trading assets				
– Treasury bills	697,613	–	–	697,613
– Certificates of deposit held	–	154,766	–	154,766
– Other debt securities	2,570,519	–	–	2,570,519
– Equity securities	2,333	–	–	2,333
– Positive fair values of derivative financial instruments held for trading	–	2,355,381	–	2,355,381
	3,270,465	2,510,147	–	5,780,612
Financial assets designated at fair value through profit or loss				
– Other debt securities	2,240,724	52,229	–	2,292,953
	2,240,724	52,229	–	2,292,953
Advances to customers and other accounts				
– Positive fair values of derivative financial instruments held for hedging	–	62,838	–	62,838
Available-for-sale financial assets				
– Treasury bills	13,849,430	2,885,598	–	16,735,028
– Certificates of deposit held	–	15,560,739	–	15,560,739
– Other debt securities	19,086,040	3,067,274	–	22,153,314
– Equity securities	138,122	36,666	426,389	601,177
	33,073,592	21,550,277	426,389	55,050,258
	38,584,781	24,991,487	426,389	64,002,657
Liabilities				
Trading liabilities				
– Negative fair values of derivative financial instruments held for trading	–	2,485,215	–	2,485,215
Other accounts and provisions				
– Negative fair values of derivative financial instruments held for hedging	–	141	–	141
Certificates of deposit issued designated at fair value through profit or loss	–	549,558	–	549,558
Subordinated liabilities				
– Subordinated liabilities designated at fair value through profit or loss	–	3,146,519	–	3,146,519
	–	6,181,433	–	6,181,433

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

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

During the year ended 31st December, 2017, there were no material transfers between Level 1 and Level 2, or transfers into or out of Level 3 (31st December, 2016: 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.

(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:

	2017	
	Available- for-sale financial assets – Equity securities	Total
Assets		
At 1st January	426,389	426,389
Sales	–	–
Settlements	–	–
Transfers	–	–
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	144,470	144,470
At 31st December	570,859	570,859
Total gains or losses for the year included in investment revaluation reserve of the other comprehensive income for assets held at the reporting date	–	–
Total gains or losses for the year included in the statement of profit or loss for assets held at the reporting date		
– Net trading income	144,470	144,470
– 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)*

	2016 Available- for-sale financial assets – Equity securities	Total
Assets		
At 1st January	287,108	287,108
Sales	–	–
Settlements	–	–
Transfers	–	–
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	139,281	139,281
At 31st December	426,389	426,389
Total gains or losses for the year included in investment revaluation reserve of the other comprehensive income for assets held at the reporting date	139,281	139,281
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	–	–

Information about significant unobservable inputs in Level 3 valuations

	Valuation technique	Significant unobservable inputs	Range
Unlisted available-for-sale equity instruments	Discounted cash flow model	Discount rates	7.40%-17.33% (2016: 9.57%-12.43%)
	Market-comparable approach	P/E ratios	13.52%-33.12% (2016: 10.68%-27.61%)
		Marketability discount	50% (2016: 50%)
	Embedded value approach	Risk discount rate	8.5% (2016: 8.5%)
		Expected investment return	3.0% (2016: 3.0%)

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)*

The fair value of unlisted available-for-sale equity investments is determined using the discounted cash flow model and the significant unobservable inputs used in the fair value measurement are forecasted flows and terminal growth rate. The fair value measurement is positively correlated to the net cash inflows and terminal growth rate.

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

	2017			
	Reflected in profit/(loss)		Reflected in other comprehensive income	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
Available-for-sale financial assets				
– Equity securities	–	–	57,086	(57,086)
	–	–	57,086	(57,086)
	2016			
	Reflected in profit/(loss)		Reflected in other comprehensive income	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
Available-for-sale financial assets				
– Equity securities	–	–	42,639	(42,639)
	–	–	42,639	(42,639)

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, 2017 and 31st December, 2016 except for the following financial instruments, for which their carrying amounts and fair value and the level of fair value hierarchy are disclosed below:

			2017		
	Carrying value	Fair value	Level 1	Level 2	Level 3
Financial liabilities					
Certificates of deposit issued at amortised cost	4,380,410	4,425,945	–	4,425,945	–
			2016		
	Carrying value	Fair value	Level 1	Level 2	Level 3
Financial liabilities					
Certificates of deposit issued at amortised cost	3,293,618	3,335,008	–	3,335,008	–

The following methods and significant assumptions have been applied in determining the fair values of financial instruments not presented 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

	2017	2016
ASSETS		
Cash and balances with banks, central banks and other financial institutions	963,887	987,493
Placements with banks, central banks and other financial institutions	2,792,990	3,385,910
Amounts due from ultimate holding company, fellow subsidiaries and fellow associates	6,047,315	6,351,174
Trading assets	2,406,164	1,665,773
Financial assets designated at fair value through profit or loss	19,990	2,292,953
Advances to customers and other accounts	104,812,129	87,034,032
Amounts due from subsidiaries	26,551,375	23,396,306
Available-for-sale financial assets	49,171,271	44,070,809
Investments in subsidiaries	8,287,427	8,287,427
Investments in associated companies	42,000	182,000
Tangible fixed assets		
– Other properties, plants and equipment	3,878,525	3,457,188
Goodwill	847,422	847,422
Assets of a disposal group classified as held for sale	140,000	–
Total assets	205,960,495	181,958,487
EQUITY AND LIABILITIES		
Deposits and balances of banks, central banks and other financial institutions	922,295	1,911,717
Amounts due to ultimate holding company and fellow subsidiaries	6,222,402	8,908,013
Deposits from customers	157,150,611	130,708,755
Certificates of deposit issued	4,332,558	3,293,618
Trading liabilities	258,186	514,438
Current tax payable	73,982	97,068
Deferred tax liabilities	73,535	67,325
Other accounts and provisions	1,714,614	1,336,369
Amounts due to subsidiaries	6,695,653	5,597,060
Subordinated liabilities	–	3,146,519
Total liabilities	177,443,836	155,580,882
Share capital	7,307,606	7,307,606
Reserves	21,209,053	19,069,999
Total equity	28,516,659	26,377,605
Total equity and liabilities	205,960,495	181,958,487

Approved and authorised for issue by the Board of Directors on 29th March, 2018.

FUNG Yuk Bun Patrick
NA Wu Beng

Chairman
Executive Director and Chief Executive

Notes to the Financial Statements

38. Ultimate controlling party

At 31st December, 2017, the directors consider the ultimate controlling party of the Bank to be OCBC, which is incorporated in Singapore.

39. Acquisition of National Australia Bank's Private Wealth business in Hong Kong

The Group have entered into an agreement to acquire National Australia Bank's Private Wealth business in Hong Kong on 11th May, 2017. On 25th November, 2017, the Group completed the purchase with a consideration of HK\$1,411,305,000.

40. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31st December, 2017

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31st December, 2017 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
HKFRS 9, <i>Financial instruments</i>	1st January, 2018
HKFRS 15, <i>Revenue from contracts with customers</i>	1st January, 2018
Amendments to HKFRS 2, <i>Share-based payment: Classification and measurement of share-based payment transactions</i>	1st January, 2018
Amendments to HKAS 40, <i>Investment property: Transfers of investment property</i>	1st January, 2018
HK(IFRIC) 22, <i>Foreign currency transactions and advance consideration</i>	1st January, 2018
HKFRS 16, <i>Leases</i>	1st January, 2019
HK(IFRIC) 23, <i>Uncertainty over income tax treatments</i>	1st January, 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 9 and HKFRS 15, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's financial statements for the year ended 31st December, 2018. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in the financial statements.

40. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31st December, 2017 *(continued)*

HKFRS 9, *Financial instruments*

With effect from 1st January, 2018, HKFRS 9 supersedes HKAS 39 *Financial Instruments: Recognition and Measurement*. HKFRS 9 prescribes new accounting requirements for classification and measurement of financial instruments, a new expected credit loss model of measuring impairment of financial assets, and new general hedge accounting requirements.

The date of transition to HKFRS 9 is 1st January, 2018, as the Group plans to apply the exemptions granted under HKFRS 1 and do not restate the financial information of its comparative period in respect of financial instruments. A first-time adopter that elects to apply the exemption will recognise the cumulative effect of adopting HKFRS 9 in Revenue Reserves as at 1st January, 2018.

The adoption of HKFRS 9 is generally applied retrospectively, except as described below:

- The Group will make the following assessments based on the basis of facts and circumstances that existed as at 1st January, 2018, which is the date of transition to HKFRS 9.
- The determination of the business model within which financial assets are held.
- The determination of whether the contractual terms of a financial asset give rise to cash flows that are solely payments of principal and interest on the principal outstanding.
- The designation of an investment in equity instruments that is not held for trading as at fair value through other comprehensive income (“FVOCI”).
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at fair value through profit or loss (“FVTPL”).
- The Group plans to apply new hedge accounting requirements prospectively. All hedging relationships designated under the existing accounting standard as at 31st December, 2017 that meet the criteria for hedge accounting under HKFRS 9 as at 1st January, 2018 will be regarded as continuing hedging relationships.

The information below reflects the Group’s expectation of the implications arising from changes in the accounting treatment. However, the actual tax effect may change when the transition adjustments are finalised. The Group does not expect the adoption of HKFRS 9 to have a significant impact on its CET1 Capital.

Notes to the Financial Statements

40. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31st December, 2017 *(continued)*

HKFRS 9, *Financial instruments* *(continued)*

(i) **Classification and measurement: financial assets**

HKFRS 9 introduces a principle-based approach to the classification of financial assets. Classification and measurement of financial assets are determined based on the contractual cash flow characteristics of the financial assets and the business model associated with the financial assets.

A debt financial asset is measured at amortised cost if it meets both of the following conditions and is not designated at FVTPL:

- it is held within a business model whose objective is to hold the asset until maturity to collect contractual cash flows; and
- its contractual terms give rise to cash flows that are solely payments of principal and interest on the principal outstanding.

A debt financial asset is measured at FVOCI if it meets both of the following conditions and is not designated at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial asset; and
- its contractual terms give rise to cash flows that are solely payments of principal and interest on the principal outstanding.

Equity instruments held for trading are classified at FVTPL. Equity instruments that are not held for trading are either classified at FVTPL or FVOCI, subject to an irrevocable election.

There is no expectation in reclassification of certain financial assets recognised by the Group as at the date of transition under HKFRS 9.

(ii) **Impairment**

HKFRS 9 replaces the existing HKAS 39 loan provisioning requirements with a forward-looking expected credit loss (“ECL”) model.

Scope

Under HKFRS 9, the expected loss model is applied to financial assets classified at amortised cost or FVOCI, and certain off-balance sheet loan commitments and financial guarantees which were previously provided for under HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

40. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31st December, 2017 *(continued)*

HKFRS 9, *Financial instruments* *(continued)*

(ii) **Impairment** *(continued)*

Expected credit loss impairment model

Under HKFRS 9, credit loss allowances will be measured on each reporting date according to a three-stage expected credit loss impairment model:

- Stage 1 – On initial recognition, expected credit loss will be that resulting from default events that are possible over the next 12 months (“12-month ECL”).
- Stage 2 – Following a significant increase in credit risk of the financial assets since its initial recognition, the credit loss allowance will be that which results from all possible default events over the expected life of the asset (“Lifetime ECL”).
- Stage 3 – When a financial asset exhibits objective evidence of impairment and is considered to be credit-impaired, a loss allowance will be the full lifetime expected credit loss.

Consistent with HKAS 39, loans are written off against impairment allowances when all feasible recovery actions have been exhausted or when the recovery prospects are considered remote. This does not significantly change on adoption of HKFRS 9.

Measurement

An ECL estimate will be produced for all relevant instruments established on probability-weighted forward-looking economic scenarios. The measurement of ECL will primarily be calculated based on the probability of default (“PD”), loss given default (“LGD”), and exposure at default (“EAD”). These parameters are derived from internal rating models after adjusting them to be un-biased and forward looking. Where internal rating models are not available, such estimates are based on comparable internal rating models after adjusting for portfolio differences.

12-month ECL will be based on a maximum of 12-month PD while Lifetime ECL will be based on the remaining lifetime of the instrument. LGD reflects the expected loss value given default, after taking into account the effect of collateral. EAD reflects the expected exposure at default, after taking into account of any expected repayments and/or drawdown. 12-month ECL and Lifetime ECL will be the respective discounted value (using the effective interest rate) of 12-month PD and Lifetime PD, multiplied with LGD and EAD.

Notes to the Financial Statements

40. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31st December, 2017 *(continued)*

HKFRS 9, *Financial instruments* *(continued)*

(ii) **Impairment** *(continued)*

Movement between stages

Movements between Stage 1 and Stage 2 are based on whether an instrument's credit risk as at the reporting date has increased significantly since its initial recognition.

In accordance with HKFRS 9, financial assets are classified in Stage 2 where there is a significant increase in credit risk since initial recognition, where loss allowance will be measured using lifetime ECL.

The Group has considered both qualitative and quantitative parameters in the assessment of significant increase in credit risk. These include the following:

1. The Group has established thresholds for significant increases in credit risk based on both a relative and absolute change in lifetime PD relative to initial recognition.
2. The Group will also conduct qualitative assessment to ascertain if there has been significant increase in credit risk.
3. The Group plans to use 30 days past due as an indication of significant increase in credit risk.

Movements between Stage 2 and Stage 3 are based on whether financial assets are credit-impaired as at the reporting date. The determination of whether a financial asset is credit-impaired under HKFRS 9 will be based on objective evidence of impairment, similar to HKAS 39.

The assessments for significant increase in credit risk since initial recognition and credit-impairment are performed independently as at each reporting period. Assets can move in both directions through the stages of the impairment model. After a financial asset has migrated to Stage 2, if it is no longer considered that credit risk has significantly increased relative to initial recognition in a subsequent reporting period, it will move back to Stage 1. Similarly, an asset that is in Stage 3 will move back to Stage 2 if it is no longer considered to be credit-impaired.

(iii) **Hedge accounting**

HKFRS 9 provides new requirements on hedge accounting which align hedge accounting more closely with risk management. The standard establishes a more principle-based approach to hedge accounting and addresses inconsistencies and weaknesses in the hedge accounting model in HKAS 39. The Group is adopting an accounting policy choice in applying the hedge accounting requirements of HKFRS 9, and does not expect to have any significant impact on the financial statements.

40. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31st December, 2017 *(continued)*

HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18, *Revenue*, which covers revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specifies the accounting for revenue from construction contracts.

Based on the assessment completed to date, the Group has identified the following areas which are expected to be affected:

(a) Timing of revenue recognition

The Group's revenue recognition policies are disclosed in note 2(h). Currently, revenue arising from the provision of services is recognised over time.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. HKFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

- (a) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;
- (b) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;
- (c) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs. HKFRS 15 will not have a material impact on the Group's consolidated financial statements.

Notes to the Financial Statements

40. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31st December, 2017 *(continued)*

HKFRS 16, Leases

As disclosed in note 2(l), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding “right-of-use” asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group’s accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in note 29(c), at 31st December, 2017, the Group’s future minimum lease payments under non-cancellable operating leases amount to HK\$231,379,000 and HK\$5,423,000 for properties and other assets respectively, over half of which is payable either between 1 and 5 years after the reporting date or in more than 5 years. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

HKFRS 16 is effective for annual periods beginning on or after 1st January, 2019. The standard offers different transition options and practical expedients, including the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. If this practical expedient is chosen, the Group will apply the new definition of a lease in HKFRS 16 only to contracts that are entered into on or after the date of initial application. If the practical expedient is not chosen, the Group will need to reassess all of its decisions about which existing contracts are, or contain, leases, using the new definition. Depending on whether the Group elects to adopt the standard retrospectively or follow a modified retrospective method of recognising a cumulative-effect adjustment to the opening balance of equity at the date of initial application, the Group may or may not need to restate comparative information for any changes in accounting resulting from the reassessment. The Group has not yet decided which transition approach to be taken.

41. Approval of the financial statements

These financial statements were approved and authorised for issue by the Board of Directors on 29th March, 2018.

42. Comparative figures

Certain comparative figures have been adjusted to conform to current year’s presentation.

Unaudited Supplementary Financial Information

(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

	2017	2016
Common Equity Tier 1 capital ratio as at 31st December	14.2%	16.0%
Tier 1 capital ratio as at 31st December	14.2%	16.0%
Total capital ratio as at 31st December	16.1%	19.0%
Capital conservation buffer ratio	1.250%	0.625%
Countercyclical capital buffer ratio	0.750%	0.357%
Common Equity Tier 1 capital	29,120,295	26,691,289
Tier 1 capital	29,120,295	26,691,289
Total capital	32,973,126	31,710,055
Risk weighted assets	205,373,055	166,751,008

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.

The capital ratios 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.

In view of the Capital Rules, the Group has adopted the "basic indicator approach" for the calculation of the operational risk and the "standardised (market risk) approach" for the calculation of market risk. For the calculation of the risk-weighted assets for credit risk, the Group has adopted the "standardised (credit risk) approach" as of 31st December, 2017 whereas the Bank had adopted the "standardised (credit risk) approach" while OCBC Wing Hang Bank (China) Limited and Banco OCBC Weng Hang, S.A. have adopted "basic (credit risk) approach" as of 31st December, 2016.

Unaudited Supplementary Financial Information

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

(i) Capital ratio *(continued)*

In calculating the capital ratio of the Group, the following subsidiaries are excluded from the regulatory scope of consolidation. These 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	2017		2016	
		Total assets	Total equity	Total assets	Total equity
CF Limited	Dormant/undergoing voluntary liquidation	–	–	–	–
C.F. Finance Company Limited	Undergoing voluntary liquidation	421	421	421	421
Chekiang First Bank (Nominees) Limited	Nominee Services	10	10	10	10
Chekiang First Bank (Trustees) Limited	Trustee Services	3,926	3,914	3,950	3,917
Chekiang First Limited	Dormant	1	1	1	1
Chekiang First Securities Company Limited	Undergoing voluntary liquidation	6,367	6,360	6,386	6,363
Cyber Wing Hang Limited	Dormant/undergoing voluntary liquidation	229	229	229	229
Data Processing Services Limited	Dormant/undergoing voluntary liquidation	888	888	888	888
Honfirst Investment Limited	Futures Trading	16,621	16,554	16,552	16,488
Honfirst Property Agency Limited	Dormant/undergoing voluntary liquidation	34	34	34	34
OCBC Wing Hang (Nominees) Limited	Nominee Services	10	10	10	10
OCBC Wing Hang (Trustee) Limited	Trustee Services	3,654	3,643	3,660	3,640
OCBC Wing Hang Insurance Agency Limited	Insurance Agency	81,726	69,814	66,336	53,111
OCBC Wing Hang Insurance Brokers Limited	Insurance Broker	59,785	37,783	36,715	27,070
OCBC Wing Hang Shares Brokerage Company Limited	Securities Dealing	621,590	307,324	412,405	290,660

As at 31st December, 2017, 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.

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

(i) Capital ratio *(continued)*

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, 2018 under "Regulatory Disclosure" on the website of the Bank (www.ocbcwhhk.com).

(ii) Average liquidity maintenance ratio

	2017	2016
Average liquidity maintenance ratio for the year	44.1%	41.5%

The average liquidity maintenance ratio for 2017 includes the liquidity positions of the Bank and certain of its financial subsidiaries. The basis of computation has been agreed with the Hong Kong Monetary Authority ("HKMA"). The ratio as of 31st December, 2017 is compiled in accordance with the Banking (Liquidity) Rule effective from 1st January, 2015.

(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	2017 Overdue advances to customers for over three months	Individual impairment allowances	Collective impairment allowances
Hong Kong	125,943,810	540,713	229,813	126,892	119,873
Macau	20,045,539	11,446	14,851	6,564	9,791
Mainland China	30,469,470	318,621	514,961	39,547	326,661
Others	3,124,711	–	6,636	–	19,879
	179,583,530	870,780	766,261	173,003	476,204

	Gross advances to customers	Impaired advances to customers	2016 Overdue advances to customers for over three months	Individual impairment allowances	Collective impairment allowances
Hong Kong	107,461,895	411,524	379,493	152,283	120,854
Macau	19,127,551	10,170	9,538	3,471	9,678
Mainland China	32,964,494	1,010,789	573,075	64,392	426,495
Others	2,415,040	6,432	10,609	82	14,526
	161,968,980	1,438,915	972,715	220,228	571,553

Unaudited Supplementary Financial Information

(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.

	2017					
	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	22,124,359	16,227	3,863	12,943	(4,650)	–
Advances for the purchase of other residential properties	40,837,593	20,893	1,086	33,762	(24,059)	–
Advances for use outside Hong Kong						
– Mainland China	32,978,562	540,910	68,645	368,216	172,811	357,233
– Macau	20,433,657	14,851	6,564	8,056	10,858	7,379
	2016					
	Gross advances to customers	Overdue advances to customers for over three months	Individual impairment allowances	Collective impairment allowances	Impairment allowances charged/ (released) to statement of profit or loss during the year	Impairment allowances written off during the year
Property investment	19,218,597	38,506	9,241	14,247	18,485	–
Advances for the purchase of other residential properties	35,594,945	28,660	1,034	32,363	(17,142)	13
Advances for use outside Hong Kong						
– Mainland China	36,300,818	667,646	88,857	466,089	88,509	76,098
– Macau	20,015,228	9,571	3,558	8,299	6,538	25,640

(d) Overdue and rescheduled assets

(i) Overdue and rescheduled advances to customers

	2017		2016	
	Amount	% of total advances to customers	Amount	% of total advances to customers
Gross advances to customers which have been overdue with respect to either principal or interest for periods of:				
– 6 months or less but over 3 months	82,213	0.05	130,773	0.08
– 1 year or less but over 6 months	130,696	0.07	273,834	0.17
– Over 1 year	553,352	0.31	568,106	0.35
	766,261	0.43	972,713	0.60
Covered portion of overdue advances	656,103		848,686	
Uncovered portion of overdue advances	110,158		124,027	
	766,261		972,713	
Current market values of collateral held against covered portion of overdue advances	1,533,812		1,602,329	
Individual impairment allowances made on overdue advances	153,537		188,806	

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.

Unaudited Supplementary Financial Information

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

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

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:

	2017		2016	
	Amount	% of total advances to customers	Amount	% of total advances to customers
Rescheduled advances to customers	5,644	–	440,652	0.27

There were no advances to banks which were overdue nor rescheduled as at 31st December, 2017 and 31st December, 2016.

(ii) Other overdue assets

	2017	2016
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	–	–
	–	–

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, 2017 and 31st December, 2016.

Included in “Other assets” as at 31st December, 2017 and 31st December, 2016, there are no receivables which are overdue.

(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)	2017		Total exposures
	On-balance sheet exposures	Off-balance sheet exposures	
(i) Central government, central government-owned entities and their subsidiaries and Joint Ventures ("JVs")	10,218	2,299	12,517
(ii) Local government, local government-owned entities and their subsidiaries and JVs	1,871	588	2,459
(iii) PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	25,410	1,600	27,010
(iv) Other entities of central government not reported in item (i) above	287	–	287
(v) Other entities of local government not reported in item (ii) above	950	161	1,111
(vi) PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in the Mainland China	2,061	497	2,558
(vii) Other counterparties where the exposures are considered by the Group to be non-bank Mainland China exposures	4,311	7	4,318
Total	45,108	5,152	50,260
Total assets after provisions	299,786		
On-balance sheet exposures as % of total assets	15.05%		

Unaudited Supplementary Financial Information

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

<i>(In millions of HK\$ equivalent)</i>	On-balance sheet exposures	2016 Off-balance sheet exposures	Total exposures
(i) Central government, central government-owned entities and their subsidiaries and JVs	7,948	786	8,734
(ii) Local government, local government-owned entities and their subsidiaries and JVs	3,657	938	4,595
(iii) PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	23,966	1,898	25,864
(iv) Other entities of central government not reported in item (i) above	272	100	372
(v) Other entities of local government not reported in item (ii) above	784	–	784
(vi) PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in the Mainland China	3,387	164	3,551
(vii) Other counterparties where the exposures are considered by the Group to be non-bank Mainland China exposures	5,053	22	5,075
Total	45,067	3,908	48,975
Total assets after provisions	241,611		
On-balance sheet exposures as % of total assets	18.65%		

(f) International claims

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

2017					
	Banks	Official sector	Non-bank private sector		Total
			Non-bank financial institutions	Non-financial private sector	
Offshore centres, of which:					
– Hong Kong	1,379	5,463	11,332	118,900	137,074
– Macau	53	4,945	60	20,391	25,449
– Singapore	7,228	–	–	692	7,920
Developing Asia-Pacific, of which:					
– Mainland China	69,199	9,752	13,515	30,103	122,569
	77,859	20,160	24,907	170,086	293,012
2016					
	Banks	Official sector	Non-bank private sector		Total
			Non-bank financial institutions	Non-financial private sector	
Offshore centres, of which:					
– Hong Kong	4,220	4,708	7,962	106,209	123,099
– Macau	193	3,505	70	19,516	23,284
– Singapore	8,054	81	444	308	8,887
Developing Asia-Pacific, of which:					
– Mainland China	26,415	7,858	6,999	32,863	74,135
	38,882	16,152	15,475	158,896	229,405

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

Unaudited Supplementary Financial Information

(g) Additional disclosures on credit risk management

(i) Capital requirement

In calculating the capital ratio of the Group for regulatory reporting purposes, the Group's capital requirements are calculated under the Standardised (Credit Risk) Approach as of 31st December, 2017 except for OCBC Wing Hang Bank (China) Limited and Banco OCBC Weng Hang, S.A., for which the capital requirements are calculated under the Basic Approach as of 31st December, 2016. 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 follows:

	2017	2016
Classes of exposure:		
– Sovereign	17,457	–
– Public sector entity	41,627	62,836
– Bank	3,004,939	841,259
– Securities firm	20,005	102
– Corporate	6,273,252	3,285,707
– Cash items	3,613	1,882
– Regulatory retail	1,089,467	912,460
– Residential mortgage loans	2,521,537	1,485,416
– Other exposures which are not past due	955,378	510,725
– Past due	51,268	22,875
Total capital requirements for on-balance sheet exposures	13,978,543	7,123,262
– Direct credit substitutes	242,235	23,939
– Transaction-related contingencies	22,541	1,394
– Trade-related contingencies	50,870	11,006
– Forward forward deposits placed	–	8,000
– Other commitments	140,321	32,832
– Exchange rate contracts	244,819	21,653
– Interest rate contracts	7,409	7,684
– Equity contracts	11	–
– Credit derivative contracts	37	–
– Default risk exposures – securities financing transactions	8,208	139
Total capital requirements for off-balance sheet exposures	716,451	106,647
	14,694,994	7,229,909

(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 follows:

	2017	2016
Classes of exposure:		
– Sovereign	–	211,774
– Public sector entity	–	–
– Bank	–	247,785
– Cash items	–	–
– Residential mortgage loans	–	912,987
– Other exposures	–	2,735,333
Total capital requirements for on-balance sheet exposures	–	4,107,879
– Direct credit substitutes	–	181,068
– Transaction-related contingencies	–	6,933
– Trade-related contingencies	–	31,693
– Other commitments	–	45,269
– Exchange rate contracts	–	51,762
– Interest rate contracts	–	8,307
– Equity contracts	–	1,595
– Credit derivative contracts	–	39
– Default risk exposures – securities financing transactions	–	4,050
Total capital requirements for off-balance sheet exposures	–	330,716
	–	4,438,595

Unaudited Supplementary Financial Information

(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:

	2017						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	27,363,561	27,544,648	–	218,210	–	218,210	–
– Public sector entity	67,029	999,796	1,601,888	199,959	320,378	520,337	62,715
– Multilateral development bank	–	–	–	–	–	–	–
– Bank	72,103,804	71,747,610	519,171	37,431,484	130,258	37,561,742	–
– Securities firm	2,812,976	–	500,127	–	250,064	250,064	2,312,849
– Corporate	85,622,856	16,065,817	67,513,817	10,901,827	67,513,816	78,415,643	1,198,469
– Cash items	1,252,535	–	1,252,535	–	45,158	45,158	–
– Regulatory retail	18,689,277	–	18,157,794	–	13,618,346	13,618,346	266,624
– Residential mortgage loans	80,701,167	–	78,706,054	–	31,519,210	31,519,210	226,006
– Other exposures which are not past due exposures	11,749,749	–	11,501,545	–	11,942,221	11,942,221	248,204
– Past due exposures	625,269	35,340	589,929	6,082	634,762	640,844	499,593
	300,988,223	116,393,211	180,342,860	48,757,562	125,974,213	174,731,775	4,751,745
Off-balance sheet:							
– off-balance sheet exposures other than OTC derivative transactions or credit derivative contracts	6,148,681	468,567	5,378,976	327,837	5,371,759	5,699,596	301,138
– OTC derivative transactions	5,837,661	4,902,915	646,716	2,605,924	547,066	3,152,990	288,030
– Credit derivative contracts	2,335	2,335	–	467	–	467	–
– Default risk exposures – securities financing transactions	13,530,592	405,505	20,965	98,405	4,193	102,598	13,104,122
	25,519,269	5,779,322	6,046,657	3,032,633	5,923,018	8,955,651	13,693,290
	326,507,492	122,172,533	186,389,517	51,790,195	131,897,231	183,687,426	18,445,035
Exposures deducted from capital base	–						

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

(ii) Credit risk exposures *(continued)*

	2016						2015	
	Total exposures	Exposures after recognised credit risk mitigation		Risk-weighted amounts		Total risk-weighted amounts	Total exposure covered by recognised collateral	Total exposure covered by recognised guarantees or recognised credit derivative contracts
		Rated	Unrated	Rated	Unrated			
On-balance Sheet:								
– Sovereign	12,956,028	13,220,593	–	–	–	–	–	–
– Public sector entity	1,408,257	2,272,306	1,814,835	422,488	362,967	785,455	–	144,211
– Multilateral development bank	431,444	431,444	–	–	–	–	–	–
– Bank	31,036,248	31,261,198	319,150	10,356,166	159,575	10,515,741	–	–
– Securities firm	1,184,212	–	2,551	–	1,276	1,276	1,181,661	–
– Corporate	48,251,580	9,947,256	35,738,072	5,333,264	35,738,073	41,071,337	1,356,189	1,210,063
– Cash items	738,843	–	738,843	–	23,525	23,525	–	–
– Regulatory retail	15,706,813	–	15,207,665	–	11,405,749	11,405,749	244,898	254,250
– Residential mortgage loans	49,470,508	29,856	47,297,644	29,856	18,537,841	18,567,697	119,772	2,023,236
– Other exposures which are not past due exposures	6,810,683	134,986	5,896,281	134,986	6,249,069	6,384,055	779,416	–
– Past due exposures	270,584	40,344	230,240	6,393	279,546	285,939	130,959	40,344
	168,265,200	57,337,983	107,245,281	16,283,153	72,757,621	89,040,774	3,812,895	3,672,104
Off-balance sheet:								
– off-balance sheet exposures other than OTC derivative transactions or credit derivative contracts	1,470,059	500,158	884,952	100,032	864,609	964,641	84,949	158
– OTC derivative transactions	844,667	592,526	192,011	177,358	189,351	366,709	60,130	–
– Default risk exposures –securities financing transactions	104,248	4,417	–	1,734	–	1,734	99,831	–
	2,418,974	1,097,101	1,076,963	279,124	1,053,960	1,333,084	244,910	158
	170,684,174	58,435,084	108,322,244	16,562,277	73,811,581	90,373,858	4,057,805	3,672,262
Exposures deducted from capital base	–							

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

Unaudited Supplementary Financial Information

(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 Credit Policy, 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 estimates based on the positions as at 31st December, 2017 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 (2016: 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:

	2017			2016		
	OTC derivative transactions	Credit derivative contracts	Repo-styles transactions	OTC derivative transactions	Credit derivative contracts	Repo-styles transactions
Notional amounts:						
– Banks	270,351,761	5,238,123	13,530,592	48,960,430	–	78,041
– Corporates	24,054,043	5,202,235	–	8,719,690	–	26,207
– Others	1,471,134	–	–	848,423	–	–
	295,876,938	10,440,358	13,530,592	58,528,543	–	104,248
Credit equivalent amounts or net credit exposures net of recognised collateral held:						
– Banks	5,091,417	2,335	426,470	592,526	–	1,583
– Corporates	448,561	–	–	181,371	–	2,834
– Others	9,653	–	–	10,640	–	–
	5,549,631	2,335	426,470	784,537	–	4,417
Risk-weighted amounts:						
– Banks	2,697,185	467	102,598	177,358	–	317
– Corporates	448,562	–	–	181,371	–	1,417
– Others	7,243	–	–	7,980	–	–
	3,152,990	467	102,598	366,709	–	1,734

(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:

	2017			2016		
	OTC derivative transactions	Credit derivative contracts	Repo-styles transactions	OTC derivative transactions	Credit derivative contracts	Repo-styles transactions
Gross total positive fair value which are not repo-style transactions	2,994,402	2,335	–	349,327	–	–
Recognised collateral held before any haircuts:						
– cash on deposit with the Bank	452,074	–	5,247,286	83,083	–	23,373
– debt securities	–	–	9,393,339	–	–	77,552
– equity securities	782	–	–	41	–	–
– others	252,015	–	–	364,754	–	–
	704,871	–	14,640,625	447,878	–	100,925
Credit equivalent amounts or net credit exposures net of recognised collateral held	5,549,631	2,335	426,470	784,537	–	4,417
Risk weighted amounts	3,152,990	467	102,598	366,709	–	1,734

(3) Credit derivative contracts which create exposures to counterparty credit risk:

	2017 Nominal amounts	2016 Nominal amounts
Used for management of the Group's credit portfolio		
– Credit default swaps		
– Protection bought	5,238,123	–
– Protection sold	5,202,235	–
	10,440,358	–

Unaudited Supplementary Financial Information

(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 arrangements 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, corporates and banks. With corporate guarantees, in order for it to be recognised as a credit risk mitigant, 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) Central counterparty

The capital requirements on central counterparty exposure at the reporting date is as follows:

	2017	2016
Credit risk for central counterparty	29,570	30,864

(vi) Credit valuation adjustment

The capital charge on credit valuation adjustment exposure under the Standardised CVA method at the reporting date is as follows:

	2017	2016
Capital charge for credit valuation adjustment	79,947	44,494

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

(vii) Asset securitisation

The Group has no asset securitisation exposures under the Standardised (Credit Risk) Approach and Basic Approach at 31st December, 2017 and 31st December, 2016.

(viii) 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 follows:

	2017	2016
Capital charge for market risk		
– Interest rate exposures (including options)	282,775	257,003
– Equity rate exposures (including options)	443	1,078
– Foreign exchange exposures (including gold and options)	705,004	674,363
	988,222	932,444

(ix) Operational risk capital charge

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

	2017	2016
Capital charge for operational risk	819,786	846,617

(x) 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.

	2017	2016
Cumulative realised gains from sales and liquidations	216,048	–
Unrealised gains:		
– recognised in reserve but not through statement of profit or loss	493,354	502,659
– deducted from the supplementary capital	–	–

Unaudited Supplementary Financial Information

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

(xi) 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".

	2017		2016	
	HK dollars	US dollars	HK dollars	US dollars
Interest rate changes				
by 10 basis points				
– increase in earnings by				
increasing 10 basis points	17,252	(4,445)	22,023	(7,345)
– decrease in earnings by				
decreasing 10 basis points	(17,252)	4,445	(22,023)	7,345

(h) Countercyclical Capital Buffer Ratio and Leverage Ratio

The detailed disclosures required by the Banking (Disclosure) Rules will be disclosed before 30th April, 2018 under "Regulatory Disclosure" on the website of the Bank (www.ocbcwhhk.com).

(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 the Supervisory Policy Manual issued by the HKMA. The Group established a number of committees under the Board of Directors including the 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

OCBC Wing Hang Bank

Hong Kong Island

Main Branch	161 Queen's Road Central
Causeway Bay Branch	443-445 Hennessy Road
Central Branch	G/F, Henley Building, 5 Queen's Road 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	Shops 2007-2009, 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
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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
Taikotsui Branch	51-67 Tung Chau Street, Taikotsui
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

List of Branches

OCBC Wing Hang Bank (continued)

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 Centre	10/F, HSBC Building Yuen Long, 150 Castle Peak Road, Yuen Long

MACAU

Banco OCBC Weng Hang, S.A.

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
Flower City Branch	356-366, Rua de Evora, Edif. Lei Fung, Taipa
San Hau On Branch	286 Alameda Dr. Carlos D'Assumpcao R/C
Fai Chi Kei Branch	Avenida do Conselheiro Borja Nos. 309-315, Mayfair Garden Bloco 5 D-R/C

List of Branches

CHINA

OCBC Wing Hang Bank (China) Limited

Shanghai

Main Branch	OCBC Bank Tower, No.1155 Yuanshen Road, Pudong New District, Shanghai, 200135
Shanghai Branch	23/F, 21st Century Center Tower, 210 Century Avenue, Pudong New District, Shanghai 200121
Shanghai Century Square Sub-branch	Unit 102 First Floor, Unit 205 Second Floor, OCBC Bank Tower, No.1155 Yuanshen Road, Pudong New District, Shanghai 200135
Shanghai Luwan Sub-branch	Room F Fifth Floor (Elevator Floor), Room 112A First Floor (Elevator Floor), Sino-Ocean Tower, No.618 East Yan'an Road, Huangpu District, Shanghai 200001
Shanghai Hongqiao Sub-branch	1/F, 321 Xianxia Road, Changning District, Shanghai 200336
Shanghai Pilot Free Trade Zone Sub-branch	Unit 02-07, 7F, No. 55 Jilong Road, Pudong New District, Shanghai 200131

Beijing

Beijing Branch	Units 1107 and 1108, Excel Centre, No.6, Wudinghou Street, Xicheng District, Beijing 100140
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Chengdu

Chengdu Branch	Units 2201, 2206-2208, Aerospace Centre, No.7, Xin Guang Hua Street, Jin Jiang District, Chengdu 610016
Chengdu Aerospace Centre Sub-branch	Unit 105, Aerospace Centre, No.7, Xin Guang Hua Street, Jin Jiang District, Chengdu 610016
Chengdu Shanghai Garden Sub-branch	Unit 33 Shen Xian Shu South Road, Chengdu 610042

Tianjin

Tianjin Branch	Floor 2, Huaqiao Bldg, No.92 plus 1, Nanjing Rd, Heping District, Tianjin 300042
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Xiamen

Xiamen Branch	8 Lu Jiang Dao, 23D-F and 27F, International Plaza, Siming, Xiamen 361001
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Qingdao

Qingdao Branch	Unit 2402-2407, No 9 Middle Hong Kong Road, Qingdao 266071
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Chongqing

Chongqing Branch	Unit 1-3, 48 Floor, Yingli International Financial Center, No.28, Minquan Road Yuzhong District, Chongqing 400010
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Shaoxing

Shaoxing Branch	Room 1801, Building A Zhong Jin Plaza, No.668 Zhongxing Road, Shaoxing, Zhejiang Province 312000
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CHINA

OCBC Wing Hang Bank (China) Limited (continued)

Suzhou

Suzhou Branch	Unit 1-3, 12th Floor, No.2 Building, Jinghope Plaza, No.88 Huachi Street, SIP, Suzhou 215027
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Shenzhen

Shenzhen Branch	Units 501-503, 505-513, 515-516, 5/F, Unit M02, 1/F, Units 801-803, 805-813; 815-816, 8/F, Units 2508-2509, 25/F, Shun Hing Square, Di Wang Commercial Centre, 5002 Shennan Dong Road, Luohu District, Shenzhen 518008
Shenzhen Fumin Sub-branch	Units B07-09, 25-26 G/F & Unit 04, 13/F, Zhiben Building, 12 Fumin Road, Futian District, Shenzhen 518048
Shenzhen Huaqiang Sub-branch	1D, Hangyuan Building, Zhenhua Road, Futian District, Shenzhen 518031
Shenzhen Longgang Sub-branch	Rooms 104-105, Lijing Center, Building 12, Xinhong Garden, Longxiang Road, Center, Longgang District, Shenzhen 518172
Shenzhen Qianhai Sub-branch	Room 168, 169, 170, Tiley Central Plaza II, East to Houhai Road, Nanshan District, Shenzhen 518054

Guangzhou

Guangzhou Branch	Unit 07, 1/F, Room 2102-2105 & 2504-2509, Goldlion Digital Network Centre, 138 Tiyu Road East, Guangzhou 510620
Guangzhou Zhujiang New Town Sub-branch	Unit 903~904, He Jing International Finance Place, No.8 Huaxia Road, Pearl River New Town, Tian He District, Guangzhou 510623
Guangzhou Haizhu Sub-branch	Unit 02, 1/F & Rooms 901-902, Vertical City, No.238 Changgang Zhong Road, Haizhu District, Guangzhou 510260

Zhuhai

Zhuhai Branch	Unit 2, G/F & Units 1-2, 1/F Shuiwan Da Sha, 82 Jingshan Road, Jida, Zhuhai 519015
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Huizhou

Huizhou Sub-branch	Units 103-105, Huamao Building, 7 Wenchang Yi Road, Jiangbei, Huizhou 516001
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Foshan

Foshan Sub-branch	Units 12-15, G/F, Shunde Incity Mall, 268 Dongle Road, Daliang, Shunde District, Foshan 528300
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List of Branches

OCBC Wing Hang Credit Limited

Hong Kong Island

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 Manning House Branch	Room 1005, 10/F., Manning House, 48 Queen's Road Central
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
Wanchai Hennessy Road Branch	Unit 705, 7/F., Emperor Group Centre, 288 Hennessy Road, Wanchai
Wanchai Johnston Road Branch	14/F., Tai Yau Building, 181 Johnston Road, Wanchai

Kowloon

Jordan Branch	Unit 1204, 12/F., Fourseas Building, 208-212 Nathan Road, Jordan
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
Mongkok Branch	Unit 1106, 11/F., Wai Fung Plaza, 664 Nathan Road, Mongkok
Prince Edward Branch	Unit Nos. 1115 & 1116, 11/F., Pioneer Centre, 750 Nathan Road
San Po Kong Branch	G/F., On Keung Building, 51 Hong Keung Street, San Po Kong
Tsimshatsui Branch	Units 1401 & 1402, 14/F., Carnarvon Plaza, 20 Carnarvon Road, Tsim Sha Tsui

New Territories

Kwai Fong Branch	Units 1909 – 1912, 19/F., Tower II, Metroplaza, 223 Hing Fong Road, Kwai Fong
Sheung Shui Branch	Units 1303A-1305, Level 13, Landmark North, 39 Lung Sum Avenue, Sheung Shui
Shatin Branch	Shop No. 13, Level 1, Shatin Lucky Plaza, 1-15 Wang Pok Street, Shatin
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
Tai Po Branch	G/F., 7 Kwong Fuk Road, Tai Po
Yuen Long Branch	Unit 804, 8/F., HSBC Building Yuen Long, 150-160 Castle Peak Road, Yuen Long
Revolving Credit Centre	14/F, Tai Yau Building, 181 Johnston Road, Wanchai
Property Loans Centre	6/F., Wing Hang Insurance Building, 11 Wing Kut Street, Central
Online Loan Centre	Units 1909 – 1912, 19/F., Tower II, Metroplaza, 223 Hing Fong Road, Kwai Fong



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

