OCBC WING HANG

2016

Annual Report

Contents

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 LAU Hon Chuen Ambrose GBS, JP
Mr OOI Sang Kuang
Mr TSE Hau Yin Aloysius

Alternate Director

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

Audit Committee

Mr TSE Hau Yin Aloysius
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 TSE Hau Yin Aloysius
Mr NA Wu Beng
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, 2016.

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 31 to the financial statements.

Results and Dividend

The results of the Group for the year ended 31st December, 2016 and the state of affairs of the Group and the Bank as at 31st December, 2016 are set out in the financial statements on pages 21 to 132.

The Directors did not recommend the payment of interim and final dividend for the year ended 31st December, 2016 (2015: Nil).

Reserves

Profit attributable to shareholders of HK$2,046,812,000 (2015: HK$2,027,998,000) 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 issued 44,534,848 new ordinary shares at HK$125 each as the total consideration of HK$5,566,856,000 to Oversea-Chinese Banking Corporation Limited for the acquisition of the entire equity interest of OCBC Bank (China) Limited (2015: Nil). The acquisition was completed on 18th July, 2016. Details of the share capital are set out in note 27 to the financial statements.

Charitable Donations

During the year, the Group made donations for charitable and community purposes amounting to approximately HK$1,511,000 (2015: HK$1,903,000).

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 *(redesignated as Executive Director on 18 July 2016)*

Non-executive Directors

Dr CHEONG Choong Kong *(resigned on 1 June 2016)*
Mr SOON Tit Koon *(appointed on 9 September 2016)*
Mr Samuel N TSIEN

Independent Non-executive Directors

Mr LAU Hon Chuen Ambrose GBS, JP
Mr OOI Sang Kuang
Mr TSE Hau Yin Aloysius

Alternate Director

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

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

In accordance with the Bank's Articles of Association and the Tenure Policy, Mr SOON Tit Koon and Mr TSE Hau Yin Aloysius will retire from office at the coming Annual General Meeting ("AGM"). These retiring Directors, being eligible, have offered themselves for re-election at the AGM. Other remaining Directors of the Bank will continue in office.

No Director proposed for re-election at the forthcoming AGM has 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 34 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

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 34 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, 2016 comply fully with the applicable disclosure provisions of the Banking (Disclosure) Rules.

Auditors

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

On behalf of the Board

FUNG Yuk Bun Patrick
Chairman

Hong Kong, 31st March, 2017

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, 2016.

Board of Directors

Board Composition

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

Chairman
Dr FUNG Yuk Bun Patrick JP

Executive Directors
Mr NA Wu Beng *(Chief Executive)*
Mr Frank John WANG *(Deputy Chief Executive)*
Ms KNG Hwee Tin

Non-executive Directors
Mr SOON Tit Koon
Mr Samuel N TSIEN

Independent Non-executive Directors
Mr LAU Hon Chuen Ambrose GBS, JP
Mr OOI Sang Kuang
Mr TSE Hau Yin Aloysius

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

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

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

Directors' Attendance 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 2016 are as follows:

	Number of meetings attended/held in 2016				
Name of Director	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	3/4	2/2	3/3	N/A	N/A
Dr CHEONG Choong Kong	2/2	N/A	N/A	N/A	N/A
Mr SOON Tit Koon	1/1	1/1	N/A	N/A	N/A
Mr Samuel N TSIEN	4/4	N/A	N/A	1/1	1/1
Mr LAU Hon Chuen Ambrose	4/4	3/4	N/A	0/1	0/1
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
Mr FUNG Yuk Sing Michael	N/A	N/A	N/A	N/A	N/A

Directors' Continuous Training and Development

Pursuant to requirements under CG-1, the board should provide sufficient time, budget and other resources for developing and updating its members' knowledge 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 increasing diversity at Board level as an essential element in maintaining a competitive advantage. A diverse Board will include and make good use of differences in the skills, experiences, background, gender and other qualities of Directors. These differences will be considered in determining the optimum composition of the Board and when possible should be balanced appropriately. All Board appointments are made on merit, in the context of the skills and experience the Board as a whole requires in order to be effective.

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 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 2016. 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. The remuneration policy was reviewed and approved by the Remuneration Committee in March 2017 and the updated remuneration policy mainly reflects the adoption of the deferral framework applicable to variable remuneration, in alignment with OCBC Group's policy.

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	**2016**		2015	
No. of beneficiaries	**7**		6	
	Non-deferred HK$'000	Deferred HK$'000	Non-deferred HK$'000	Deferred HK$'000
Fixed remuneration				
– Cash	**35,259**	**–**	31,121	–
Variable remuneration				
– Cash	**27,971**	**–**	29,581	–
– Share-based payment	**–**	**17,647**	–	19,722

B) Key personnel

	2016		2015	
No. of beneficiaries	**13**		13	
	Non-deferred HK$'000	Deferred HK$'000	Non-deferred HK$'000	Deferred HK$'000
Fixed remuneration				
– Cash	**34,020**	**–**	30,537	–
Variable remuneration				
– Cash	**11,280**	**–**	10,430	–
– Share-based payment	**–**	**2,680**	–	2,450

Aggregate amount of deferred variable remuneration is set out below:

	2016		2015	
Senior management and key personnel	Awarded for performance year 2016 HK$'000	Awarded for prior performance years HK$'000	Awarded for performance year 2015 HK$'000	Awarded for prior performance years HK$'000
Vested and paid out during the year				
– Cash	**–**	**7,537**	–	7,094
– Share-based payment	**–**	**66**	–	–
Outstanding and unvested At 31st December				
– Cash	**–**	**–**	–	8,867
– Share-based payment	**20,327**	**23,186**	22,172	1,220

The share-based payment represented the fair value of deferred shares and share options granted to senior management and key personnel on 23rd March, 2017, as deferred variable incentive bonus for 2016. 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.

An amount of deferred variable remuneration of HK$1,330,080 had been forfeited during 2016 (2015: HK$1,773,400).

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

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 consists of deferred and non-deferred components in the form of cash and share awards, to align an employee's incentive awards with long-term value creation and the time 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 and other units independent of the relevant business units shall be obtained.

Variable remuneration comprises of 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.

There was no new sign-on payment made for employees in 2016 (2015: HK$425,308 made for one employee). No severance payment and guaranteed bonuses were made for directors, senior management and key personnel in 2016 and 2015.

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 2016 and 2015.

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 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 Non-executive Directors. Currently, members of the Risk Management Committee are Messrs TSE Hau Yin Aloysius (Chairman), NA Wu Beng 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.

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, Group Executives, 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, Group Executives, Chief Financial Officer, Chief Information Officer, Chief Operating 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, Group Executives, 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 33 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, 31st March, 2017

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 21 to 132, which comprise the consolidated statement of financial position as at 31st December, 2016, 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, 2016 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

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.

Key audit matters

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

Impairment of advances to customers

Refer to note 14 to the consolidated financial statements and the accounting policies on page 26 to 47.

The Key Audit Matter

The Group's advances to customers represented 62% of its total assets as at 31st December, 2016.

Impairment of advances to customers is a subjective area due to the level of judgment applied by management in determining allowances.

The slowdown in economic growth in Hong Kong and Mainland China has contributed to an overall increase in impairment of advances to customers across the banking industry.

The amount of impaired loans of the Group increased from HK$860 million as at 31st December, 2015 to HK$1,439 million as at 31st December, 2016, with total impairment allowances amounting to HK$792 million (including HK$220 million and HK$572 million for individual impairment allowance and collective impairment allowance respectively) as at 31st December, 2016.

From the Group's perspective, the portfolios which gave rise to the greatest uncertainty in determining impairment allowances for advances to customers were those where the advances to customers were unsecured, where the advances to customers were subject to potential collateral shortfalls or where impairment allowances were derived from collective assessment models.

How the matter was addressed in our audit

Our audit procedures to assess the impairment of advances to customers included the following:

- assessing the design, implementation and operating effectiveness of key internal controls over the approval, recording, monitoring and restructuring of advances to customers, the credit grading process and the measurement of impairment allowances for individually assessed advances to customers;

- for the key underlying systems used for the processing of transactions in relation to advances to customers we utilised our information technology specialists to assess the design, implementation and operating effectiveness of a selection of relevant automated controls within these systems. We also assessed the design, implementation and operating effectiveness of the key internal controls over these underlying systems, including controls over access to these systems and controls over data and change management;

- evaluating the validity of the models used and assumptions adopted in the Group's calculation of collective impairment allowances by critically assessing input parameters involving subjective judgement, seeking collaborative evidence from external sources and comparing the historical losses against the Group's other internal records and our prior year records. As part of these procedures, we challenged the Group's revisions to estimates and input parameters, the consistency of judgement applied in the use of economic factors, the loss emergence period and the observation period for historical losses. We compared the economic factors used in the models to market information to assess whether they were aligned with market and economic development. We also assessed the emergence period by tracing the lifecycle of overdue accounts from the occurrence of the specific credit event causing eventual default to the actual date the account was identified as impaired. Having considered the above, we performed re-calculations to assess the amount of collective impairment allowances;

The Key Audit Matter	How the matter was addressed in our audit
Individual impairment allowances are estimated by management once objective evidence of impairment becomes apparent. Management exercises judgement in determining the quantum of loss based on a range of factors. These include available remedies for recovery, the financial situation of the borrower, collateral valuation, the seniority of the claim and the existence and cooperativeness of other creditors. Whilst the Group appoints external valuers for the valuation of certain collateral, enforceability, timing and means of realisation also affect the ultimate collectability and thereby the amount of impairment allowances as at the reporting date. The determination of collective impairment allowances is heavily dependent on the external macro environment and the Group's internal credit risk management strategy. The Group's collective impairment allowances are derived from estimates including the Group's historical losses for advances to customers, the loss emergence period (i.e., the time lapse between the occurrence of the event causing eventual default to the actual charge-off) and other adjustment factors. We identified impairment of advances to customers as a key audit matter because of the inherent uncertainty and management judgement involved in determining the amount of impairment allowances and because of its significance to the financial results and capital of the Group.	• assessing the impairment allowances for individually impaired advances to customers by selecting a risk-based sample for credit review. We analysed advances to customers by industry sector to select samples for credit review in industries more vulnerable to the current economic slowdown. We also selected samples based on other risk criteria and from the Group's watch list and overdue report. We engaged our information technology specialists to assess the compilation of the overdue report. We selected further samples for credit review from advances to customers classified as "Special Mention" or "Non-performing" in accordance with the Guideline on Loan Classification System as set by the Hong Kong Monetary Authority; • critically assessing the forecast cash flows for impaired advances to customers, challenging the viability of the Group's recovery plans, evaluating the timing and means of realisation of collateral and considering other sources of repayment asserted by management. We also evaluated the consistency of management's application of key assumptions, assessed any change in basis and compared the data to our own data sources; and • evaluating the competence and integrity of the external valuers engaged by the Group to value certain collateral and comparing the valuation of collateral provided by the external valuers with publicly available information, on a sample basis.

Assessment of the fair value of financial instruments

Refer to note 35 to the consolidated financial statements and the accounting policies on page 26 to 47.

The Key Audit Matter

At at 31st December, 2016 the fair value of the Group's financial instruments was HK$64,003 million of which HK$38,585 million, HK$24,992 million and HK$426 million were classified under the fair value hierarchy as level 1, 2 and 3 financial instruments respectively.

The valuation of the Group's financial instruments, which are stated at their fair values, is based on a combination of market data and valuation models which often require a considerable number of inputs. Many of these inputs are obtained from readily available data for liquid markets. Where such observable data is not readily available, as in the case of level 3 financial instruments, estimates need to be developed which can involve significant management judgement.

The Group has developed its own models to value certain level 2 and level 3 financial instruments, which also involves significant management judgement.

We identified the assessment of the fair value of financial instruments as a key audit matter because of the degree of complexity involved in valuing certain financial instruments and because of the degree of judgement exercised by management in determining the inputs used in the valuation models.

How the matter was addressed in our audit

Our audit procedures to assess the fair value of financial instruments included the following:

- assessing the design, implementation and operating effectiveness of key internal controls over the valuation and independent price verification of financial instruments;
- for the key underlying systems used for the processing of transactions in relation to financial instruments we utilised our information technology specialists to assess the design, implementation and operating effectiveness of a selection of relevant automated controls within these systems. We also assessed the design, implementation and operating effectiveness of the key internal controls over these underlying systems, including controls over access to these systems and controls over data and change management;
- assessing the fair values of level 1 and certain level 2 financial instruments by comparing the fair values applied by the Group with publicly available market data, on a sample basis;
- engaging our internal valuation specialists to perform, on a sample basis, independent valuations of certain level 2 and level 3 financial instruments and compare these valuations with the Group's valuations. Our independent valuations included developing models, obtaining inputs independently and verifying the inputs;
- evaluating the appropriate application of credit valuation adjustments and debit valuation adjustments ("CVA/DVA") that form an integral part of fair values; inquiring of management about any changes in the CVA/DVA methodology and assessing the inputs applied; and
- assessing whether the disclosures in the consolidated financial statements reflected the Group's approach to measuring the fair values of financial instruments with reference to the requirements of the prevailing accounting standards.

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.

The Directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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 HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, 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 audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Fong Hoi Wan.

KPMG
Certified Public Accountants

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

31st March, 2017

Consolidated Statement of Profit or Loss

For the year ended 31st December, 2016
(Expressed in thousands of Hong Kong dollars unless otherwise stated)

	Notes	**2016**	2015 (restated)
Interest income	5(a)	**5,853,074**	6,284,733
Interest expense	5(b)	**(2,157,145)**	(2,698,484)
Net interest income		**3,695,929**	3,586,249
Fees and commissions (net)	5(c)	**746,627**	768,046
Dividends	5(d)	**9,208**	9,100
Rental income	5(e)	**5,449**	4,575
Other income	5(f)	**564,758**	379,592
Other operating income		**1,326,042**	1,161,313
Operating income		**5,021,971**	4,747,562
Operating expenses	5(g)	**(2,673,204)**	(2,274,928)
Operating profit before impairment losses and allowances		**2,348,767**	2,472,634
Impairment losses and allowances	14(e)	**(98,762)**	(146,208)
Operating profit after impairment losses and allowances		**2,250,005**	2,326,426
Unrealised gains on subordinated liabilities		**91,761**	30,774
Share of net gains of associated companies	17	**42,771**	59,422
Profit before taxation		**2,384,537**	2,416,622
Taxation	6(a)	**(337,725)**	(388,624)
Profit for the year attributable to equity shareholders of the Bank	7	**2,046,812**	2,027,998

The notes on pages 26 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, 2016
(Expressed in thousands of Hong Kong dollars unless otherwise stated)

	Notes	**2016**	2015 (restated)
Profit for the year		**2,046,812**	2,027,998
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	**88,953**	329,221
– Deferred taxes	6(d)	**30,114**	(5,421)
– Share of surplus on revaluation of bank premises of associated companies	17	**1,939**	64,185
		121,006	387,985
Items that will be reclassified subsequently to profit or loss			
– Exchange adjustments on translation of financial statements of subsidiaries		**(450,842)**	(198,608)
		(450,842)	(198,608)
– Available-for-sale financial assets			
– Fair value changes			
– on debt securities		**(59,692)**	(33,442)
– on equity securities		**140,902**	144,916
– Transfer to consolidated statement of profit or loss			
– gains on disposal	5(f)	**(53,574)**	(61,068)
– Deferred taxes	6(d)	**(8,507)**	(6,868)
– Share of fair value changes of available-for-sale financial assets of associated companies	17	**628**	(3,903)
		19,757	39,635
– Cash flow hedging reserve			
– Fair value changes taken to equity	29(e)	**(6,925)**	13,298
– Deferred taxes	6(d)	**1,143**	(2,194)
		(5,782)	11,104
– Unappropriated profits			
– Bank premises			
– Deferred taxes		**19,851**	–
		(417,016)	(147,869)
Other comprehensive income for the year, net of tax		**(296,010)**	240,116
Total comprehensive income for the year attributable to equity shareholders of the Bank		**1,750,802**	2,268,114

The notes on pages 26 to 132 form part of these financial statements.

Consolidated Statement of Financial Position

As at 31st December, 2016
(Expressed in thousands of Hong Kong dollars unless otherwise stated)

	Notes	**2016**	2015 (restated)
ASSETS			
Cash and balances with banks, central banks and other financial institutions	10	**9,622,651**	4,742,130
Placements with banks, central banks and other financial institutions	11	**6,237,703**	6,914,867
Amounts due from ultimate holding company and fellow subsidiaries	32	**8,170,829**	9,640,759
Trading assets	12	**5,780,612**	1,986,212
Financial assets designated at fair value through profit or loss	13	**2,292,953**	6,567,450
Advances to customers and other accounts	14(a)	**167,510,656**	155,932,929
Available-for-sale financial assets	15	**55,050,258**	32,547,690
Investments in associated companies	17	**353,756**	350,167
Tangible fixed assets	18		
– Investment properties		**338,895**	182,900
– Other properties, plants and equipment		**4,852,011**	4,779,391
Goodwill	19	**1,306,430**	1,306,430
Current tax recoverable	6(c)	**3,216**	–
Deferred tax assets	6(d)	**13,722**	17,302
Total assets		**261,533,692**	224,968,227
EQUITY AND LIABILITIES			
Deposits and balances of banks, central banks and other financial institutions	20	**4,245,654**	691,288
Amounts due to ultimate holding company and fellow subsidiaries	32	**17,302,857**	2,304,865
Deposits from customers	21	**193,153,230**	180,399,232
Certificates of deposit issued	22	**3,843,176**	8,650,384
Trading liabilities	23, 29	**2,485,215**	893,269
Current tax payable	6(c)	**159,806**	215,206
Deferred tax liabilities	6(d)	**241,563**	243,671
Other accounts and provisions	24	**3,895,602**	2,657,975
Subordinated liabilities	25	**3,146,519**	3,236,237
Total liabilities		**228,473,622**	199,292,127
Share capital	27(a)	**7,307,606**	1,740,750
Reserves		**25,752,464**	23,935,350
Total equity		**33,060,070**	25,676,100
Total equity and liabilities		**261,533,692**	224,968,227

Approved and authorised for issue by the Board of Directors on 31st March, 2017.

Patrick Yuk Bun FUNG *Chairman*
Wu Beng NA *Executive Director and Chief Executive*

The notes on pages 26 to 132 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2016
(Expressed in thousands of Hong Kong dollars unless otherwise stated)

	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 (Note 38)

	2015 (restated)				
	At 1st January	Transfer to/(from) reserve	Profit for the year	Other comprehensive income for the year	At 31st December
Share capital	1,740,750	–	–	–	1,740,750
Capital reserve	311,643	–	–	–	311,643
Statutory reserve	396,382	–	–	–	396,382
General reserve	2,262,755	–	–	(198,608)	2,064,147
Bank premises revaluation reserve	2,484,728	(54,007)	–	387,985	2,818,706
Investment revaluation reserve	275,992	–	–	39,635	315,627
Cash flow hedging reserve	–	–	–	11,104	11,104
Unappropriated profits	15,935,736	54,007	2,027,998	–	18,017,741
Total equity	23,407,986	–	2,027,998	240,116	25,676,100

The notes on pages 26 to 132 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31st December, 2016
(Expressed in thousands of Hong Kong dollars unless otherwise stated)

	Notes	**2016**	2015
Net cash inflow/(outflow) from operating activities	30(a)	**2,054,667**	(11,061,390)
Investing activities			
Purchase of available-for-sale financial assets		**(23,939,875)**	(11,252,235)
Sale and redemption of available-for-sale financial assets		**23,556,928**	9,991,530
Net cash inflow from acquisition of a subsidiary	38	**2,820,063**	–
Dividends received from associated company		**30,088**	34,740
Loans repaid by an associated company	17	**11,661**	46,771
Purchase of properties and equipment	18	**(96,736)**	(113,302)
Sale of properties and equipment		**393**	73
Net cash inflow/(outflow) from investing activities		**2,382,522**	(1,292,423)
Financing activities			
Interest paid on subordinated liabilities		**(186,275)**	(186,046)
Net cash outflow from financing activities		**(186,275)**	(186,046)
Increase/(decrease) in cash and cash equivalents		**4,250,914**	(12,539,859)
Cash and cash equivalents at 1st January		**14,095,157**	26,835,490
Effects of foreign exchange rate changes		**(449,781)**	(200,474)
Cash and cash equivalents at 31st December	30(b)	**17,896,290**	14,095,157
Analysis of the balances of cash and cash equivalents			
Cash and balances with banks, central banks and other financial institutions		**7,739,299**	4,667,897
Placements with banks, central banks and other financial institutions with an original maturity within three months		**4,642,693**	5,738,901
Amounts due from ultimate holding company and fellow subsidiaries with an original maturity within three months		**4,409,750**	3,022,527
Treasury bills with an original maturity within three months		**1,104,548**	665,832
		17,896,290	14,095,157
Cash flows from operating activities included:			
Interest received		**5,800,908**	6,298,952
Interest paid		**2,517,694**	2,828,817
Dividend received		**9,208**	9,100

The notes on pages 26 to 132 form part of these financial statements.

Notes to the Financial Statements

For the year ended 31st December, 2016
(Expressed in thousands of Hong Kong dollars unless otherwise stated)

1. Principal activities

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

2. Principal accounting policies

(a) Statement of compliance

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

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

The Group underwent a reorganisation on 18th July, 2016 (the "Group reorganisation date") and acquired the entire equity interest of OCBC Bank (China) Limited ("acquiree"), which was a wholly owned subsidiary of the Group's ultimate controlling party, Oversea-Chinese Banking Corporation Limited ("OCBC") (note 37), at a total consideration of HK$5,566,856,000. The consideration was paid entirely by 44,534,848 new ordinary shares issued by the Bank at HK$125 each. On the same date, the Bank's wholly owned subsidiary, Wing Hang Bank (China) Limited merged into OCBC Bank (China) Limited, which was then renamed as OCBC Wing Hang Bank (China) Limited.

As the Bank, OCBC Bank (China) Limited and Wing Hang Bank (China) Limited are under the common control of OCBC both before and after the transactions and control is not transitory, the transactions are considered as business combination under common control. The Group applied book value accounting to account for the reorganisation and reflected the difference between the consideration and the acquired equity interest in equity in the unappropriated profits. The net assets of OCBC Bank (China) Limited have been recognised at the carrying amounts of book value in the consolidated financial statements at the acquisition date. The book value of the acquiree in the transaction follows the Group's principal accounting policies and is set out in note 38.

The Group did not apply Accounting Guideline 5 ("AG5") "Merger Accounting for Common Control Combinations" issued by the HKICPA for such group reorganisation. The relevant guideline requires merger accounting for all periods presented herein as if the merger had been consummated since the inception of common control. The application of AG5 is not mandatory and the management of the Group considers book value accounting provides more relevant information in presenting the reorganisation in the consolidated financial statements.

2. Principal accounting policies *(continued)*

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31st December, 2016 comprise the Bank and its subsidiaries and the Group's interest in associated companies. The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

– financial instruments classified as trading, designated at fair value through profit or loss and available-for-sale (note 2(f)(ii));

– investment property (note 2(k));

– other freehold land and buildings (note 2(k)); and

– other leasehold land and buildings, for which the fair values cannot be measured separately at the inception of the lease and the entire lease is classified as finance lease (notes 2(k) and 2(l)).

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

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.

2. Principal accounting policies *(continued)*

(c) Subsidiaries and non-controlling interests *(continued)*

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

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

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

(d) Associated companies

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

An investment in an associated company is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted for any excess of the Group's share of the acquisition-date fair values of the associated company's identifiable net assets over the cost of the investment (if any). Therefore, the investment is adjusted for the post acquisition change in the Group's share of the associated company's net assets and any impairment loss relating to the investment (see 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 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)).

2. Principal accounting policies *(continued)*

(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 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.

(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 at fair value through profit or loss is recognised using trade date accounting. Other financial assets and financial liabilities are recognised using settlement date accounting. From these dates, any gains and losses arising from changes in fair value of the financial assets or financial liabilities at fair value through profit or loss are recorded.

2. Principal accounting policies *(continued)*

(f) Financial instruments *(continued)*

(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.

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.

2. Principal accounting policies *(continued)*

(f) Financial instruments *(continued)*

(ii) Classification *(continued)*

Loans and receivables (continued)

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.

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.

2. Principal accounting policies *(continued)*

(f) Financial instruments *(continued)*

(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 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.

(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.

2. Principal accounting policies *(continued)*

(f) Financial instruments *(continued)*

(vi) Embedded derivatives *(continued)*

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.

(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.

2. Principal accounting policies *(continued)*

(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.

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.

2. Principal accounting policies *(continued)*

(h) Revenue recognition *(continued)*

(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.

(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.

2. Principal accounting policies *(continued)*

(i) Income tax *(continued)*

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.

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.

2. Principal accounting policies *(continued)*

(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.

(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.

2. Principal accounting policies *(continued)*

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

(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.

(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).

2. Principal accounting policies *(continued)*

(l) Finance and operating leases *(continued)*

(iii) Operating leases *(continued)*

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.

(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.

2. Principal accounting policies *(continued)*

(n) Financial guarantees issued, provisions and contingent liabilities *(continued)*

(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.

(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.

2. Principal accounting policies *(continued)*

(o) Impairment of assets *(continued)*

(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.

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.

2. Principal accounting policies *(continued)*

(o) Impairment of assets *(continued)*

(i) Loans and receivables *(continued)*

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.

(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.

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 apply:

(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.

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 balance sheet 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 34.

3. Accounting estimates and judgements

Notes 18, 19 and 35 contain information about the assumptions and their risk factors relating to valuation of investment property, 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:

(i) Investment property

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

4. Changes in accounting policies

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

- *Annual Improvements to HKFRSs 2012-2014 Cycle*
- *Amendments to HKFRS 11, Joint arrangements*
- *Amendments to HKAS 16, Property, plant and equipment*
- *Amendments to HKAS 27, Separate financial statements*
- *Amendments to HKAS 1, Presentation of financial statements*

None of these developments have had a material effect on how the company's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. The impacts of the adoption of new or amended HKFRS are as follows:

Annual Improvements to HKFRSs 2012-2014 Cycle

This cycle of annual improvements contains amendments to four standards. Amount them, HKFRS 7, *Financial instruments: disclosures* has been amended to clarify when servicing arrangements are in the scope of its disclosure requirements on continuing involvement in transferred financial assets in cases when they are derecognised in their entirety. These amendments do not have an impact on the Group's financial instruments disclosures as the Group does not have such relevant transactions during the year.

Annual Improvements to HKFRS 11, Joint arrangements

The amendments provide new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. Specifically, the amendments require business combination accounting to be applied in this situation. These amendments do not have an impact on the Group's consolidated financial statements as the Group does not have such joint operations during the year.

Annual Improvements to HKAS 16, Property, plant and equipment

The amendments also prohibit the use of revenue-based depreciation methods for property, plant and equipment under HKAS 16. These amendments do not have an impact on the Group's consolidated financial statements as the Group has not used revenue-based depreciation method for the Group's tangible fixed assets.

Annual Improvements to HKAS 27, Separate financial statements

The amendments allow an entity to apply the equity method to account for its investments in subsidiaries, joint ventures and associates in its separate financial statements. As a result of the amendments, the entity can choose to account for these investments either at cost, in accordance with HKFRS 9 (or HKAS 39), or using the equity method as described in HKAS 28. These amendments do not have an impact to the Bank as the Bank has not applied the equity method to account for its investments in subsidiaries and associates in its separate financial statements.

Annual Improvements to HKAS 1, Presentation of financial statements

The amendments clarify various presentation issues relating to assessment of materiality versus minimum disclosure requirements of a standard, order of notes, disaggregation and aggregation, presentation of sub-totals and presentation of other comprehensive income items arising from equity-accounted associates and joint ventures. These amendments do not have an material impact to the Group's financial statements.

5. Operating profit

(a) Interest income

	2016	2015
Interest income arising from:		
– financial assets not measured at fair value through profit or loss	**5,609,272**	5,916,735
– trading assets	**159,120**	155,454
– financial assets designated at fair value through profit or loss	**84,682**	212,544
	5,853,074	6,284,733
of which:		
– interest income from listed investments	**519,865**	450,334
– interest income from unlisted investments	**368,652**	367,416
– interest income from impaired financial assets	**21,386**	4,115

The above interest income from impaired financial assets includes interest income on unwinding of discount on loan impairment loss of HK$18,231,000 (2015: HK$1,693,000) (note 14(e)) for the year ended 31st December, 2016.

(b) Interest expense

	2016	2015
Interest expense arising from:		
– financial liabilities not measured at fair value through profit or loss	**1,839,309**	2,332,371
– trading liabilities	**131,561**	180,067
– financial liabilities designated at fair value through profit or loss	**186,275**	186,046
	2,157,145	2,698,484
of which:		
– interest expense for certificates of deposit issued	**84,294**	91,350
– interest expense for deposits from customers	**1,665,365**	2,218,139
– interest expense for deposits and balances of banks, central banks and other financial institutions	**89,650**	22,882
– interest expense for subordinated liabilities (note 30(a))	**186,275**	186,046

5. Operating profit *(continued)*

(c) Fee and commission (net)

	2016	2015
Fees and commission		
Credit commission and fees	**193,643**	193,429
Credit card related fees	**223,977**	217,725
Trade related fees	**54,373**	52,103
Insurance commission	**146,309**	118,769
Stockbroking fees	**91,270**	161,561
Trust fees	**40**	41
Wealth management fees	**36,430**	38,113
Other fees and commission income	**112,665**	99,752
Less: Fees and commission expenses	**(112,080)**	(113,447)
	746,627	768,046
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	**268,078**	264,761
– fees and commission expenses	**(4)**	(4)
	268,074	264,757

(d) Dividends

	2016	2015
Dividend income from unlisted available-for-sale financial assets	**8,170**	8,235
Dividend income from listed available-for-sale financial assets	**929**	798
Dividend income from listed trading investments	**109**	67
	9,208	9,100

(e) Rental income

	2016	2015
Rental income from investment properties less direct expenses of HK$399,000 (2015: HK$216,000)	**5,449**	4,575
	5,449	4,575

5. Operating profit *(continued)*

(f) Other income

	2016	2015
Foreign exchange	**381,552**	309,348
Hedging activities		
– Fair value hedges		
– hedged items	**(47,143)**	(15,182)
– hedging instruments	**44,232**	15,036
Interest rate and other derivatives	**(28,105)**	(37,378)
Trading securities	**(7,204)**	1,793
Fair value through profit or loss securities	**103,235**	(6,574)
Others	**1,997**	1,450
Net trading income	**448,564**	268,493
Gains transferred from investment revaluation reserve upon disposal	**53,574**	61,068
Disposal of available-for-sale financial assets	**45,956**	18,183
Total gains on disposal of available-for-sale finance assets (note 30(a))	**99,530**	79,251
Revaluation of investment properties (note 18 & 30(a))	**(11,884)**	13,900
Disposal of tangible fixed assets	**(88)**	(952)
Others	**28,636**	18,900
	564,758	379,592

(g) Operating expenses

	2016	2015
Staff costs		
Salaries and other staff costs	**1,586,924**	1,392,966
Retirement benefit costs (note 34(a))	**85,384**	76,607
Share-based payment expenses (note 34(b))	**14,683**	–
	1,686,991	1,469,573
Premises and equipment expenses, excluding depreciation	**414,791**	325,823
Depreciation (notes 18 & 30(a))	**237,000**	205,304
Other expenses		
Auditor's remuneration		
Audit services	**6,559**	6,492
Other services	**1,183**	1,483
Others	**326,680**	266,253
	334,422	274,228
	2,673,204	2,274,928

6. Taxation

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

	2016	2015
Current tax – Provision for Hong Kong profits tax		
Provision for the year	**312,055**	314,184
Overprovision in respect of prior years	**(38,365)**	(29,327)
	273,690	284,857
Current tax – Provision for tax outside Hong Kong		
Provision for the year	**59,599**	86,697
Overprovision in respect of prior years	**(7,652)**	(8,639)
	51,947	78,058
Deferred taxation		
Origination and reversal of temporary differences	**12,088**	25,709
	337,725	388,624

The provision for Hong Kong profits tax for 2016 is calculated at 16.5% (2015: 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:

	2016	**%**	2015	%
Profit before tax	**2,384,537**	**100.00**	2,416,622	100.00
Notional tax on profit before tax, calculated at the rates applicable to profits in the region concerned	**383,460**	**16.08**	395,421	16.36
Tax effect of non-deductible expenses	**2,504**	**0.10**	38,496	1.59
Tax effect of non-taxable revenue	**(16,083)**	**(0.67)**	(54,051)	(2.24)
Tax effect of unused tax losses not recognised	**(4)**	**–**	(5)	–
Tax effect of unused tax losses recognised	**31**	**–**	28	–
Overprovision in respect of prior years	**(46,016)**	**(1.93)**	(37,966)	(1.57)
Others	**13,833**	**0.58**	46,701	1.93
Actual tax expense	**337,725**	**14.16**	388,624	16.07

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:

	2016	2015
Current tax recoverable		
Provision for Hong Kong profits tax	**1,760**	–
Provisional profits tax paid	**(4,976)**	–
	(3,216)	–
Provision for tax outside Hong Kong	**–**	–
	(3,216)	–
Current tax payable		
Provision for Hong Kong profits tax	**310,295**	314,077
Provisional profits tax paid	**(208,060)**	(176,410)
	102,235	137,667
Provision for tax outside Hong Kong	**57,571**	77,539
	159,806	215,206

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

According to State Administration of Taxation Announcement [2015] No.48, the parties in the restructuring shall, when performing CIT annual tax filing in the year of completion of the said restructuring, submit a "Report on Special Tax Treatment for Income Tax on Restructuring of Enterprise and Appendices" ("STT Report Form") and the required declaration materials to the in-charge tax authorities respectively. Where a party in a merger is deregistered, declaration shall be made prior to the completion of tax deregistration.

The Group completed the tax filing and supplemented other information to the Ocean Petroleum Branch of Shenzhen Municipal Administration of State Taxation with regards to the STT on the merger. The Group obtained receipt from the Ocean Petroleum Branch of Shenzhen Municipal Administration of State Taxation with regards to the tax filing on 5th August, 2016. Up till the reporting date of the Group's consolidated financial statements, the Group did not receive any formal notice from tax authority stating objection on the STT filing.

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:

	2016						
	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	Total
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**

	2015						
	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	Total
At 1st January	10,973	185,642	48,845	–	540	(59,823)	186,177
Charged to consolidated statement of profit or loss	9,968	–	–	–	4,796	10,945	25,709
Charged to reserves	–	5,421	6,868	2,194	–	–	14,483
At 31st December	20,941	191,063	55,713	2,194	5,336	(48,878)	226,369

	2016	2015
Net deferred tax assets recognised on the statement of financial position	**(13,722)**	(17,302)
Net deferred tax liabilities recognised on the statement of financial position	**241,563**	243,671
	227,841	226,369

7. Profit attributable to the shareholders of the Bank

The profit attributable to the shareholders of the Bank includes an amount of HK$1,736,871,000 (2015: HK$1,307,425,000) 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, 2016 (2015: 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, 2016 (2015: 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:

	2016	2015 (restated)
Directors' fee	**5,704**	5,835
Salaries, allowances and benefits in kind*	**23,368**	20,806
Pension contributions	**1,686**	1,558
Performance bonuses	**21,723**	21,991
Share-based payments	**5,378**	–
	57,859	50,190

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

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

	2016	2015
Cash balances	**870,321**	873,730
Balances with central banks	**7,809,593**	2,975,254
Balances with banks	**942,737**	893,146
	9,622,651	4,742,130

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

	2016	2015
Remaining maturity		
– Within 1 month	**5,469,404**	5,963,774
– Over 1 month but within 1 year	**768,299**	951,093
	6,237,703	6,914,867

12. Trading assets

	2016	2015
Debt securities:		
Listed in Hong Kong	**300,216**	217,153
Listed outside Hong Kong	**2,133,458**	125,291
	2,433,674	342,444
Unlisted	**989,224**	757,663
	3,422,898	1,100,107
Equity securities listed in Hong Kong	**2,333**	1,848
Total trading securities	**3,425,231**	1,101,955
Positive fair values of derivative financial instruments held for trading (note 29(a)(i))	**2,355,381**	884,257
	5,780,612	1,986,212

Trading debt securities include:		
Treasury bills	**697,613**	746,075
Certificates of deposit held	**154,766**	–
Other trading debt securities	**2,570,519**	354,032
	3,422,898	1,100,107

12. Trading assets *(continued)*

Trading securities analysed by counterparty are as follows:

	2016	2015
Issued by:		
Sovereigns	**697,613**	746,075
Public sector entities	**5**	17
Banks	**2,343,110**	174,749
Corporates	**384,503**	181,114
	3,425,231	1,101,955

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

	2016	2015
Debt securities:		
Listed in Hong Kong	**1,157,505**	3,953,317
Listed outside Hong Kong	**1,068,600**	2,077,839
	2,226,105	6,031,156
Unlisted	**66,848**	536,294
	2,292,953	6,567,450
Debt securities designated at fair value through profit or loss include:		
Treasury bills	**–**	162,797
Certificates of deposit held	**–**	118,913
Other debt securities designated at fair value through profit or loss	**2,292,953**	6,285,740
	2,292,953	6,567,450

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

	2016	2015
Issued by:		
Sovereigns	**–**	162,797
Public sector entities	**–**	37,871
Banks	**755,102**	1,743,273
Corporates	**1,537,851**	4,623,509
	2,292,953	6,567,450

14. Advances to customers and other accounts

(a) Advances to customers and other accounts

	2016	2015
Gross advances to customers	**161,968,980**	150,482,619
Individual impairment allowances for impaired loans and advances (note 14(e))	**(220,228)**	(177,041)
Collective impairment allowances for loans and advances (note 14(e))	**(571,522)**	(222,550)
Net advances to customers	**161,177,230**	150,083,028
Gross trade bills	**983,168**	3,852,774
Individual impairment allowances for impaired trade bills (note 14(e))	**–**	–
Collective impairment allowances for trade bills (note 14(e))	**(31)**	(56)
Net trade bills	**983,137**	3,852,718
Advances to banks	**1,913,710**	–
Customer liability under acceptances	**1,526,426**	288,828
Interest receivables	**657,331**	605,165
Positive fair values of derivative financial instruments held for hedging (note 29(a)(ii))	**62,838**	28,334
Other accounts	**1,189,984**	1,074,856
	167,510,656	155,932,929

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.

	2016 Gross advances to customers	**2016** % of gross advances covered by collateral	**2016** Impaired advances to customers	2015 Gross advances to customers	2015 % of gross advances covered by collateral	2015 Impaired advances to customers
Advances for use in Hong Kong						
Industrial, commercial and financial						
– Property development	**2,851,517**	**46.1**	**–**	2,030,154	49.9	–
– Property investment	**19,218,597**	**99.2**	**44,349**	20,360,131	99.0	–
– Financial concerns	**4,238,982**	**7.9**	**–**	2,842,449	14.5	–
– Stockbrokers	**2,528,634**	**48.1**	**–**	3,065,519	51.3	–
– Wholesale and retail trade	**6,053,435**	**68.3**	**76,781**	7,427,073	70.4	54,651
– Manufacturing	**2,777,384**	**56.8**	**44,434**	3,035,738	52.0	31,302
– Transport and transport equipment	**8,403,828**	**92.2**	**19,767**	9,308,227	89.1	19,993
– Information technology	**67,753**	**68.4**	**–**	80,317	30.3	–
– Share financing	**420,185**	**91.1**	**–**	451,688	93.8	–
– Recreational activities	**–**	**–**	**–**	45,780	–	–
– Others	**3,347,054**	**84.5**	**17,431**	4,906,868	75.0	10,530
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	**1,813,920**	**100.0**	**–**	2,116,594	100.0	–
– Advances for the purchase of other residential properties	**35,594,945**	**100.0**	**19,010**	34,473,856	100.0	4,856
– Credit card advances	**284,711**	**0.8**	**1,619**	307,934	0.8	1,551
– Others	**13,475,406**	**75.7**	**16,415**	10,662,713	71.9	18,778
	101,076,351	**85.3**	**239,806**	101,115,041	85.7	141,661
Trade finance	**4,343,377**	**57.2**	**102,556**	4,663,502	62.5	34,929
Advances for use outside Hong Kong						
– Mainland China	**36,300,818**	**66.2**	**1,086,585**	22,565,148	66.4	658,394
– Macau	**20,015,228**	**90.4**	**9,968**	21,246,727	88.2	25,069
– Others	**233,206**	**97.6**	**–**	892,201	60.8	–
	56,549,252	**74.9**	**1,096,553**	44,704,076	76.6	683,463
	161,968,980	**80.9**	**1,438,915**	150,482,619	82.3	860,053

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:

	2016	2015
Gross impaired advances to customers	**1,438,915**	860,053
Gross impaired advances to customers as a percentage of total advances to customers	**0.89%**	0.57%
Market value of collateral held with respect to impaired advances to customers	**839,317**	718,287
Individual impairment allowances	**220,228**	177,041

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, 2016 and 31st December, 2015.

(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:

	2016		2015	
	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments
Amount receivable:				
Within 1 year	**5,095,114**	**5,591,326**	5,439,768	6,013,862
After 1 year but within 5 years	**7,280,219**	**7,687,455**	8,175,421	8,671,017
After 5 years	**549**	**559**	1,021	1,050
	12,375,882	**13,279,340**	13,616,210	14,685,929
Unearned future income on finance lease	**–**	**(903,458)**	–	(1,069,719)
	12,375,882	**12,375,882**	13,616,210	13,616,210
Individual impairment allowances for impaired loans and advances	**(35,810)**		(33,223)	
Collective impairment allowances for loans and advances	**(6,701)**		(8,996)	
Net investment in finance leases and hire purchase contracts	**12,333,371**		13,573,991	

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

(e) Impairment allowances for loans and advances

	2016 Individual	2016 Collective	2016 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**

	2015 Individual	2015 Collective	2015 Total
At 1st January	205,914	217,905	423,819
Additions	189,959	4,701	194,660
Releases	(48,452)	–	(48,452)
Net charges to consolidated statement of profit or loss	141,507	4,701	146,208
Unwind of discount of loan impairment losses (note 5(a))	(1,693)	–	(1,693)
Recoveries of advances written off in prior years	45,851	–	45,851
Amounts written off	(214,538)	–	(214,538)
At 31st December	177,041	222,606	399,647
Representing impairment allowances for:			
Trade bills (note 14(a))	–	56	56
Advances to customers (note 14(a))	177,041	222,550	399,591
	177,041	222,606	399,647

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

(f) Repossessed assets

During the year ended 31st December, 2016, the Group has taken possession of collateral it holds as security as follows:

Nature

	2016	2015
Industrial properties	**30,550**	4,200
Residential properties	**113,830**	55,300
Vehicles	**24,577**	26,922
Others	**12,811**	3,574
	181,768	89,996

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, 2016, repossessed assets obtained as securities for impaired advances to customers totalled HK$88,334,000 (2015: HK$45,374,000) for the Group.

15. Available-for-sale financial assets

	2016	2015
Available-for-sale debt securities:		
Listed in Hong Kong	**8,639,324**	7,643,441
Listed outside Hong Kong	**20,105,790**	3,491,212
	28,745,114	11,134,653
Unlisted	**25,703,967**	20,952,762
	54,449,081	32,087,415
Available-for-sale equity securities:		
Listed outside Hong Kong	**173,770**	172,148
Unlisted	**427,407**	288,127
	601,177	460,275
	55,050,258	32,547,690
Available-for-sale debt securities include:		
Treasury bills	**16,735,028**	5,392,741
Certificates of deposit held	**15,560,739**	11,946,667
Other available-for-sale debt securities	**22,153,314**	14,748,007
	54,449,081	32,087,415

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

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

	2016	2015
Issued by:		
Sovereigns	**16,735,028**	5,392,741
Public sector entities	**462,513**	462,479
Banks	**26,614,308**	16,243,823
Corporates	**11,238,409**	10,448,647
	55,050,258	32,547,690

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 (note 38)	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

	2016	2015
Share of net assets	**353,756**	338,506
Loans to associated companies	**–**	11,661
	353,756	350,167

On 31st December, 2016, the outstanding balance of the loans to associated companies was fully repaid (2015: HK$11,661,000). The loan had a maturity date of 28th September, 2017 with the interest rate set at 2.60% per annum over HIBOR.

There are no impaired loans to associated companies nor individual impairment allowances made on loans to associated companies at 31st December, 2016 and 31st December, 2015.

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

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

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

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

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

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

In respect of the year ended 31st December, 2016, the share of the results of Bank Consortium Holding Limited and Hong Kong Life Insurance Limited was included in these financial statements based on accounts drawn up to 30th November, 2016. 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.

17. Investments in associated companies *(continued)*

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

	Bank Consortium Holding Limited		Hong Kong Life Insurance Limited	
	2016	2015	**2016**	2015
Gross amounts of the associated companies				
Assets	**726,629**	694,634	**15,839,141**	10,736,041
Liabilities	**60,852**	57,000	**15,066,365**	9,994,257
Net assets	**665,777**	637,634	**772,776**	741,784
Total operating income	**498,745**	460,147	**477,703**	2,167,645
Profit after tax	**132,089**	144,043	**19,447**	37,254
Other comprehensive income	**12**	(107)	**7,653**	180,967
Total comprehensive income	**132,101**	143,936	**27,100**	218,221
Dividends received from the associated companies	**28,600**	33,040	**–**	–
Reconciled to the Group's interests in the associated companies				
Gross amounts of net assets of the associated companies	**665,777**	637,634	**772,776**	741,784
Group's effective interest	**27%**	27%	**33%**	33%
Group's share of net assets of the associated companies	**177,541**	170,036	**257,592**	247,261
Dividends received from the associated companies	**(28,600)**	(33,040)	**–**	–
Others	**–**	6,324	**–**	1,129
Elimination of unrealised gain on transfer of bank premises to the associated companies	**(37,610)**	(37,610)	**(26,368)**	(26,368)
Carrying amount in the consolidated financial statements	**111,331**	105,710	**231,224**	222,022

17. Investments in associated companies *(continued)*

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

	2016	2015
Aggregate carrying amount of individually immaterial associated company in the consolidated financial statements	**11,201**	10,774
Aggregate amounts of the Group's share of net assets of the associated company	**11,201**	10,774
Total operating income	**143,914**	124,347
Profit after tax	**28,394**	25,323
Total comprehensive income	**28,394**	25,323
Reconciliation of carrying amounts to the Group's total interests in the associated companies		
Carrying amount of material associated companies		
– Bank Consortium Holding Limited	**111,331**	105,710
– Hong Kong Life Insurance Limited	**231,224**	222,022
Carrying amount of the individually immaterial associated company	**11,201**	10,774
Investment in associated companies in the consolidated financial statements	**353,756**	338,506

Non-adjusting events after the reporting period

On 20th March, 2017, the Bank entered into a share sale agreement with First Origin International Limited to sell its entire interest in Hong Kong Life Insurance Limited, an associated company, at a consideration of HK$2,366,667,000. The completion of the transaction is subject to approvals by the relevant regulators.

18. Tangible fixed assets

	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	**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 (note (a))					
At 31st December	**338,895**	**4,490,072**	**361,939**	**4,852,011**	**5,190,906**

18. Tangible fixed assets *(continued)*

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

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.

	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**

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

During the year ended 31st December, 2016, there were no transfers between Level 1 and Level 2, nor transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

All of the Group's investment properties and bank premises held for administrative use were revalued by an independent firm of surveyors, Savills Valuation and Professional Services Limited, 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 35%

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:

	2016		2015	
	Investment properties	Bank premises	Investment properties	Bank premises
Cost or valuation				
At 1st January	**182,900**	**3,467,775**	169,000	3,215,729
Addition through acquisition of a subsidiary	**193,905**	**–**	–	–
Additions	**–**	**–**	–	9
Disposals	**–**	**–**	–	–
Depreciation charge for the year	**–**	**(91,713)**	–	(77,184)
Depreciation written back on disposals for the year	**–**	**–**	–	–
Surplus/(deficit) on revaluation				
– credited to bank premises revaluation reserve	**–**	**88,953**	–	329,221
– (charged)/credited to consolidated statement of profit or loss	**(11,884)**	**–**	13,900	–
Exchange difference	**(1,375)**	**–**	–	–
At 31st December	**363,546**	**3,465,015**	182,900	3,467,775

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.

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$119,067,000 (2015: HK$323,800,000) 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$835,625,000 (2015: HK$857,760,000) had they been stated at cost less accumulated depreciation.

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

	2016	2015
FREEHOLD		
– Held outside Hong Kong	**264,620**	276,180
LEASEHOLD		
– Held in Hong Kong		
Long-term leases (over 50 years unexpired)	**2,139,604**	2,081,774
Medium-term leases (10 to 50 years unexpired)	**1,536,064**	1,569,458
– Held outside Hong Kong		
Long-term leases (over 50 years unexpired)	**5,635**	6,213
Medium-term leases (10 to 50 years unexpired)	**539,280**	395,814
Short-term leases (less than 10 years unexpired)	**343,764**	372,830
	4,828,967	4,702,269

(c) Fixed assets leased out under operating leases

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

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

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

	2016	2015
Within 1 year	**4,649**	4,239
After 1 year but within 5 years	**2,068**	2,915
	6,717	7,154

19. Goodwill

(a) Goodwill

	2016	2015
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:

	2016	2015
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% (2015: 4.00%). The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates. The cash flows are discounted using a discount rate of 12.59% (2015: 13.27%). The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

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

	2016	2015
Deposits from central banks	**4,140,741**	70,318
Deposits from banks	**104,913**	620,970
	4,245,654	691,288

21. Deposits from customers

	2016	2015
Demand deposits and current accounts	**40,367,275**	28,737,171
Savings deposits	**29,887,362**	28,626,769
Time, call and notice deposits	**122,898,593**	123,035,292
	193,153,230	180,399,232

22. Certificates of deposit issued

	2016	2015
Certificates of deposit issued at amortised cost	**3,293,618**	8,650,384
Certificates of deposit issued designated at fair value through profit or loss	**549,558**	–
	3,843,176	8,650,384

23. Trading liabilities

Trading liabilities represent negative fair values of derivative financial instruments held for trading. Details are set out in note 29(a).

24. Other accounts and provisions

	2016	2015
Acceptances outstanding	**1,526,426**	288,828
Interest payable	**588,832**	949,381
Negative fair value of derivative financial instruments held for hedging (note 29(a)(ii))	**141**	–
Other payables	**1,780,203**	1,419,766
	3,895,602	2,657,975

25. Subordinated liabilities

	2016	2015
US$400 million 6.00% step-up perpetual subordinated notes, designated at fair value through profit or loss	**3,146,519**	3,236,237

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

At 31st December, 2016, the carrying amount of the step-up perpetual subordinated notes designated at fair value through profit or loss are higher than their contractual amount payable at redemption for the Group by HK$44,431,000 (2015: HK$136,037,000). The change in fair value of these step-up perpetual subordinated notes is recognised as "unrealised gains on subordinated liabilities" in the consolidated statement of profit or loss. This change in fair value, which is attributable to change in credit risk for the year ended 31st December, 2016, is a loss of HK$37,788,000 (2015: HK$91,254,000) and the accumulated amount of this change for the Group is a loss of HK$6,910,000 (2015: gain of HK$30,878,000).

26. 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.

	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 and fellow subsidiaries	–	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

26. Maturity profile *(continued)*

	2015							
	Repayable on demand	Within 1 month	Over 1 month but within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Undated	Total
Assets								
Cash and balances with banks, central banks and other financial institutions	4,742,130	–	–	–	–	–	–	4,742,130
Placements with banks, central banks and other financial institutions	–	5,963,774	541,672	409,421	–	–	–	6,914,867
Amounts due from ultimate holding company and fellow subsidiaries	–	3,022,527	6,618,232	–	–	–	–	9,640,759
Trading assets	–	14,108	–	383,637	417,233	285,129	886,105	1,986,212
Financial assets designated at fair value through profit or loss	–	–	–	779,389	5,059,071	728,990	–	6,567,450
Advances to customers	2,856,720	10,820,435	9,012,513	21,634,750	45,227,724	60,328,313	202,573	150,083,028
Trade bills	10,368	359,315	634,906	2,847,707	–	–	422	3,852,718
Advances to banks	–	–	–	–	–	–	–	–
Available-for-sale financial assets	–	3,683,841	9,111,354	5,068,191	12,679,627	1,544,402	460,275	32,547,690
Other assets	612	986,944	347,911	120,102	61,478	–	7,116,326	8,633,373
Total assets	7,609,830	24,850,944	26,266,588	31,243,197	63,445,133	62,886,834	8,665,701	224,968,227
Liabilities								
Deposits and balances of banks, central banks and other financial institutions	427,307	263,981	–	–	–	–	–	691,288
Amounts due to ultimate holding company and fellow subsidiaries	–	1,141,940	1,162,925	–	–	–	–	2,304,865
Deposits from customers	57,304,452	59,686,129	44,277,167	16,945,307	2,186,177	–	–	180,399,232
Certificates of deposit issued	–	899,733	1,329,645	3,128,521	2,792,485	500,000	–	8,650,384
Trading liabilities	–	–	–	–	–	–	893,269	893,269
Subordinated liabilities	–	–	–	–	–	–	3,236,237	3,236,237
Other liabilities	–	1,228,481	581,425	659,344	218,517	19,786	409,299	3,116,852
Total liabilities	57,731,759	63,220,264	47,351,162	20,733,172	5,197,179	519,786	4,538,805	199,292,127
Net assets/(liabilities) gap	(50,121,929)	(38,369,320)	(21,084,574)	10,510,025	58,247,954	62,367,048	4,126,896	25,676,100
of which:								
Certificates of deposit held								
– included in financial assets designated at fair value through profit or loss	–	–	–	118,913	–	–	–	118,913
– included in available-for-sale financial assets	–	3,050,838	5,585,034	2,940,171	370,624	–	–	11,946,667
Debt securities								
– included in trading assets	–	14,108	–	383,637	417,233	285,129	–	1,100,107
– included in financial assets designated at fair value through profit or loss	–	–	–	660,476	5,059,071	728,990	–	6,448,537
– included in available-for-sale financial assets	–	633,003	3,526,320	2,128,020	12,309,003	1,544,402	–	20,140,748

27. Share capital and reserves

(a) Share capital

	2016		2015	
	No. of shares		No. of shares	
Issued and fully paid:				
At 1st January	**308,380,222**	**1,740,750**	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**	308,380,222	1,740,750

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.

As disclosed in note 2(a), the Group underwent a reorganisation on 18th July, 2016 and acquired the entire equity interest of OCBC Bank (China) Limited, which was a wholly owned subsidiary of the Group's ultimate controlling party, OCBC. The Bank issued 44,534,848 new ordinary shares at HK$125 each as the total consideration of HK$5,566,856,000 for the acquisition.

27. 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					
	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**

27. Share capital and reserves *(continued)*

(b) Reserves *(continued)*

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

27. Share capital and reserves *(continued)*

(b) Reserves *(continued)*

The Group's unappropriated profits as at 31st December, 2016 included the accumulated gains of HK$346,310,000 (2015: HK$303,539,000) of the associated companies and a regulatory reserve of HK$1,550,271,000 (2015: HK$1,824,014,000). 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 and investment revaluation reserve do not represent realised profits and are not available for distribution.

At 31st December, 2016, 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$15,725,988,000 (2015: HK$13,932,230,000).

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.

28. 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:

	2016	2015
Direct credit substitutes	**2,832,826**	585,693
Transaction-related contingencies	**276,227**	116,126
Trade-related contingencies	**1,238,228**	505,454
Forward forward deposits	**500,000**	–
Other commitments:		
With an original maturity of not more than one year	**322,094**	653,186
With an original maturity over one year	**1,848,512**	1,679,078
Which are unconditionally cancellable	**31,897,540**	25,501,038
Total	**38,915,427**	29,040,575
Credit risk weighted amounts	**3,975,311**	1,543,403

(b) Capital commitments

Capital commitments for acquisition of tangible fixed assets outstanding at 31st December, 2016 not provided for in the financial statements are as follows:

	2016	2015
Expenditure authorised and contracted for	**49,563**	32,361
Expenditure authorised but not contracted for	**–**	–
	49,563	32,361

28. Contingent liabilities and commitments *(continued)*

(c) Lease commitments

At 31st December, 2016, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2016	2015
Properties		
Within 1 year	**121,157**	105,675
After 1 year but within 5 years	**136,874**	141,013
After 5 years	**19,768**	9,848
	277,799	256,536
Others		
Within 1 year	**4,061**	2,629
After 1 year but within 5 years	**2,082**	1,648
	6,143	4,277

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.

29. 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.

29. Derivative financial instruments *(continued)*

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

	2016			
	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	**–**	**–**	**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**

	2015			
	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	–	–	42,320,830	42,320,830
Options purchased	–	–	21,078,005	21,078,005
Options written	–	–	20,879,227	20,879,227
Interest rate contracts				
Swaps	2,557,665	7,595,490	19,963,803	30,116,958
Equity contracts				
Options purchased	–	–	415,399	415,399
Options written	–	–	411,362	411,362
	2,557,665	7,595,490	105,068,626	115,221,781

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

29. Derivative financial instruments *(continued)*

(a) Use of derivative financial instruments

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

	2016 Assets	**2016** Liabilities	2015 Assets	2015 Liabilities
Exchange rate contracts	**1,484,662**	**1,573,497**	565,131	624,375
Interest rate contracts	**865,135**	**906,295**	280,229	230,081
Equity contracts	**3,279**	**3,152**	38,897	38,813
Credit derivative contracts	**2,305**	**2,271**	–	–
Total (notes 12 and 23)	**2,355,381**	**2,485,215**	884,257	893,269

(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:

	2016 Assets	**2016** Liabilities	2015 Assets	2015 Liabilities
Interest rate contracts (note 14 and 24)	**62,838**	**141**	28,334	–
	62,838	**141**	28,334	–

(b) Remaining life of derivative financial instruments

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

2016	Within 1 year	Over 1 year but within 5 years	Over 5 years	Total
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**

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

29. Derivative financial instruments *(continued)*

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

	2016	2015
Exchange rate contracts	**1,011,694**	1,126,587
Interest rate contracts	**770,832**	151,241
Equity contracts	**19,934**	56,077
Credit derivative contracts	**489**	–
	1,802,949	1,333,905

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

(d) Fair value hedges

The fair value hedges principally consist of interest rate swaps. The interest rate swaps are used to protect against changes in the fair value of certain fixed rate assets due to movements in market interest rates. At 31st December, 2016, the positive fair value of derivatives held as fair value hedges was HK$56,324,000 (2015: HK$15,036,000).

The gains on the hedging instruments for the year were HK$44,232,000 (2015: HK$15,036,000). The losses on the hedged items attributable to the hedged risk for the year were HK$47,143,000 (2015: HK$15,182,000).

(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 liabilities. At 31st December, 2016, the positive fair value of derivatives held as cash flow hedges was HK$6,373,000 (2015: HK$13,298,000). During the year, there was no ineffectiveness recognised in the statement of profit or loss that arose from cash flow hedges (2015: 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:

		2016	
	Less than 1 year	1 to 2 years	Total
Forecast receivable cash flows	**–**	**–**	**–**
Forecast payable cash flows	**(17,993)**	**–**	**(17,993)**
Forecast net payable cash flows	**(17,993)**	**–**	**(17,993)**

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

30. Notes to the consolidated cash flow statement

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

	2016	2015
Operating profit	**2,250,005**	2,326,426
Depreciation (note 5(g))	**237,000**	205,304
Interest expense on subordinated liabilities (note 5(b))	**186,275**	186,046
Losses on disposal of tangible fixed assets	**88**	952
Net gains from disposal of available-for-sales financial instruments (note 5(f))	**(99,530)**	(79,251)
Losses/(gains) on revaluation of investment properties (note 5(f))	**11,884**	(13,900)
Profits tax paid	**(403,398)**	(232,838)
Change in treasury bills with original maturity of three months or above	**(9,627,510)**	969,669
Change in placements with banks, central banks and other financial institutions with original maturity of three months or above	**3,831,009**	8,766,925
Change in amounts due from ultimate holding company and fellow subsidiaries maturing after three months	**3,283,880**	(6,463,098)
Change in certificates of deposit held	**(202,721)**	(8,330,376)
Change in trading assets	**(371,278)**	(359,533)
Change in financial assets designated at fair value through profit or loss	**4,111,700**	620,394
Change in advances to customers and other accounts	**10,655,910**	3,517,506
Change in deposits and balances of banks, central banks and other financial institutions	**(552,029)**	(1,080,890)
Change in amounts due to ultimate holding company and fellow subsidiaries	**5,865,709**	394,969
Change in deposits from customers	**(11,821,554)**	(14,856,760)
Change in certificates of deposit issued	**(4,807,208)**	3,483,239
Change in trading liabilities	**581,972**	324,480
Change in other accounts and provision	**(1,075,537)**	(440,654)
Net cash inflow/(outflow) from operating activities	**2,054,667**	(11,061,390)

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

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

	2016	2015
Cash and balances with banks, central banks and other financial institutions	**9,622,651**	4,742,130
Placements with banks, central banks and other financial institutions	**6,237,703**	6,914,867
Amounts due from ultimate holding company and fellow subsidiaries	**7,354,832**	3,022,527
Treasury bills	**17,432,641**	6,301,614
Amounts shown in the consolidated statement of financial position	**40,647,827**	20,981,138
Less: Amounts with an original maturity of three months or above	**(20,868,185)**	(6,811,748)
Deposits and balances of banks, central banks and other financial institutions that are repayable on demand	**(1,883,352)**	(74,233)
Cash and cash equivalents in the consolidated cash flow statement	**17,896,290**	14,095,157

31. Segment reporting

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

Hong Kong segment

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

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

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

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

31. Segment reporting *(continued)*

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.

31. 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.

	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**

31. Segment reporting *(continued)*

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

	2015						
	Hong Kong						
	Retail banking	Corporate banking	Treasury	Total	Mainland China	Macau	Total
Net interest income	1,820,351	506,857	393,706	2,720,914	527,308	532,242	3,780,464
Non-interest income	534,428	63,870	220,499	818,797	103,604	221,800	1,144,201
Reportable segment revenue	2,354,779	570,727	614,205	3,539,711	630,912	754,042	4,924,665
Operating expenses	(1,200,414)	(177,980)	(87,211)	(1,465,605)	(441,905)	(327,103)	(2,234,613)
Operating profit before impairment losses and allowances	1,154,365	392,747	526,994	2,074,106	189,007	426,939	2,690,052
Impairment losses and allowances	(84,655)	(31,127)	(17,734)	(133,516)	(5,692)	(7,000)	(146,208)
Operating profit	1,069,710	361,620	509,260	1,940,590	183,315	419,939	2,543,844
Unrealised gains on subordinated liabilities	–	–	30,774	30,774	–	–	30,774
Share of net gains of associated companies	–	–	–	–	–	100	100
Reportable segment profit before tax	1,069,710	361,620	540,034	1,971,364	183,315	420,039	2,574,718
Depreciation	29,258	161	5,099	34,518	57,850	33,683	126,051
Reportable segment assets	70,257,213	47,203,362	39,180,241	156,640,816	23,381,442	31,850,316	211,872,574
Addition to non-current segment assets	21,154	439	6,742	28,335	13,628	23,829	65,792
Reportable segment liabilities	143,759,464	1,071,396	1,439,233	146,270,093	20,143,408	28,540,142	194,953,643

31. Segment reporting *(continued)*

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

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

	2016	2015
Revenue		
Reportable segment revenue	**5,040,991**	4,924,665
Other revenue	**456,661**	24,745
Elimination of inter-segment revenue	**(475,681)**	(201,848)
Consolidated operating income	**5,021,971**	4,747,562

	2016	2015
Profit before taxation		
Reportable segment profit before taxation	**2,398,377**	2,574,718
Share of net gains of associated companies	**42,683**	59,322
Other net gains/(losses)	**234,739**	(217,418)
Elimination of inter-segment profit	**(291,262)**	–
Consolidated profit before taxation	**2,384,537**	2,416,622

	2016	2015
Assets		
Reportable segment assets	**248,024,518**	211,872,574
Balance and placements with banks, central banks and other financial institutions	**4,014,735**	5,710,092
Amounts due from ultimate holding company and fellow subsidiaries	**6,351,174**	9,640,759
Investments in associated companies	**353,756**	350,167
Tangible fixed assets	**3,807,512**	3,769,060
Goodwill	**1,306,430**	1,306,430
Current tax recoverable	**3,216**	–
Deferred tax assets	**13,722**	17,302
Other assets	**9,711,071**	2,921,944
Elimination of inter-segment assets	**(12,052,442)**	(10,620,101)
Consolidated total assets	**261,533,692**	224,968,227

31. Segment reporting *(continued)*

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

	2016	2015
Liabilities		
Reportable segment liabilities	**214,393,151**	194,953,643
Deposits and balances of banks, central banks and other financial institutions	**1,911,718**	690,700
Amounts due to ultimate holding company and fellow subsidiaries	**8,908,013**	2,304,865
Current tax payable	**105,731**	215,206
Deferred tax liabilities	**73,221**	243,671
Other liabilities	**4,716,389**	4,450,416
Elimination of inter-segment liabilities	**(1,634,601)**	(3,566,374)
Consolidated total liabilities	**228,473,622**	199,292,127

(b) Other geographical information

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 28(a))	**18,830,142**	**17,798,333**	**3,321,073**	**(1,034,121)**	**38,915,427**

2015

	Hong Kong	Mainland China	Macau	Less: inter-segment elimination	Total
Specified non-current assets	5,500,408	421,079	685,936	11,465	6,618,888
Contingent liabilities and commitments (note 28(a))	20,450,077	7,148,083	3,457,977	(2,015,562)	29,040,575

32. 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:

		2016	2015
(i)	**Income and expense during the year**		
	Interest income	**168,670**	133,854
	Interest expense	**116,791**	59,086
(ii)	**Average on-balance sheet outstanding during the year**		
	Amounts due from ultimate holding company and fellow subsidiaries	**10,282,133**	11,212,783
	Amounts due to ultimate holding company and fellow subsidiaries	**10,685,769**	2,015,813
(iii)	**On-balance sheet outstanding at the reporting date**		
	Amounts due from ultimate holding company and fellow subsidiaries	**8,059,106**	9,640,759
	Amounts due to ultimate holding company and fellow subsidiaries	**17,302,857**	2,304,865
(iv)	**Derivative financial instruments outstanding (notional amounts) at the reporting date**		
	Exchange rate contracts	**13,202,456**	13,673,970
	Interest rate contracts	**26,747,763**	7,828,005
	Equity contracts	**218,721**	–
	Credit derivative contracts	**5,041,967**	–

32. 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. The Bank issued 44,534,848 new ordinary shares at HK$125 each as the total consideration of HK$5,566,856,000 for the acquisition. 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 occurred or will occur before 18th July 2018, except for defaults of those restructured loans already in place at the time of reorganisation.

(b) Fellow companies

(1) Fellow subsidiaries

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

	2016	2015
(i) Income and expense during the year		
Interest income	**1,531**	1,108
Interest expense	**–**	9,484
(ii) Average on-balance sheet outstanding during the year		
Amounts due from ultimate holding company and fellow subsidiaries	**66,752**	47,322
Amounts due to ultimate holding company and fellow subsidiaries	**–**	222,006

32. Material related party transactions *(continued)*

(b) Fellow companies *(continued)*

(2) Fellow associates

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

	2016	2015
(i) Income and expense during the year		
Interest income	**318**	5,114
(ii) Average on-balance sheet outstanding during the year		
Amounts due from fellow associates	**9,310**	173,089
(iii) On-balance sheet outstanding at the reporting date		
Amounts due from fellow associates	**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:

	2016	2015
(i) Income and expense during the year		
Interest income	**489,856**	468,291
Interest expense	**87,594**	95,423
Other operating income	**421,340**	148,298
Operating expense	**71,337**	88,596

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.

32. Material related party transactions *(continued)*

(c) Subsidiaries *(continued)*

		2016	2015
(ii)	**Average on-balance sheet outstanding during the year**		
	Amounts due from subsidiaries	**21,895,677**	20,218,586
	Amounts due to subsidiaries	**8,058,061**	7,641,734
(iii)	**On-balance sheet outstanding at the reporting date**		
	Amounts due from subsidiaries	**23,396,306**	21,878,070
	Amounts due to subsidiaries	**5,597,060**	8,469,516

No allowance for impairment losses has been made in respect of these balances as at 31st December, 2016 (2015: nil).

		2016	2015
(iv)	**Off-balance sheet outstanding (contract amounts) at the reporting date**		
	Direct credit substitutes	**127,277**	127,207
	Transaction-related contingencies	**200,000**	200,000
	Other commitments	**3,149,083**	4,184,168
(v)	**Derivative financial instruments outstanding (notional amounts) at the reporting date**		
	Exchange rate contracts	**2,581,387**	6,287,042
	Interest rate contracts	**400,000**	85,000
	Equity contracts	**5,160**	4,038

32. 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 and off-balance sheet outstanding at the reporting date are:

		2016	2015
(i)	**Income and expense during the year**		
	Interest income	**191**	1,134
	Interest expense	**4,555**	5,020
(ii)	**Average on-balance sheet outstanding during the year**		
	Loans to associated companies	**5,022**	31,871
	Deposits from customers	**1,082,456**	932,932
(iii)	**On-balance sheet outstanding at the reporting date**		
	Loans to associated companies	**–**	11,661
	Deposits from customers	**410,124**	1,021,839
(iv)	**Off-balance sheet outstanding (contracts amounts) at the reporting date**		
	Other commitments	**–**	510,000

The Group provided a secured loan of HK$47,640,000 to an associated company in 2007 to finance its purchase of one of the Group's bank premises. The loan bears an interest rate of 0.55% per annum over HIBOR and is repayable by 2012 with an option to extend the repayment period to 2017. On 14th September, 2012, the loan was extended to 28th September, 2017 with the interest rate at 2.60% per annum over HIBOR. At the reporting date, the loan has been fully repaid (2015: HK$11,661,000).

32. 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:

		2016	2015
(i)	**Income and expense during the year**		
	Interest income	**128**	363
	Interest expense	**40,010**	72,696
(ii)	**Average on-balance sheet outstanding during the year**		
	Advances to customers	**10,904**	32,058
	Deposits from customers	**4,431,599**	8,375,274
(iii)	**On-balance sheet outstanding at the reporting date**		
	Advances to customers	**9,273**	11,640
	Deposits from customers	**4,250,671**	3,933,406

(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:

	2016	2015
Short-term employee benefits	**68,163**	66,940
Post-employment benefits	**2,595**	2,413
Equity compensation benefits	**7,803**	–
	78,561	69,353

32. 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:

	2016	2015
Aggregate amount of relevant loans outstanding at 31st December	**3,782**	3,804
The maximum aggregate amount of relevant loans outstanding during the year	**4,716**	4,873

(g) During the year, no allowance for impairment losses has been made in respect of the above advances to related parties (2015: nil).

33. 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 Loaning Manual, which is regularly reviewed and approved by the Credit Committee. The Loaning Manual covers the delegated lending authorities, credit extension criteria, credit monitoring process, loan classification system, credit recovery and impairment policy.

33. 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.

33. 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:

	2016					
				Related amounts not set off in the statement of financial position		
	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	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					
				Related amounts not set off in the statement of financial position		
	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	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**

33. Management of risks *(continued)*

(a) Credit risk management *(continued)*

(v) Master netting arrangements *(continued)*

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

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

33. Management of risks *(continued)*

(a) Credit risk management *(continued)*

(vi) Concentration of credit risk

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

(1) Maximum exposure

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

	2016	2015
Cash and balances with banks, central banks and other financial institutions	**9,622,651**	4,742,130
Placements with banks, central banks and other financial institutions	**6,237,703**	6,914,867
Amounts due from ultimate holding company and fellow subsidiaries	**8,170,829**	9,640,759
Trading assets	**5,780,612**	1,986,212
Financial assets designated at fair value through profit or loss	**2,292,953**	6,567,450
Advances to customers	**161,177,230**	150,083,028
Trade bills	**983,137**	3,852,718
Advances to banks	**1,913,710**	–
Loans to associated companies	**–**	11,661
Available-for-sale financial assets	**55,050,258**	32,547,690
Financial guarantees and other credit related contingent liabilities	**4,847,281**	1,207,273
Loan commitments and other credit related commitments	**34,068,146**	27,833,302

33. 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, 2016 and 2015, 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:

	2016	2015
Gross advances to customers		
– neither past due nor impaired	**157,556,593**	148,589,148
– past due but not impaired	**2,973,473**	1,033,418
– impaired (note 14(c))	**1,438,915**	860,053
	161,968,981	150,482,619

	2016	2015
of which:		
Gross advances to customers		
– Grade 1: Pass	**159,542,592**	148,721,200
– Grade 2: Special mention	**987,474**	901,366

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:

	2016	2015
Gross advances to customers that are past due but not impaired		
– past due 3 months or less	**2,680,613**	997,900
– 6 months or less but over 3 months	**26,111**	20,614
– 1 year or less but over 6 months	**266,749**	14,904
	2,973,473	1,033,418

At 31st December, 2016, advances to customers that were past due or impaired had the terms not been renegotiated amounted to HK$19,941,000 (2015: HK$24,494,000) for the Group. These are retained in impaired loans as long as the obliger will be able to substantially meet the renegotiated loan repayment terms.

33. 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.

	2016	2015
AAA	**15,976,696**	8,512,438
AA- to AA+	**18,047,841**	7,606,726
A- to A+	**20,850,302**	20,257,286
BBB to BBB+	**2,659,028**	1,441,594
Lower than BBB	**831,352**	685,736
	58,365,219	38,503,780
Unrated	**1,799,713**	1,251,192
	60,164,932	39,754,972

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, 2016 (2015: nil).

Included in "Other assets" of the Group as at 31st December, 2016 and 31st December, 2015, there are no receivables which are overdue.

33. 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:

	2016	2015
Fair value of collateral and other credit enhancements held against financial assets that are past due but not impaired	**6,744,940**	2,944,156

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 31.

(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 41.5% in 2016 (2015: 36.4%), which is well above the statutory requirement of 25%. The ratio as of 31st December, 2016 and 31st December, 2015 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.

33. 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.

33. 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.

33. 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)

33. Management of risks *(continued)*

(b) Liquidity risk management *(continued)*

	2015							
	Repayable on demand	Within 1 month	Over 1 month but within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Undated	Gross cash outflow
Non-derivative financial liabilities								
Deposits and balances of banks, central banks and other financial institutions	427,307	266,870	1,314	–	–	–	–	695,491
Amounts due to ultimate holding company and fellow subsidiaries	–	1,142,284	1,163,886	–	–	–	–	2,306,170
Deposits from customers	57,304,452	59,821,264	44,534,819	17,467,981	2,503,411	19,794	–	181,651,721
Certificates of deposit issued	–	905,065	1,337,818	3,171,470	2,938,280	533,120	–	8,885,753
Subordinated liabilities	–	–	–	93,523	186,012	–	3,100,200	3,379,735
Other liabilities	–	1,084,840	331,869	239,986	99,239	–	409,299	2,165,233
	57,731,759	63,220,323	47,369,706	20,972,960	5,726,942	552,914	3,509,499	199,084,103
Unrecognised loan commitments	17,897,968	1,490,031	1,837,691	5,137,496	1,470,116	–	–	27,833,302
Financial guarantees and other credit related contingent liabilities	212,171	187,078	288,605	436,991	80,074	2,354	–	1,207,273
	18,110,139	1,677,109	2,126,296	5,574,487	1,550,190	2,354	–	29,040,575
Derivative cash flows								
Derivative financial instruments settled on net basis	–	93,327	186,399	258,886	417,234	37,147	–	992,993
Derivative financial instruments settled on a gross basis								
– total outflow	–	4,124,277	3,765,543	6,389,743	607,118	–	–	14,886,681
– total inflow	–	(4,303,211)	(4,070,287)	(7,759,111)	(768,788)	–	–	(16,901,397)
	–	(178,934)	(304,744)	(1,369,368)	(161,670)	–	–	(2,014,716)

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 26.

33. 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.

(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 PVBP limit. The Group also uses interest rate swaps and other derivatives to manage interest rate risk.

Interest rate sensitivity set out below is for risk management reported to 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 2015.

	2016 Increase/(decrease) in Group's profit before tax	2015 Increase/(decrease) in Group's profit before tax
Increase in 10 basis points	**20,535**	20,397
Decrease in 10 basis points	**(20,535)**	(20,397)

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.

33. 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.

	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 and fellow subsidiaries	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	164,613,809	139,446,379	12,115,832	9,436,494	237,363	3,377,741
Trade bills	983,137	851,226	131,911	–	–	–
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
Loans to associated companies	–	–	–	–	–	–
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)

33. Management of risks *(continued)*

(c) Market risk management *(continued)*

(i) Interest rate risk *(continued)*

	2015					
	Total	Within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Non-interest bearing
Assets						
Cash and balances with banks, central banks and other financial institutions	4,742,130	3,219,765	–	–	–	1,522,365
Placements with banks, central banks and other financial institutions	6,914,867	6,434,544	480,323	–	–	–
Amounts due from ultimate holding company and fellow subsidiaries	9,640,759	9,350,088	–	–	–	290,671
Trading assets	1,986,212	58,301	383,638	373,039	285,129	886,105
Financial assets designated at fair value through profit or loss	6,567,450	136,670	660,476	5,041,314	728,990	–
Advances to customers and other accounts	152,080,211	129,183,150	9,776,535	10,797,983	320,089	2,002,454
Trade bills	3,852,718	1,004,969	2,847,749	–	–	–
Advances to banks	–	–	–	–	–	–
Available-for-sale financial assets	32,547,690	17,547,704	4,969,136	8,076,904	1,493,671	460,275
Loans to associated companies	11,661	11,661	–	–	–	–
Other assets	6,624,529	–	–	–	–	6,624,529
Total assets	224,968,227	166,946,852	19,117,857	24,289,240	2,827,879	11,786,399
Liabilities						
Deposits and balances of banks, central banks and other financial institutions	691,288	338,339	–	–	–	352,949
Amounts due to ultimate holding company and fellow subsidiaries	2,304,865	2,302,625	–	–	–	2,240
Deposits from customers	180,399,232	149,119,347	16,262,847	2,858,299	263	12,158,476
Certificates of deposit issued	8,650,384	4,011,993	3,128,521	1,009,870	500,000	–
Trading liabilities	893,269	–	–	–	–	893,269
Other liabilities	3,116,852	52,735	–	–	–	3,064,117
Subordinated liabilities	3,236,237	–	–	3,236,237	–	–
Total liabilities	199,292,127	155,825,039	19,391,368	7,104,406	500,263	16,471,051
Derivatives (in the banking book) net long/(short) position (notional amount)	–	–	–	–	–	–
Interest rate sensitivity gap	25,676,100	11,121,813	(273,511)	17,184,834	2,327,616	(4,684,652)

33. 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:

	2016	2015
	%	%
Placement with banks, central banks and other financial institutions	**1.86**	1.39
Advances to customers and trade bills	**2.90**	2.92
Debt securities	**1.69**	1.68
	2.52	2.54
Deposits and balances of banks, central banks and other financial institutions	**0.99**	0.40
Deposits from customers	**0.96**	1.02
Certificates of deposit issued	**2.09**	1.22
Subordinated liabilities	**5.89**	5.89
	1.06	1.09

(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; and

– subordinated liabilities.

33. Management of risks *(continued)*

(c) Market risk management *(continued)*

(ii) Currency risk *(continued)*

(In millions of HK$ equivalent)	**2016** US$	**2016** Chinese Renminbi	**2016** Total	2015 US$	2015 Chinese Renminbi	2015 Total
Spot assets	**59,610**	**45,802**	**124,738**	48,567	24,876	94,511
Spot liabilities	**(53,561)**	**(45,547)**	**(126,604)**	(42,362)	(27,177)	(95,923)
Forward purchases	**54,056**	**38,122**	**104,642**	19,827	10,867	37,820
Forward sales	**(54,772)**	**(39,858)**	**(98,830)**	(23,518)	(6,284)	(31,614)
Net option positions	**(4,177)**	**1,133**	**(3,055)**	(1,956)	(2,324)	(4,273)
Net long/(short) positions	**1,156**	**(348)**	**891**	558	(42)	521

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

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

(iii) Equity risk

The Group's equities exposures in 2016 and 2015 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.

33. 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 oversea 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, 2016 and 2015 and are well above the minimum required ratio set by the HKMA.

The capital ratios as at 31st December, 2016 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, 2016, the Group entered into repurchase agreements with certain banks and customers to sell debt securities with a carrying amount of HK$2,081,823,000 (2015: HK$222,914,000) 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:

	2016	2015
Available-for-sale financial assets	**631,737**	106,948
Trading assets	**1,450,086**	–
Financial assets designated at fair value through profit or loss	**–**	115,966
	2,081,823	222,914

33. Management of risks *(continued)*

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

The consideration received under these repurchase agreements for the Group totaling HK$1,937,885,000 (2015: HK$212,660,000) was reported as "Deposits and balances of banks, central banks and other financial institutions" and "Deposits from customers" at 31st December, 2016 and 31st December, 2015. The details are as follows:

	2016	2015
Deposits and balances of banks, central banks and other financial institutions	**1,914,512**	74,258
Deposits from customers	**23,373**	138,402
	1,937,885	212,660

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, 2016 and 31st December, 2015, there were no outstanding transferred financial assets in which the Group has a continuing involvement that were derecognised in their entirety.

34. Staff benefits

(a) Retirement schemes

	2016	2015
Retirement benefit costs (note 5(g))	**85,384**	76,607

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.

34. Staff benefits *(continued)*

(b) Equity compensation benefits

(i) Share Option Scheme

During the year, OCBC, the ultimate controlling party of the Group, granted 990,363 options (2015: nil), to eligible employees of the Group to acquire ordinary shares in OCBC pursuant to OCBC Share Option Scheme 2001 ("2001 Scheme"). This included 595,906 (2015: nil) 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:

	2016	2015
Acquisition price (in Singapore $)	**8.81**	–
Average share price from grant date to acceptance date (in Singapore $)	**8.95**	–
Expected volatility based on last 250 days historical volatility as of acceptance (in %)	**20.08**	–
Risk-free rate based on Singapore Government Securities ("SGS") bond yield at acceptance date (in %)	**1.83**	–
Expected dividend yield (in %)	**4.02**	–
Exercise multiple (times)	**1.78**	–
Option life (years)	**10**	–

34. 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:

		2016	
Options granted during the year	Number of options	Vesting conditions	Contractual life of options
Tranche 1	**326,819**	1 year from date of grant	10 years from date of grant
Tranche 2	**326,819**	2 years from date of grant	10 years from date of grant
Tranche 3	**336,725**	3 years from date of grant	10 years from date of grant
	990,363		

		2015	
Options granted during the year	Number of options	Vesting conditions	Contractual life of options
Tranche 1	–	1 year from date of grant	10 years from date of grant
Tranche 2	–	2 years from date of grant	10 years from date of grant
Tranche 3	–	3 years from date of grant	10 years from date of grant
	–		

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

	2016		2015	
	Number of options	Average price (in Singapore$)	Number of options	Average price (in Singapore$)
At 1st January	**–**	**–**	–	–
Addition through acquisition of a subsidiary	**137,371**	**–**	–	–
Granted and accepted	**979,707**	**0.8952**	–	–
At 31st December	**1,117,078**	**0.8952**	–	–

At 31st December, 2016, the weighted average remaining contractual life of outstanding share options was 9.9 years (2015: nil years). The aggregate outstanding number of options held by directors of the Bank was 595,906 (2015: nil). The accounting treatment of share-based compensation plan is set out in note 2(s).

34. 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 516,845 ordinary shares of OCBC (including awards of 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, 2016. The fair value of the shares at grant date was Singapore$4,465,541 (2015: nil). 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).

35. 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.

35. 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.

35. 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:

		2016		
Recurring fair value measurements	Level 1	Level 2	Level 3	Total
Assets				
Amounts due from ultimate holding company and fellow subsidiaries				
– Certificates of deposit held	–	**815,996**	–	**815,996**
– Other debt securities	–	–	–	–
	–	**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				
– Treasury bills	–	–	–	–
– Certificates of deposit held	–	–	–	–
– 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 value 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**

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

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

Recurring fair value measurements	Level 1	2015 Level 2	Level 3	Total
Assets				
Amounts due from ultimate holding company and fellow subsidiaries				
– Certificates of deposit held	–	3,443,465	–	3,443,465
– Other debt securities	–	3,174,767	–	3,174,767
	–	6,618,232	–	6,618,232
Trading assets				
– Treasury bills	746,075	–	–	746,075
– Other debt securities	337,188	16,844	–	354,032
– Equity securities	1,848	–	–	1,848
– Positive fair values of derivative financial instruments held for trading	–	884,257	–	884,257
	1,085,111	901,101	–	1,986,212
Financial assets designated at fair value through profit or loss				
– Treasury bills	162,797	–	–	162,797
– Certificates of deposit held	118,913	–	–	118,913
– Other debt securities	6,225,299	60,441	–	6,285,740
	6,507,009	60,441	–	6,567,450
Advances to customers and other accounts				
– Positive fair values of derivative financial instruments held for hedging	–	28,334	–	28,334
Available-for-sale financial assets				
– Treasury bills	4,908,168	484,573	–	5,392,741
– Certificates of deposit held	568,768	11,377,899	–	11,946,667
– Other debt securities	12,673,624	2,074,383	–	14,748,007
– Equity securities	138,171	34,995	287,109	460,275
	18,288,731	13,971,850	287,109	32,547,690
	25,880,851	21,579,958	287,109	47,747,918
Liabilities				
Trading liabilities				
– Negative fair values of derivative financial instruments held for trading	–	893,269	–	893,269
Other accounts and provisions				
– Negative fair value of derivative financial instruments held for hedging	–	–	–	–
Certificates of deposit issued designated at fair value through profit or loss	–	–	–	–
Subordinated liabilities				
– Subordinated liabilities designated at fair value through profit or loss	–	3,236,237	–	3,236,237
	–	4,129,506	–	4,129,506

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

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

During the year ended 31st December, 2016, there were no material transfers between Level 1 and Level 2, or transfers into or out of Level 3 (31st December, 2015: 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:

	2016		
	Financial assets designated at fair value through profit or loss – Debt securities	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	–	–	–

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

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

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

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

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

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

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

	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)**

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

35. 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, 2016 and 31st December, 2015 except for the following financial instruments, for which their carrying amounts and fair value and the level of fair value hierarchy are disclosed below:

	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**	**–**

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

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.

36. Bank-level statement of financial position

	2016	2015 (restated)
ASSETS		
Cash and balances with banks, central banks and other financial institutions	**987,493**	968,110
Placements with banks, central banks and other financial institutions	**3,385,910**	5,105,789
Amounts due from ultimate holding company and fellow subsidiaries	**6,351,174**	9,640,759
Trading assets	**1,665,773**	2,008,197
Financial assets designated at fair value through profit or loss	**2,292,953**	6,567,450
Advances to customers and other accounts	**87,034,032**	98,114,442
Amounts due from subsidiaries	**23,396,306**	21,878,070
Available-for-sale financial assets	**44,070,809**	29,986,749
Investments in subsidiaries	**8,287,427**	2,720,571
Investments in associated companies	**182,000**	193,661
Tangible fixed assets		
– Other properties, plants and equipment	**3,457,188**	3,430,716
Goodwill	**847,422**	847,422
Total assets	**181,958,487**	181,461,936
EQUITY AND LIABILITIES		
Deposits and balances of banks, central banks and other financial institutions	**1,911,717**	690,701
Amounts due to ultimate holding company and fellow subsidiaries	**8,908,013**	2,304,865
Deposits from customers	**130,708,755**	136,473,229
Certificates of deposit issued	**3,293,618**	8,650,385
Trading liabilities	**514,438**	877,225
Current tax payable	**97,068**	127,349
Deferred tax liabilities	**67,325**	70,761
Other accounts and provisions	**1,336,369**	1,545,511
Amounts due to subsidiaries	**5,597,060**	8,469,516
Subordinated liabilities	**3,146,519**	3,236,237
Total liabilities	**155,580,882**	162,445,779
Share capital	**7,307,606**	1,740,750
Reserves	**19,069,999**	17,275,407
Total equity	**26,377,605**	19,016,157
Total equity and liabilities	**181,958,487**	181,461,936

Approved and authorised for issue by the Board of Directors on 31st March, 2017.

Patrick Yuk Bun FUNG *Chairman*
Wu Beng NA *Executive Director and Chief Executive*

37. Ultimate controlling party

At 31st December, 2016, the directors consider the ultimate controlling party of the Bank to be OCBC, which is incorporated in Singapore.

38. Acquisition of a subsidiary

The Group underwent a reorganisation on 18th July, 2016 and acquired the entire equity interest of OCBC Bank (China) Limited, which was a wholly owned subsidiary of the Group's ultimate controlling party, Oversea-Chinese Banking Corporation Limited. On the same date, the Bank's wholly owned subsidiary, Wing Hang Bank (China) Limited merged into OCBC Bank (China) Limited, which was renamed OCBC Wing Hang Bank (China) Limited. The Bank issued 44,534,848 new ordinary shares at HK$125 each as the total consideration of HK$5,566,856,000 for the acquisition. The difference between the consideration and the acquired equity interest are reflected in equity in the reserve.

The net assets acquired at the date of acquisition are as follows:

	Amount at acquisition date
Cash and balances with banks, central banks and other financial institutions	**16,056**
Placements with banks, central banks and other financial institutions	**6,588,256**
Amounts due from ultimate holding company and fellow subsidiaries	**965,531**
Trading assets	**3,568,833**
Advances to customers and other accounts	**22,233,637**
Available-for-sale financial assets	**11,689,951**
Tangible fixed assets	**133,028**
Deferred tax assets	**62,985**
Deposits and balances of banks, central banks and other financial institutions	**(2,309,657)**
Amounts due to ultimate holding company and fellow subsidiaries	**(9,460,929)**
Deposits from customers	**(24,575,552)**
Trading liabilities	**(1,009,974)**
Current tax payable	**(19,145)**
Other accounts and provisions	**(2,313,164)**
Exchange difference	**(3,000)**
Net identifiable assets and liabilities	**5,566,856**
Issuance of 44,534,848 shares at HK$125 each	**5,566,856**
Difference between consideration and assets acquired	**–**

To be consistent with the Group's principal accounting policies at the date of acquisition, the Group made adjustments to the tangible fixed assets and advances to customers and other accounts. Among the tangible fixed assets acquired, the investment properties were stated at cost, less accumulated depreciation and impairment in the acquiree's separate financial statements. To align with the Group's principal accounting policies in relation to the recognition of investment properties as set out in Note 2(k) at fair values, a surplus of HK$63,312,140 and HK$94,969,000 was adjusted to the tangible fixed assets and deferred tax liabilities respectively.

38. Acquisition of a subsidiary *(continued)*

OCBC provided a financial guarantee to the Group where the Group can be reimbursed from OCBC 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 occurred or will occur before 18th July, 2018, except for defaults of those restructured loans already in place at the time of reorganisation.

39. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31st December, 2016

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31st December, 2016 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
Amendments to HKAS 7, *Statement of cash flows: Disclosure initiative*	1st January, 2017
Amendments to HKAS 12, *Income taxes: Recognition of deferred tax assets for unrealised losses*	1st January, 2017
HKFRS 9, *Financial instruments*	1st January, 2018
HKFRS 15, *Revenue from contracts with customers*	1st January, 2018
Amendments to HKFRS 2, *Share-based payment: Classification and measurement of share-based payment transactions*	1st January, 2018
HKFRS 16, *Leases*	1st January, 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards 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 consolidated financial statements. Further details of the expected impacts are discussed below. As the Group has not completed its assessment, further impacts may be identified in due course and will be taken into consideration when determining whether to adopt any of these new requirements before their effective date and which transitional approach to take, where there are alternative approaches allowed under the new standards.

39. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31st December, 2016 *(continued)*

HKFRS 9, Financial instruments

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, *Financial instruments: Recognition and measurement*. HKFRS 9 introduces new requirements for classification and measurement of financial assets, calculation of impairment of financial assets and hedge accounting. On the other hand, HKFRS 9 incorporates without substantive changes the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification of financial liabilities. Expected impacts of the new requirements on the Group's financial statements are as follows:

(a) Classification and measurement

HKFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss (FVTPL) and (3) fair value through other comprehensive income (FVTOCI) as follows:

- The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. If a debt instrument is classified as FVTOCI then effective interest, impairments and gains/losses on disposal will be recognised in profit or loss.

- For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVTOCI. If an equity security is designated as FVTOCI then only dividend income on that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without recycling.

Based on the preliminary assessment, the Group expects that its financial assets currently measured at amortised cost and FVTPL will continue with their respective classification and measurements upon the adoption of HKFRS 9.

With respect to the Group's financial assets currently classified as "available-for-sale", these are investments in equity securities which the Group may classify as either FVTPL or irrevocably elect to designate as FVTOCI (without recycling) on transition to HKFRS 9. The Group has not yet decided whether it will irrevocably designate these investments as FVTOCI or classify them as FVTPL. Either classification would give rise to a change in accounting policy as the current accounting policy for available-for-sale equity investments is to recognise fair value changes in other comprehensive income until disposal or impairment, when gains or losses are recycled to profit or loss in accordance with the Group's policies set out in notes 2(f). This change in policy will have no impact on the Group's net assets and total comprehensive income but will impact on reported performance amounts such as profit and loss.

The classification and measurement requirements for financial liabilities under HKFRS 9 are largely unchanged from HKAS 39, except that HKFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's own credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The Group currently has financial liabilities designated at FVTPL and therefore this new requirement may have an impact on the Group on adoption of HKFRS 9.

39. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31st December, 2016 *(continued)*

HKFRS 9, Financial instruments *(continued)*

(b) Impairment

The new impairment model in HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure expected credit losses as either 12-month expected credit losses or lifetime expected credit losses, depending on the asset and the facts and circumstances. This new impairment model may result in an earlier recognition of credit losses on the Group's loans and receivables and other financial assets. However, a more detailed analysis is required to determine the extent of the impact.

(c) Hedge accounting

HKFRS 9 does not fundamentally change the requirements relating to measuring and recognising ineffectiveness under HKAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting. The Group preliminarily assesses that its current hedge relationships will qualify as continuing hedges upon the adoption of HKFRS 9 and therefore it expects that the accounting for its hedging relationships will not be significantly impacted.

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. The Group is currently assessing the impacts of adopting HKFRS 15 on its financial statements. Based on the preliminary assessment, the Group has identified the following area which may be affected:

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.

39. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31st December, 2016 *(continued)*

HKFRS 15, Revenue from contracts with customers *(continued)*

As a result of this change from the risk-and-reward approach to the contract-by-contract transfer-of-control approach, it is possible that once the Group adopts HKFRS 15 the point in time when revenue is recognised may be earlier or later than under the current accounting policy. However, further analysis is required to determine whether this change in accounting policy may have a material impact on the amounts reported in any given financial reporting period.

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 28(c), at 31st December 2016 the Group's future minimum lease payments under non-cancellable operating leases amount to HK$277,799 and HK$6,143 for properties and other assets respectively, the majority 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.

The Group is considering whether to adopt HKFRS 16 before its effective date of 1st January, 2019. However, early adoption of HKFRS 16 is only permitted if this is no earlier than the adoption of HKFRS 15. It is therefore unlikely that HKFRS 16 will be adopted before the effective date of HKFRS 15, being 1st January, 2018.

40. Approval of the financial statements

These financial statements were approved and authorised for issue by the Board of Directors on 31st March, 2017.

41. Comparative figures

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

(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

	2016	2015
Common Equity Tier 1 capital ratio as at 31st December	**16.0%**	13.6%
Tier 1 capital ratio as at 31st December	**16.0%**	13.6%
Total capital ratio as at 31st December	**19.0%**	17.2%
Capital conservation buffer ratio	**0.625%**	–
Countercyclical capital buffer ratio	**0.357%**	–
Common Equity Tier 1 capital	**26,691,289**	19,152,632
Tier 1 capital	**26,691,289**	19,152,632
Total capital	**31,710,055**	24,205,260
Risk weighted assets	**166,751,008**	140,828,970

As mentioned in note 33(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 Bank has 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".

The Group underwent a reorganisation on 18th July, 2016 (the "Group reorganisation date") and acquired the entire equity interest of OCBC Bank (China) Limited ("acquiree"), which was a wholly owned subsidiary of the Group's ultimate controlling party, Oversea-Chinese Banking Corporation Limited ("OCBC"), at a total consideration of HK$5,566,856,000. The consideration was paid entirely by 44,534,848 new ordinary shares issued by the Bank at HK$125 each. On the same date, the Bank's wholly owned subsidiary, Wing Hang Bank (China) Limited merged into OCBC Bank (China) Limited, which was then renamed as OCBC Wing Hang Bank (China) Limited.

As the Bank, OCBC Bank (China) Limited and Wing Hang Bank (China) Limited are under the common control of Oversea-Chinese Banking Corporation Limited both before and after the transactions and control is not transitory, the transactions are considered as business combination under common control. The Group applied book value accounting to account for the reorganisation and reflected the difference between the consideration and the acquired equity interest in equity in the reserve. The net assets of OCBC Bank (China) Limited have been recognised at the carrying amounts of book value in the consolidated financial statements at the acquisition date. The book value of the acquiree in the transaction follows the Group's principal accounting policies and is set out in Note 38 of the "notes to the financial statements" of the consolidation financial statements. The consolidated financial statements and unaudited supplementary financial information have been presented on the same basis.

(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:

		2016		2015	
Subsidiaries	Principal activities	Total assets	Total equity	Total assets	Total equity
CF Limited	Dormant/to be liquidated	**–**	**–**	–	–
Chekiang First Bank (Nominees) Limited	Nominee Services	**10**	**10**	10	10
Chekiang First Bank (Trustees) Limited	Trustee Services	**3,950**	**3,917**	3,943	3,931
Chekiang First Limited	Dormant	**1**	**1**	1	1
Chekiang First Securities Company Limited	Dormant	**6,386**	**6,363**	6,515	6,451
Honfirst Investment Limited	Futures Trading	**16,552**	**16,488**	16,490	16,426
OCBC Wing Hang (Nominees) Limited	Nominee Services	**10**	**10**	10	10
OCBC Wing Hang (Trustee) Limited	Trustee Services	**3,660**	**3,640**	3,640	3,603
OCBC Wing Hang Insurance Agency Limited	Insurance Agency	**66,336**	**53,111**	51,514	38,937
OCBC Wing Hang Insurance Brokers Limited	Insurance Broker	**36,715**	**27,070**	27,675	19,509
OCBC Wing Hang Shares Brokerage Company Limited	Securities Dealing	**412,405**	**290,660**	390,622	282,069

As at 31st December, 2016, there are no subsidiaries which are included within both the accounting scope of consolidation and the regulatory scope of consolidation, but the method of consolidation differs.

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

The detailed disclosure required by the Banking (Disclosure) Rules will be disclosed before 30th April, 2017 under "Regulatory Disclosure" on the website of the Bank (www.ocbcwhhk.com).

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

(ii) Average liquidity maintenance ratio

	2016	2015
Average liquidity maintenance ratio for the year	**41.5%**	36.4%

The average liquidity maintenance ratio for 2016 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, 2016 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.

			2016		
	Gross advances to customers	Impaired advances to customers	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**

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

(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.

	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**

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

(d) Overdue and rescheduled assets

(i) Overdue and rescheduled advances to customers

	2016		2015	
	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	**130,773**	**0.08**	422,153	0.28
– 1 year or less but over 6 months	**273,834**	**0.17**	140,996	0.09
– Over 1 year	**568,106**	**0.35**	209,016	0.14
	972,713	**0.60**	772,165	0.51
Covered portion of overdue advances	**848,686**		685,113	
Uncovered portion of overdue advances	**124,027**		87,052	
	972,713		772,165	
Current market values of collateral held against covered portion of overdue advances	**1,602,329**		1,383,231	
Individual impairment allowances made on overdue advances	**188,806**		132,493	

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.

(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:

	2016		2015	
	Amount	% of total advances to customers	Amount	% of total advances to customers
Rescheduled advances to customers	**440,652**	**0.27**	15,097	0.01

There were no advances to banks which were overdue nor rescheduled as at 31st December, 2016 and 31st December, 2015.

(ii) Other overdue assets

	2016	2015
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, 2016 and 31st December, 2015.

Included in "Other assets" as at 31st December, 2016 and 31st December, 2015, 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)	2016 On-balance sheet exposures	 Off-balance sheet exposures	 Total exposures
(i) Central government, central government-owned entities and their subsidiaries and Joint Ventures ("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%**		

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

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

(f) International claims

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

	2016				
			Non-bank private sector		
	Banks	Official sector	Non-bank financial institutions	Non-inancial private sector	Total
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**

	2015				
			Non-bank private sector		
	Banks	Official sector	Non-bank financial institutions	Non-financial private sector	Total
Offshore centres, of which					
– Hong Kong	5,693	4,340	5,127	114,565	129,725
– Macau	454	1,083	49	20,601	22,187
– Singapore	9,994	84	38	547	10,663
Developing Asia-Pacific, of which					
– Mainland China	15,700	2,986	752	22,298	41,736
	31,841	8,493	5,966	158,011	204,311

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

(g) Additional disclosures on credit risk management

(i) Capital requirement

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

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

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

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

	2016	2015
Classes of exposure:		
– Sovereign	**–**	1,076
– Public sector entity	**62,836**	65,223
– Bank	**841,259**	1,040,106
– Securities firm	**102**	7,281
– Corporate	**3,285,707**	3,674,634
– Cash items	**1,882**	1,973
– Regulatory retail	**912,460**	935,320
– Residential mortgage loans	**1,485,416**	1,399,801
– Other exposures which are not past due	**510,725**	482,837
– Past due	**22,875**	8,925
Total capital requirements for on-balance sheet exposures	**7,123,262**	7,617,176
– Direct credit substitutes	**23,939**	26,820
– Transaction-related contingencies	**1,394**	1,338
– Trade-related contingencies	**11,006**	9,781
– Forward forward deposits placed	**8,000**	–
– Other commitments	**32,832**	53,677
– Exchange rate contracts	**21,653**	71,534
– Interest rate contracts	**7,684**	12,099
– Equity contracts	**–**	3,255
– Default risk exposures – securities financing transactions	**139**	1,054
Total capital requirements for off-balance sheet exposures	**106,647**	179,558
	7,229,909	7,796,734

(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:

	2016	2015
Classes of exposure:		
– Sovereign	**211,774**	37,046
– Public sector entity	**–**	–
– Bank	**247,785**	47,465
– Cash items	**–**	1
– Residential mortgage loans	**912,987**	877,583
– Other exposures	**2,735,333**	1,451,203
Total capital requirements for on-balance sheet exposures	**4,107,879**	2,413,298
– Direct credit substitutes	**181,068**	11,179
– Transaction-related contingencies	**6,933**	870
– Trade-related contingencies	**31,693**	1,791
– Other commitments	**45,269**	22,201
– Exchange rate contracts	**51,762**	3,888
– Interest rate contracts	**8,307**	–
– Equity contracts	**1,595**	–
– Credit derivative contracts	**39**	–
– Default risk exposures – securities financing transactions	**4,050**	1,135
Total capital requirements for off-balance sheet exposures	**330,716**	41,064
	4,438,595	2,454,362

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

(ii) Credit risk exposures

Credit ratings from above-mentioned ECAIs 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:

2016	Total exposures	Exposures after recognised credit risk mitigation Rated	Unrated	Risk-weighted amounts Rated	Unrated	Total risk-weighted amounts	Total exposure covered by recognised collateral	Total exposure covered by recognised guarantees or recognised credit derivative contracts
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	–							

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

(ii) Credit risk exposures *(continued)*

2015

	Total exposures	Exposures after recognised credit risk mitigation Rated	Exposures after recognised credit risk mitigation Unrated	Risk-weighted amounts Rated	Risk-weighted amounts Unrated	Total risk-weighted amounts	Total exposure covered by recognised collateral	Total exposure covered by recognised guarantees or recognised credit derivative contracts
On-balance Sheet:								
–Sovereign	4,419,886	4,588,028	–	13,456	–	13,456	–	–
–Public sector entity	613,881	1,779,658	2,139,239	387,442	427,848	815,290	–	23,334
–Multilateral development bank	28,686	28,686	–	–	–	–	–	–
–Bank	34,846,491	36,024,130	273,837	12,862,297	139,022	13,001,319	–	–
–Securities firm	1,771,044	–	182,025	–	91,013	91,013	1,589,020	–
–Corporate	56,505,073	10,718,673	39,467,522	6,465,403	39,467,522	45,932,925	4,072,357	2,246,520
–Cash items	713,041	–	713,041	–	24,668	24,668	–	–
–Regulatory retail	16,147,110	–	15,588,663	–	11,691,498	11,691,498	241,806	316,642
–Residential mortgage loans	46,659,213	–	44,196,784	–	17,497,506	17,497,506	100,956	2,361,472
–Other exposures which are not past due exposures	6,251,293	135,058	5,554,014	135,058	5,900,409	6,035,467	562,221	–
–Past due exposures	109,758	25,792	83,966	2,816	108,744	111,560	33,741	25,792
	168,065,476	53,300,025	108,199,091	19,866,472	75,348,230	95,214,702	6,600,101	4,973,760
Off-balance sheet:								
– off-balance sheet exposures other than OTC derivative transactions or credit derivative contracts	1,252,296	39,018	1,139,264	22,261	1,122,933	1,145,194	74,014	–
– OTC derivative transactions	1,789,458	839,142	780,941	310,226	775,874	1,086,100	169,375	–
– Default risk exposures -securities financing transactions	234,645	17,617	4,367	8,809	4,367	13,176	212,661	–
	3,276,399	895,777	1,924,572	341,296	1,903,174	2,244,470	456,050	–
	171,341,875	54,195,802	110,123,663	20,207,768	77,251,404	97,459,172	7,056,151	4,973,760
Exposures deducted from capital base	–							

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

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

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

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

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

Under the terms of our current collateral obligations under derivative contracts, the Group estimates based on the positions as at 31st December, 2016 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 (2015: 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:

	2016		2015	
	OTC derivative transactions	Repo-styles transactions	OTC derivative transactions	Repo-styles transactions
Notional amounts:				
– Banks	**48,960,430**	**78,041**	55,996,737	80,079
– Corporates	**8,719,690**	**26,207**	27,090,006	154,567
– Others	**848,423**	**–**	1,320,399	–
	58,528,543	**104,248**	84,407,142	234,646
Credit equivalent amounts or net credit exposures net of recognised collateral held:				
– Banks	**592,526**	**1,583**	835,505	5,821
– Corporates	**181,371**	**2,834**	727,047	16,164
– Others	**10,640**	**–**	57,531	–
	784,537	**4,417**	1,620,083	21,985
Risk-weighted amounts:				
– Banks	**177,358**	**317**	308,407	2,910
– Corporates	**181,371**	**1,417**	725,228	10,266
– Others	**7,980**	**–**	52,465	–
	366,709	**1,734**	1,086,100	13,176

(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:

	2016		2015	
	OTC derivative transactions	**Repo-styles transactions**	OTC derivative transactions	Repo-styles transactions
Gross total positive fair value which are not repo-style transactions	**349,327**	**–**	836,044	–
Recognised collateral held before any haircuts:				
– cash on deposit with the Bank	**83,083**	**23,373**	407,408	212,660
– debt securities	**–**	**77,552**	–	–
– equity securities	**41**	**–**	14,141	–
– others	**364,754**	**–**	788,580	–
	447,878	**100,925**	1,210,129	212,660
Credit equivalent amounts or net credit exposures net of recognised collateral held	**784,537**	**4,417**	1,620,083	21,985
Risk weighted amounts	**366,709**	**1,734**	1,086,100	13,176

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

There are no credit derivative contracts which are used for management of the Group's credit portfolio as at 31st December, 2016 and 31st December, 2015.

(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:

	2016	2015
Credit risk for central counterparty	**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:

	2016	2015
Capital charge for credit valuation adjustment	**44,494**	26,621

(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, 2016 and 31st December, 2015.

(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:

	2016	2015
Capital charge for market risk		
– Interest rate exposures (including options)	**257,003**	217,302
– Equity rate exposures (including options)	**1,078**	826
– Foreign exchange exposures (including gold and options)	**674,363**	287,800
	932,444	505,928

(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:

	2016	2015
Capital charge for operational risk	**846,617**	643,493

(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.

	2016	2015
Cumulative realised gains from sales and liquidations	**–**	–
Unrealised gains:		
– recognised in reserve but not through statement of profit or loss	**502,659**	361,757
– deducted from the supplementary capital	**–**	–

(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 33(c) of "Notes to the financial statements".

	2016		2015	
	HK dollars	US dollars	HK dollars	US dollars
Interest rate changes by 10 basis points				
– increase in earnings by increasing 10 basis points	**22,023**	**(7,345)**	18,245	(4,553)
– decrease in earnings by decreasing 10 basis points	**(22,023)**	**7,345**	(18,245)	4,553

(h) Countercyclical Capital Buffer Ratio and Leverage Ratio

The detailed disclosures required by the Banking (Disclosure) Rules will be disclosed before 30th April, 2017 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
Aberdeen Branch	170-172 Aberdeen Main Road, Aberdeen
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

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
Taikoktsui 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 Central	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), East Ocean Centre Phase II, No.618 East Yan' an Road, Huangpu District, Shanghai 200001
Shanghai Daning Sub-branch	No. 965, 967, 969 Guang Zhong Road and No. 62, 64, 66, Lane 2395 Gong He Xin Road, Jing'an District, Shanghai 200072
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
Beijing Chaoyang Sub-branch	Units 2809-2818 28/F Tower B, Gemdale Plaza, No.91, Jianguo Road, Chaoyang District, Beijing 100022

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

Xiamen

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

Qingdao

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

Chongqing

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

Shaoxing

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

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

Shenzhen

Shenzhen Branch	Units 501-503, 505-513, 515-516, 5/F, Unit M02, Units 108-109, 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 Chegongmiao Sub-branch	Units 102-5, Main Building of Tianan Cyber Times, Chegongmiao, Futian District, Shenzhen 518040
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	L1-06 & Room C1606,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 Talent Center Sub-branch	Unit 01, 1/F, Talent Center, 45-4 Tianhe Road, Yuexiu District, Guangzhou 510060
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

Huizhou

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

Foshan

Foshan Sub-branch	Units 12-15, G/F, One City Mall, 268 Dongle Road, Daliang, Shunde District, Foshan 528300

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 Pong 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	6/F., Wing Hang Insurance Building, 11 Wing Kut Street, Central
Property Loans Centre	Units 1401 & 1402, 14/F., Carnarvon Plaza, 20 Carnarvon Road, Tsim Sha Tsui
Online Loan Centre	Units 1909 – 1912, 19/F., Tower II, Metroplaza, 223 Hing Fong Road, Kwai Fong

OCBC WING HANG

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

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