

**Move Forward  
Steer Transformation**

---

## **VISION**

To become a first-class medium to large bank in Hong Kong

## **MISSION**

- Provide better service to our customers
- Create higher value to our shareholders
- Build up broader career path for our associates
- Assume full responsibilities as a corporate citizen

## **CORE VALUES**

- Integrity
  - Impartiality
  - Prudence
  - Creation
-



## CONTENTS

- 02** About Us
- 03** About CCB
- 04** Our History
- 07** To Customers and Shareholders
- 08** Board of Directors and Executive Management
- 15** Subsidiary, Joint Venture and Associated Companies
- 16** Corporate Social Responsibility
- 19** Awards and Honors
- 22** Report of the Directors
- 25** Independent Auditor's Report
- 31** Consolidated Statement of Comprehensive Income
- 32** Consolidated Statement of Financial Position
- 33** Consolidated Statement of Changes in Equity
- 35** Consolidated Statement of Cash Flows
- 36** Notes to the Consolidated Financial Statements
- 132** Unaudited Supplementary Financial Information
- 167** Service Network



# ABOUT US

---

## CHINA CONSTRUCTION BANK (ASIA)

China Construction Bank (Asia) Corporation Limited [“CCB (Asia)”] is the retail and commercial business platform of China Construction Bank Corporation [“CCB”] in Hong Kong, offering a wide array of banking products and services to customers, including consumer banking services, commercial banking services, corporate banking services, private banking services and cross-border financial services, etc.

For consumer banking, in addition to providing conventional transactional, foreign exchange and cash services, CCB (Asia) also offers deposits, loans (including personal loans, credit cards loan, residential mortgages and auto-financing), securities agency and investments, consolidated banking, insurance, RMB services, credit card, electronic banking services and safe deposit boxes services.

For commercial banking, CCB (Asia) provides a range of financial products and services to corporations, securities firms and small and medium sized enterprises, including bilateral commercial loans, syndicated loans, SME loans, trade finance, residential and commercial mortgages, FX products, machinery and equipment leasing, stockbroker financing as well as electronic banking, corporate wealth management, cash management and deposit services. CCB (Asia) also capitalizes on the extensive branch network of CCB to create synergistic businesses such as RMB cross-border collaboration services including SBLC loans, LC discount, RMB deposit, remittance and foreign exchange.

For corporate banking, CCB (Asia) provides bilateral loans, syndicated loans, club deals and trade finance to blue-chip companies and large local corporations. Besides, CCB (Asia) also offers comprehensive financing solutions to large state-owned enterprises and Chinese conglomerates, including the provision of credit enhancement service in supporting domestic companies in Mainland China to issue its offshore corporate bond. Fully supported by CCB, CCB (Asia) launches synergistic businesses such as entrusted payment, export account receivable risk participation, discount against draft avalization and more. Other business developments of corporate banking include the aircraft finance business and the emerging business in the Shenzhen Qianhai Financial District and the Shanghai Pilot Free Trade Zone.

In addition, CCB (Asia)’s treasury business includes inter-bank money market transactions and investment in debt instruments. The bank also trades in debt instruments, derivatives and foreign currency for its own account. The Treasury carries out customer driven derivatives, such as foreign currency transactions.

# ABOUT CCB

---

## CHINA CONSTRUCTION BANK

China Construction Bank Corporation, headquartered in Beijing, is a large-scale joint stock commercial bank leading in China. Its predecessor China Construction Bank was established in October 1954. It was listed on Hong Kong Stock Exchange in October 2005 (stock code: 939) and the Shanghai Stock Exchange in September 2007 (stock code: 601939). At the end of 2016, CCB's market capitalization reached US\$192,626 million, ranking fifth among all listed banks in the world. In terms of Tier 1 capital, it ranked second among the World's Top 1000 Banks by the UK magazine The Banker in 2016.

With 14,985 banking stores and 362,482 staff members, CCB provides services to hundreds of millions of personal and corporate customers, and maintains close cooperation with leading enterprises in strategic industries in the Chinese economy and numerous high-end customers. CCB has commercial banking branches and subsidiaries in 29 countries and regions with 251 overseas entities, and its subsidiaries cover various industries, including asset management, financial leasing, trust, life insurance, property & casualty insurance, investment bank, futures and pension.

By accelerating the process of transformation and development toward being an innovative integrated banking group with multi-functional and smart services as well as intensive management, it commits to developing itself into a bank with top value creation capability. CCB strives to achieve the balance between short-term and long-term benefits, between business goals and social responsibilities, so as to maximize the value for customers, shareholders, society and its associates.

# OUR HISTORY

## 1912

CCB (Asia) originated from The Bank of Canton which was established in Hong Kong in 1912 by Chinese businessmen, including Li Yuk-tong and Look Pong-shan. It was the first Chinese-owned bank in Hong Kong and Look Pong-shan was the first chairman. The headquarter was located at 6 Des Voeux Road Central, Hong Kong, which is now the flagship branch of CCB (Asia).



The Bank of Canton's head office was located at 6 Des Voeux Road Central

## 1936

Due to Great Depression, operations of the bank were suspended in 1935. Through re-capitalization by Soong Tse-ven, the bank reopened on November 23 and was chaired by Soong Tse-ven.

The bank expanded its business to Macau by setting up a subsidiary Bank of Canton (Macau), which was the first Chinese-owned financial institution registered in Macau.



The Bank of Canton reopened in 1936. Soong Tse-ven served as the Chairman of the board. (forth from right)

## 1941

Hong Kong was occupied by Japan in World War II. The bank's business was suspended again.

## 1945

World War II ended and Hong Kong was liberated. Former staff rebuilt The Bank of Canton and its banking business was quickly back on track. It soon became the largest Chinese-owned remittance and foreign exchange bank in Hong Kong in the post-war era.



Celebration of the 35<sup>th</sup> Anniversary of The Bank of Canton (1947)

## 1966

Shanghai Fire & Marine Insurance Co. Ltd. became a subsidiary of The Bank of Canton and was renamed Hongkong & Shanghai Insurance Company Limited later. In 2001, Hongkong & Shanghai Insurance Company Limited merged with QBE Insurance (Hong Kong) Ltd, a wholly owned subsidiary of QBE Group and was renamed QBE Hongkong & Shanghai Insurance Limited, which is an associated company of CCB (Asia) today.

# OUR HISTORY

## 1988

The Bank of Canton officially announced its cooperation with Security Pacific National Bank in 1971. In 1988, The Bank of Canton was officially renamed Security Pacific Asian Bank.



The inauguration of Security Pacific Asian Bank

## 1993

Security Pacific Corporation merged with Bank of America Corporation. Security Pacific Asian Bank became a wholly-owned subsidiary of Bank of America Corporation and was renamed Bank of America (Asia) in 1993. In 2001, the Chinese name of Bank of America (Asia) was changed to align with English.

## 2006

China Construction Bank acquired a 100% interest in Bank of America (Asia) from Bank of America and was renamed China Construction Bank (Asia).



The inauguration of CCB (Asia) (2007)

## 2009

CCB (Asia) acquired AIG Finance (Hong Kong) and was renamed China Construction Bank (Asia) Finance, laying the solid foundation for expanding the credit card and personal loan businesses in Hong Kong.



Signing ceremony of the acquisition of AIG Finance (Hong Kong)

# OUR HISTORY

## 2013

Business integration of China Construction Bank (Asia) and China Construction Bank Hong Kong Branch.



CCB Hong Kong Business Integration Ceremony

The three buildings of CCB in Hong Kong were officially inaugurated. CCB Tower is the head office of CCB (Asia), located at Central; CCB Centre is the mid-to-back office of CCB's entities in Hong Kong, situated in Kowloon Bay; CCB Hong Kong Training Centre is CCB's first offshore training site, located at Sai Wan.



CCB Centre, CCB Tower, CCB Hong Kong Training Centre  
(From left to right)

## 2017

CCB (Asia) Celebrates the 105<sup>th</sup> Anniversary



105<sup>th</sup> Anniversary Cocktail Reception on February 21



## TO CUSTOMERS AND SHAREHOLDERS

We are delighted to announce that the consolidated net profit after tax for China Construction Bank (Asia) Corporation Limited [“CCB (Asia)”] reached HKD3,043 million for the year ended December 31, 2016, an increase of 21.7%, as compared to 2015.

Total operating income of CCB (Asia) for the year 2016 amounted to HKD6,640 million, an increase of 5.1% as compared with that of 2015. Net interest income was HKD4,807 million in 2016, which included an accounting and economic hedging FX and interest rate swaps income of HKD332 million (the amount of FX and interest rate swaps cost was HKD609 million in 2015), a moderate increase of 1.4% when compared with last year. After excluding the aforesaid accounting and economic hedging income, non-interest income was HKD1,833 million, which represented an increase of 16.0% as compared with 2015 and was mainly attributable to a rise in net fee and commission income and net gains from disposal of available-for-sale financial instruments as a result of realization of debt securities. Total operating expenses increased by 5.5% to HKD2,965 million while the cost-to-income ratio slightly rose by 0.2 percentage point to 44.7%. In 2016, the amount of loan impairment charges significantly reduced by 69.3% to HKD139 million, which was mainly due to the lower collective impairment rates for unsecured commercial loans and mainland corporate loans. Taxation expenses recorded a year-on-year decrease of 12.6% to HKD551 million, which was mainly attributable to a drop in Mainland withholding tax charges.

Total consolidated assets of CCB (Asia) stood at HKD511.8 billion as at December 31, 2016, a mild increase by 0.8% from HKD507.5 billion at the end of 2015. With more effective liquidity management, cash and balances with banks and central banks as well as placements with banks declined by 6.6% to HKD131.8 billion, when compared with the position as at the end of 2015. Advances to customers and trade bills slightly decreased by 2.0% to HKD233.3 billion. Asset quality was continuously maintained at a satisfactory level. Impaired advances to customers represented 0.11% of the total advances to customers. Available-for-sale financial assets grew by 12.4% to HKD96.3 billion and held-to-maturity investments surged by 390.9% to HKD27 billion. Deposits from customers increased by 5.4% to HKD322.2 billion as compared with that of last year end, which was mainly due to an increase in HKD and USD deposits. Certificates of deposit and other debt securities issued dropped by 39.4% to HKD31.8 billion, which was mainly a result of further containing cost of long-term funding while interbank borrowings grew by 6.6% to HKD86.3 billion.

As at December 31, 2016, CCB (Asia)'s Common Equity Tier 1 Capital Ratio and Tier 1 Capital Ratio were both 14.0%, while the Total Capital Ratio was 16.8%. Average liquidity coverage ratio of 2016 was 122.5%. All these ratios were maintained at sound levels and above the regulatory requirements.

By seizing the strategic opportunities arising from the RMB Internationalization and the Going Global Strategy, China Construction Bank (Asia) has attained larger asset scale and better profitability. Plus an industry-leading asset quality, the Bank has developed into a local medium to large-scale commercial bank of strong market influence. We would like to take this opportunity to thank our valued customers for your continued support. We are also grateful to our parent bank and our Board of Directors for their invaluable guidance on nurturing our business.

**Wang Hongzhang**

*Chairman*



**Jiang Xianzhou**

*Vice Chairman, Executive Director & Chief Executive Officer*



Hong Kong, March 31, 2017

# BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT

In 2016

## BOARD OF DIRECTORS

---

<b>WANG Hongzhang</b>	Chairman, Non-Executive Director
<b>JIANG Xianzhou (appointed on May 25, 2016)</b>	Vice Chairman, Executive Director & Chief Executive Officer
<b>Miranda KWOK Pui Fong</b>	Executive Director, President
<b>MAO Yumin (appointed on August 9, 2016)</b>	Non-Executive Director
<b>XUE Shengli</b>	Non-Executive Director
<b>HU Zhanghong</b>	Non-Executive Director
<b>JIANG Chang (appointed on January 18, 2016)</b>	Non-Executive Director
<b>James S. DICKSON LEACH</b>	Independent Non-Executive Director
<b>CHAN Wing Kee GBM, GBS, OBE, JP</b>	Independent Non-Executive Director
<b>Lord Peter LEVENE</b>	Independent Non-Executive Director
<b>WONG Kai Man BBS, JP (appointed on July 4, 2016)</b>	Independent Non-Executive Director
<b>MAO Yumin (resigned on May 25, 2016)</b>	Executive Director, Chief Executive Officer
<b>YING Chengkang (resigned on January 18, 2016)</b>	Non-Executive Director
<b>KANG Yi (resigned on December 13, 2016)</b>	Non-Executive Director
<b>Bucky FONG Wing Foon (resigned on July 4, 2016)</b>	Independent Non-Executive Director

## SECRETARIES

---

<b>Betty CHAN Pik Ha</b>	Secretary to the Board of Directors
<b>Ted YAU Ka Bo</b>	Company Secretary

# BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT

In 2016



**WANG Hongzhang** *Chairman, Non-Executive Director*

Mr. Wang, aged 62, has served as chairman and non-executive director of the Bank since July 2, 2013 and is the chairman of the Strategy and Corporate Governance Committee of the Board of Directors of the Bank. Mr. Wang has served as chairman and executive director of China Construction Bank Corporation since January 2012, and chairman of Sino-German Bausparkasse Co., Ltd. since July 2012. Mr. Wang currently also serves as member of APEC Business Advisory Council, executive vice chairman of APEC China Business Council, chairman of Chinese Committee of China-CEEC Business Council, vice chairman of China Chamber of International Commerce. From November 2003 to November 2011, Mr. Wang was chief disciplinary officer of the People's Bank of China [the "PBC"]. From June 2000 to November 2003, Mr. Wang was the president of Chengdu Branch of the PBC and administrator of Sichuan Branch of the State Administration of Foreign Exchange. From April 1996 to June 2000, Mr. Wang was deputy director-general of the Supervision Bureau and director-general of the Internal Audit Department of the PBC. From November 1989 to April 1996, Mr. Wang served in various positions including assistant president of Qingdao Branch, deputy director of the General Administration Office, deputy director of the Treasury and Planning Department and general manager of the Banking Business Department of Industrial and Commercial Bank of China ["ICBC"]. From January 1984 to November 1989, Mr. Wang worked in the Industrial and Commercial Credit Department and the General Administration Office of ICBC. From September 1978 to January 1984, Mr. Wang worked in the Credit Bureau, Savings Bureau and Industrial and Commercial Credit Department of the PBC. Mr. Wang is a senior economist and a certified public accountant. Mr. Wang graduated from Liaoning Finance and Economics College with a bachelor's degree in finance in 1978, and obtained his master's degree in economics from Dongbei University of Finance and Economics in 1997.



**JIANG Xianzhou** *Vice Chairman, Executive Director & Chief Executive Officer*

Mr. Jiang, aged 55, is the vice chairman, executive director & chief executive officer of the Bank. He has over 30 years of experience in the financial sector, specializing in commercial banking and asset management. Before taking over his current position in 2016, he was the executive director and alternate chief executive of China Construction Bank (Asia) from 2014 to 2016. He was the chairman of China Construction Bank Principal Asset Management Co. Ltd., a subsidiary of China Construction Bank Corporation, from 2005 to 2014. Mr. Jiang helped spearhead the establishment of the subsidiary, which has now prospered and become a leading asset management company in the industry. Mr. Jiang has assumed numerous senior positions since joining China Construction Bank in 1986. He was promoted to deputy general manager of the Executive Office in 1995, and to deputy general manager of the International Business Department in 1997. In 2004, he took over as general manager of the Institutional Business Department and the Fund Custody Department.

Mr. Jiang graduated from Dongbei University of Finance & Economics in 1982, receiving a bachelor's degree in Economics. He attained his master's degree in finance from the Research Institute of Fiscal Science at the Ministry of Finance of the PRC in 1986. He went on to receive a Master of Science in International Banking at Heriot-Watt University in the UK in 1993.

# BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT

In 2016



**Miranda KWOK Pui Fong** *President & Executive Director*

Ms. Kwok, aged 56, is the president and executive director of the Bank. Ms. Kwok has been serving the Bank for over 30 years. Prior to July 2013, when China Construction Bank reorganized its Hong Kong business by integrating CCB (Asia) and the Hong Kong Branch, she had been the president and chief executive officer of the Bank. Ms. Kwok is a member of the Bank's senior management and Executive Committee that support the overall bank management and corporate governance.

Ms. Kwok's banking career began in 1984 when she joined Bank of America, Hong Kong as a management trainee and had worked in diversified capacities of various divisions. In 1996, she was transferred to Bank of America (Asia) [renamed CCB (Asia) in December 2006] from Bank of America, Hong Kong, and was promoted to chief credit officer and senior vice president, responsible for credit approval and portfolio review, special assets management, collection, credit policies and procedures etc. She was appointed chief risk officer in 2005 to manage credit, market and operational risk. In addition, she assumed responsibilities over compliance, internal control and the corporate secretariat. From 2008 to 2010, she assumed the role of head of Consumer Banking in charge of retail business, credit card and wealth management in Hong Kong and Macau.

Ms. Kwok is the vice president of the Hong Kong Institute of Bankers, the director of Hong Kong Mortgage Corporation Limited and a member of the Competition Commission, Hong Kong Export Credit Insurance Corporation Advisory Board, the Public Affairs Forum and the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Review Tribunal, as well as being a general committee member of the Federation of Hong Kong Industries. Ms. Kwok graduated with an honorable bachelor of social sciences degree in economics and management from the University of Hong Kong in 1984, and graduated with honors from the Graduate School of Retail Bank Management of the Consumer Bankers Association in the United States in July 2001.



**MAO Yumin** *Non-Executive Director (appointed on August 9, 2016)*

Mr. Mao, aged 62, has served as non-executive director of the Bank since August 9, 2016 and is a member of the Strategy and Corporate Governance Committee of the Board of Directors, the Risk Committee of the Board of Directors and the Compliance Sub-Committee under the Risk Committee of the Board of Directors of the Bank.

Mr. Mao has over 30 years of experience in the banking and financial sector. Prior to his retirement in May 2016, Mr. Mao was the chief executive officer and executive director of China Construction Bank (Asia) from July 2013 to May 2016; the chief executive of China Construction Bank Hong Kong Branch from April 2011 to May 2016; the chief investment officer of China Construction Bank Corporation from September 2007 to March 2011; non-executive director and the chairman of CCB (London) from January 2009 to March 2011; and executive director and the vice chairman of CCB (Asia) from September 2007 to March 2011. Mr. Mao also served as non-executive director of CCB International (Holdings) Limited from March 2011 to January 2017.

Mr. Mao was the executive director and chief executive officer of Shanghai Ai Jian Corporation Limited from June 2006 to July 2007 (a company listed on the Shanghai Stock Exchange, stock code: 600643). He was the senior vice president and the executive director of Cathay International Holdings Limited from May 2003 to June 2006 (a company listed on the London Stock Exchange, stock code: CTI). From March 1997 to March 2003, Mr. Mao was the chief executive of China Construction Bank Hong Kong Branch, and was the general manager of International Business Department of China Construction Bank from May 1994 to December 1996.

Currently, Mr. Mao also holds directorships in various companies. He has served as non-executive director of Jiangsu Zeyun Pharmaceuticals Co., Ltd. since June 2016; independent non-executive director of China Life Insurance (Overseas) Company Limited and China Galaxy International Financial Holdings Limited since July 2016; and non-executive director of China HKBridge Holdings Limited (a company listed on the Hong Kong Stock Exchange, stock code: 2323) since March 2017.

Mr. Mao received his bachelor's degree in finance from Jiangxi University of Finance and Economics in 1983 and completed the Program for Management Development (the 70<sup>th</sup> Session) in Graduate School of Business Administration of Harvard University in 1995.

# BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT

In 2016



**XUE Shengli** *Non-Executive Director*

Mr. Xue, aged 50, has served as non-executive director of the Bank since June 19, 2015 and is a member of the Strategy and Corporate Governance Committee of the Board of Directors and the Nomination and Remuneration Committee of the Board of Directors of the Bank. He joined China Construction Bank Corporation ["CCB"] in July 2014 as the general manager of the Human Resources Department. Prior to joining CCB, Mr. Xue had been working in the Organization Department of the CPC Central Committee since July 1996. From July 1987 to July 1996, Mr. Xue served in various positions in the People's Liberation Army. He has extensive experience in human resources management and has completed a large number of research studies in relation to CCB's human resources management after he joined CCB. Mr. Xue graduated from Jilin University in July 1987, receiving a Bachelor of Arts degree in Chinese Language & Literature. Mr. Xue was awarded a Master of Laws degree in Politics from Peking University in June 2005, and received a doctoral degree in Economics with specialization in Political Economics from Jilin University in June 2012.



**HU Zhanghong** *Non-Executive Director*

Dr. Hu, aged 48, has served as non-executive director of the Bank since July 2, 2013 and is a member of the Strategy and Corporate Governance Committee of the Board of Directors of the Bank. He is also the chairman and chief executive officer of CCB International (Holdings) Limited.

In addition to his official business roles, Dr. Hu is also appointed various social committees member including chairman of the Chinese Financial Association of Hong Kong, vice-chairman of the Finance Committee of All China Youth Federation, committee member of the Process Review Panel for the Securities and Futures Commission of Hong Kong and member of the Investment Advisory Board of the Police Education and Welfare Trust.



**JIANG Chang** *Non-Executive Director (appointed on January 18, 2016)*

Ms. Jiang, aged 50, has served as non-executive director of the Bank since January 18, 2016 and is a member of the Strategy and Corporate Governance Committee of the Board of Directors and the Audit Committee of the Board of Directors of the Bank. Ms. Jiang joined China Construction Bank Corporation ["CCB"] in 1988 and has more than 28 years of banking experience. She is currently the senior executive manager of the Equity and Investment Management Department of CCB. Ms. Jiang is a senior economist. She received a Bachelor of Engineering degree in Information Engineering from the Department of Systems Engineering of National University of Defense Technology in 1988.



**James S. DICKSON LEACH** *Independent Non-Executive Director*

Mr. Dickson Leach, aged 71, has served as independent non-executive director of the Bank since August 15, 1985 and is the chairman of the Audit Committee of the Board of Directors and a member of the Risk Committee of the Board of Directors of the Bank. Prior to his retirement, Mr. Dickson Leach was the chairman of Sir Elly Kadoorie & Sons Ltd., an unlisted company. He was the deputy chairman of CLP (Holdings) Ltd. and a director of Hong Kong Aircraft Engineering Co. Ltd. and Hong Kong & Shanghai Hotels, Ltd., all are listed companies. Since leaving Hong Kong, he has resigned from these directorships. He is now on the board of a U.S. private company and a Singaporean private company. He holds a Master of Business Administration degree from Columbia University, and is a fellow of the Institute of Chartered Accountants in England and Wales.

# BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT

In 2016



**CHAN Wing Kee** GBM, GBS, OBE, JP *Independent Non-Executive Director*

Mr. Chan, aged 70, has served as independent non-executive director of the Bank since November 1, 2002 and is the chairman of the Nomination and Remuneration Committee of the Board of Directors and a member of the Compliance Sub-Committee under the Risk Committee of the Board of Directors of the Bank. Mr. Chan is the managing director of Yangtzekiang Garment Limited, director of YGM Trading Limited, director of Hong Kong Knitters Limited and independent non-executive director of China Travel International Investment Hong Kong Limited.

Mr. Chan is a standing committee member of The 12<sup>th</sup> Chinese People's Political Consultative Conference of The People's Republic of China, member of The Selection Committee of the H.K.S.A.R., vice chairman of China Overseas Friendship Association, chairman of Federation of Hong Kong Guangdong Community Organisations, honorary chairman & president of Hong Kong Federation of Overseas Chinese Associations, and council chairman of Cheng Si-Yuan (China-International) Hepatitis Research Foundation.

He was also a deputy to The 8<sup>th</sup> and 9<sup>th</sup> National People's Congress of The People's Republic of China, standing committee member of The 10<sup>th</sup> & 11<sup>th</sup> Chinese People's Political Consultative Conference of The People's Republic of China, member of Hong Kong Affairs Adviser, committee member of The Preparatory Committee of H.K.S.A.R., member of Basic Law Consultative Committee both in Hong Kong and Macau, member of Commission on Strategic Development of H.K.S.A.R., member of the Judicial Officers Recommendation Commission of Hong Kong, chairman of Small and Medium Enterprises Committee of the H.K.S.A.R., member of Textile Advisory Board, member of Economic Council of Macau, council member of Hong Kong Trade Development Council, chairman of HKTDC Mainland Business Advisory Committee, member of HKTDC Hong Kong/Japan Business Co-operation Committee, president of Chinese Manufacturers' Association of Hong Kong, chairman of Friends of Hong Kong Association, chairman of Textile Council of Hong Kong, president of Federation of Hong Kong Garment Manufacturers, chairman of Hong Kong Shippers' Council, and chairman of The Hong Kong Exporters' Association.

Mr. Chan graduated from Purdue University with a Bachelor of Science degree in Industrial Engineering.



**Lord Peter LEVENE** *Independent Non-Executive Director*

Lord Levene, aged 75, has served as independent non-executive director of the Bank since September 23, 2013 and is the chairman of the Risk Committee of the Board of Directors and a member of the Audit Committee of the Board of Directors of the Bank. During the period from June 2006 to June 2012, he acted as independent non-executive director of China Construction Bank Corporation. Before that, he served as chairman of Lloyd's and held directorships in various other listed companies including director of J Sainsbury plc from 2001 to 2004, and director of Deutsche Boerse from 2004 to 2005. He is the chairman of Starr Underwriting Agents Limited and General Dynamics (UK) Limited and a board member of Haymarket Group Ltd and Eurotunnel SA. Lord Levene was awarded a bachelor's degree in economics and politics from the University of Manchester.

# BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT

In 2016



**WONG Kai Man, BBS, JP** *Independent Non-Executive Director (appointed on July 4, 2016)*

Mr. Wong, aged 66, has served as independent non-executive director of the Bank since July 4, 2016 and is a member of the Nomination and Remuneration Committee of the Board of Directors and the Risk Committee of the Board of Directors, and the chairman of the Compliance Sub-Committee under the Risk Committee of the Board of Directors of the Bank.

He is an accountant with 32 years of experience in auditing, investigation, initial public offerings and computer auditing. He was an audit partner at PricewaterhouseCoopers ["PwC"], Hong Kong, founding head of its Capital Market Services Group and a member of PwC China/Hong Kong management board before retiring in June 2005.

Mr. Wong is currently a member of the Financial Reporting Council and an independent non-executive director of two listed companies in Hong Kong: SUNeVision Holdings Limited and VTech Holdings Limited. He is an honorary associate professor of the School of Business, The University of Hong Kong.

Mr. Wong was a member of the working group that set up the Growth Enterprise Market of the Stock Exchange of Hong Kong and its listing committee (1999-2003), and a non-executive director of the Securities and Futures Commission of Hong Kong (2009-2015). He was an independent non-executive director of three listed companies: China Construction Bank Corporation (2007-2013), Shangri-La Asia Limited (2006-2015) and SCMP Group Limited (2007-2016).

Mr. Wong was a Council Member of The University of Hong Kong (2011-January 2017), Council Member of the City University of Hong Kong (2007-2012) and Council Member of Lingnan University (1999-2006). He also serves on the boards of several charities and has served on government advisory committees and statutory bodies in the areas of land, immigration, energy, law-enforcement, education and technology.

Mr. Wong obtained his Bachelor of Science in Physics from The University of Hong Kong and Master of Business Administration from The Chinese University of Hong Kong. He is a fellow of the Association of Chartered Certified Accountants, United Kingdom and a fellow of the Hong Kong Institute of Certified Public Accountants.

Mr. Wong was appointed a Justice of the Peace in 2002, was awarded the Bronze Bauhinia Star in 2007 by the Government of the Special Administrative Region of Hong Kong. He was conferred an honorary fellow of Lingnan University, Hong Kong in 2007, City University of Hong Kong in 2013 and The University of Hong Kong in 2016.

# BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT

As of March 31, 2017

## EXECUTIVE MANAGEMENT

---

<b>JIANG Xianzhou</b>	Vice Chairman, Executive Director & Chief Executive Officer
<b>Miranda KWOK Pui Fong</b>	President & Executive Director
<b>GUO Zhipeng</b>	Deputy Chief Executive
<b>MA Chan Chi</b>	Deputy Chief Executive & Chief Financial Officer
<b>LIN Ju</b>	Deputy Chief Executive
<b>YANG Hao</b>	Deputy Chief Executive
<b>Benny HA Yun Sang</b>	General Manager, Head of Corporate Banking I Division
<b>Kenneth WONG Kwok Leung</b>	General Manager, Head of Corporate Banking II Division
<b>Patrick LEE Yuk Wun</b>	General Manager, Head of Commercial Banking Division
<b>Mimi LEE Yim Mei</b>	General Manager, Head of Institutional Banking Division
<b>Ryan YING Jianjia</b>	Deputy General Manager, Deputy Head of Products Division
<b>Alex ZHANG Wei</b>	Deputy General Manager, Deputy Head of Private Banking Division
<b>Chris JUE Wai Ling</b>	General Manager, Head of Consumer Banking Division
<b>Ahming LAU Chun Ming</b>	General Manager, Head of Cross-Border Financial Services Division
<b>Winnie FUNG Wing Yi</b>	Deputy General Manager, Deputy Head of Credit Card & Consumer Finance Division
<b>Sylvia NG Sau Wai</b>	General Manager, Head of Marketing Division
<b>DENG Huafeng</b>	General Manager, Head of e-Banking Division
<b>Ashley ZHANG Hong</b>	General Manager, Head of Treasury Division
<b>Bacon YUEN Yiu Leung</b>	General Manager, Head of Finance Division
<b>Phoebe LEE Suet Ching</b>	General Manager, Head of Risk Management Division
<b>ZHOU Tianfeng</b>	Deputy General Manager, Deputy Head of Credit Division
<b>Arthur WONG Kwok Leung</b>	General Manager, Head of Information Systems Division
<b>Cheryl THOENG Wai Yee</b>	General Manager, Head of Internal Audit Division
<b>Jessie KWOK Yuen Wai</b>	General Manager, Head of General Management Office
<b>Grace LEE Shuk Ha</b>	General Manager, Head of Human Resources Division
<b>Christopher TSANG Hing Keung</b>	Chief Compliance Officer, Legal & Compliance Division
<b>Edward CHIU Tak Wah</b>	General Manager, Head of Operations Division
<b>CHEN Chaohui</b>	General Manager, Head of HK Support Center, IT Management



# SUBSIDIARY, JOINT VENTURE AND ASSOCIATED COMPANIES

As of March 31, 2017

## SUBSIDIARY COMPANIES

---

CCB Nominees Limited

20/F, CCB Centre, 18 Wang Chiu Road, Kowloon Bay, Kowloon

Better Chief Limited

26/F, CCB Centre, 18 Wang Chiu Road, Kowloon Bay, Kowloon

Hong Kong (SAR) Hotel Limited

26/F, CCB Centre, 18 Wang Chiu Road, Kowloon Bay, Kowloon

CCB Securities Limited

18/F, CCB Centre, 18 Wang Chiu Road, Kowloon Bay, Kowloon

CCB Properties (Hong Kong) Holdings Limited

26/F, CCB Centre, 18 Wang Chiu Road, Kowloon Bay, Kowloon

CCB (Asia) Trustee Company Limited

G/F, 6 Des Voeux Road Central, Central, Hong Kong

CCB Hong Kong Property Management Company Limited

29/F, CCB Tower, 3 Connaught Road Central, Central, Hong Kong

CCB (Asia) Insurance Broker Limited

18/F, CCB Centre, 18 Wang Chiu Road, Kowloon Bay, Kowloon

## JOINT VENTURE COMPANY

---

Diamond String Limited

11/F, Lai Sun Commercial Centre, 680 Cheung Sha Wan Road, Kowloon

## ASSOCIATED COMPANY

---

QBE Hongkong & Shanghai Insurance Limited

33/F, Oxford House, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong

# CORPORATE SOCIAL RESPONSIBILITY



CCB (Asia) senior management and around 600 staff and their family members participated in "Lifeline Express Charity Run/Walk 2016", joining hands to raise funds for the underprivileged cataract patients in Mainland China.

China Construction Bank (Asia) ["CCB (Asia)"] originated from the first Bank established by Chinese in Hong Kong in 1912, The Bank of Canton, with more than 100 years of remarkable developments till now. On top of fostering a steadily progressing business, CCB (Asia) endeavors to fulfill social responsibilities as a corporate citizen, pouring resources into projects which promote social integration of able-bodied and disabled persons, environmental protection and local art and culture. In 2016, CCB (Asia) title-sponsored and supported several local mega events and charitable events, including "CCB (Asia) Hong Kong International Dragon Boat Races", "CCB (Asia) Hong Kong Wine & Dine Festival", "Lifeline Express CCB (Asia) Charity Run/Walk", "Cross All Borders: Hong Kong Festival Showcasing New Visual Artists with Disabilities". In addition, CCB (Asia) designed and produced float to participate in International Chinese New Year Night Parade. These events won praise from the public.

## HELPING MAINLAND CATARACT PATIENTS TO RESTORE SIGHT

Since 2008, CCB (Asia) has been supporting charitable activities of Lifeline Express to help restore sight of cataract patients from poor provinces in Mainland China. Since 2011, CCB (Asia) has title-sponsored "Lifeline Express CCB (Asia) Charity Run/Walk" for six consecutive years. Over the years under CCB (Asia)'s title sponsorship, over HKD13 million has been raised from the event which provided free surgeries and treatments to 6,500 impoverished cataract patients from remote provinces in Mainland China to regain sight. In November 2016, the event was successfully held at The Clearwater Bay Golf and Country Club with over 2,500 participants. Every step of the guests and participants signified the restoration of sight of the beneficiaries step by step. Remarkably, CCB (Asia) gathered around 600 staff members together with their friends and relatives to join the event, highlighting the Bank's concerted efforts to serve the community, fulfill social responsibilities of a corporate citizen, and devote resources and time to caring the underprivileged.



CCB (Asia) has been the sole sponsor for the parade route of International Chinese New Year Night Parade for two consecutive years to celebrate Chinese New Year with Hong Kong citizens.



CCB (Asia) successfully raised over HKD3.03 million for Lifeline Express Hospital Train in 2016, offering surgery treatment to over 1,500 impoverished cataract patients in Mainland China.

# CORPORATE SOCIAL RESPONSIBILITY

## PROMOTING CHINESE TRADITIONAL CULTURE BRINGING INCLUSIVE ARTISTS' TALENTS INTO FULL PLAY

CCB (Asia) has been the title-sponsor of the annual sports event "CCB (Asia) Hong Kong International Dragon Boat Races" held by the Hong Kong Tourism Board for 4 consecutive years, promoting Chinese traditional culture to the public and tourists. During dragon boat races periods in recent 3 years, CCB (Asia) has been inviting artists with disabilities from Arts with the Disabled Association Hong Kong ("ADAHK") to design spectacular dragon boat display for exhibition. In 2016, the exhibition was held at Central Harbourfront and then moved to China Construction Bank Centre in Kowloon Bay, presenting local inclusive arts to the public. In 2016, during the event period, CCB (Asia) set up "CCB (Asia) Row for Charity Zone" again, donating money to ADAHK according to the distances paddled by participants on the dragon boat training machines, so as to join hands with the public to raise funds for ADAHK and contribute to local inclusive arts development.

In the same year, CCB (Asia) title-sponsored "Cross All Borders: Hong Kong Festival Showcasing New Visual Artists with Disabilities" for the first time, joining hands with ADAHK to organize this meaningful event in the art community. Besides, CCB (Asia) also sponsored "Cross All Borders – Sustainable Development Fund for Artists" to support artists with disabilities with high potential to develop their art projects.



CCB (Asia) has title-sponsored "CCB (Asia) Hong Kong International Dragon Boat Races" for four consecutive years, promoting Chinese traditional culture to the public.



CCB (Asia) has invited artists from ADAHK to design thematic dragon boat art display for exhibition for three consecutive years.



CCB (Asia) title-sponsored "Cross All Borders: Hong Kong Festival Showcasing New Visual Artists with Disabilities", providing a professional platform for the disabled to interact with the public and realize social integration through art.

# CORPORATE SOCIAL RESPONSIBILITY

## CARING FOR OUR COMMUNITY

In the aspect of community service, CCB (Asia) has supported “Bringing Our Children a Brighter Future – Affiliated Youth Development Program” organized by The Boys’ & Girls’ Clubs Association of Hong Kong (“BGCA”) for 6 consecutive years. The theme of 2016 program is “Together we dream”, encouraging children and teenagers to plan and develop their future as well as realizing their dreams with courage. Wholesome activities were held with the aim to strengthen participants’ persistence against adversity.



CCB (Asia) Volunteers Team with their family members made low sugar mooncakes for the elderly to show caring to the community.

## CARING FOR OUR STAFF’S HEALTH

To show its care to staff members, CCB (Asia) held “All-round Caring Week” again in October 2016, which was highly popular among staff members. With the theme of “Happy • Smile”, the Bank presented refreshing little gifts and snacks to staff members in each day of the week. To further express the Bank’s care to staff, the “All-round Caring Week” remarkably ended with “Happy Playground” of which a fun place was set up in office area. Staff members proactively participated in game booths and enjoyed tasty snacks.



CCB (Asia) set up the “Happy Playground” for staff as a relaxing corner at work.

## PROMOTING ENVIRONMENTAL PROTECTION

For environmental protection projects, apart from participating in the “Charter on External Lighting” introduced by Environment Bureau in 2016, CCB (Asia) has echoed and supported “Earth Hour” initiated by WWF for 5 consecutive years. The Bank not only switched off non-essential lights in its offices and its outdoor illuminating signages located in Central and Tsim Sha Tsui during the designated timeslot on the event date, but also encouraged staff members to support this activity at home by switching off the lights for an hour.



CCB (Asia) volunteers and their family members participated in planting organic vegetables and later reaping and enjoying the harvest with patients with Down’s Syndrome.

# AWARDS AND HONORS



**JANUARY 2016**

**Quamnet Outstanding Enterprise Award 2015 –  
Outstanding Cross-Border Financial Services**

Quamnet



**FEBRUARY 2016**

**MOB-EX AWARDS 2016 –  
Best Mobile Solution-Events (Gold)**  
《Marketing Magazine》



**MARCH 2016**

**The 5<sup>th</sup> Outstanding Corporate Social  
Responsibility Award**

The Mirror



**APRIL 2016**

**The 16<sup>th</sup> CAPITAL Outstanding Enterprise Awards –  
Outstanding RMB Banking Services**

CAPITAL



# AWARDS AND HONORS



**APRIL 2016**

**Financial Institution Awards 2016 –  
Bank of the Year – Outstanding Performance**

Bloomberg Businessweek/Chinese Edition



傑出大獎  
年度銀行



**APRIL 2016**

**Hong Kong ICT Awards 2016 –  
Best Lifestyle (Social, Communications &  
Media) Bronze Award**

Hong Kong Information Technology Federation



**MAY 2016**

**Caring Company**

The Hong Kong Council of Social Services



**MAY 2016**

**Metro Awards for Corporate Social  
Responsibility 2016**

Metro Daily & Metro Prosperity



# AWARDS AND HONORS



**JUNE 2016**

**2016 Best SME's Partner Award**

The Hong Kong General Chamber of  
Small and Medium Business



2016  
中小企業最佳拍檔獎  
**Best SME's Partner Award**



**OCTOBER 2016**

**Metro Awards for Banking & Finance Corporations 2016 –  
Best Cross-Border Financial Services Award**

Metro Daily & Metro Prosperity



Metro Awards  
for Banking  
&  
Finance  
Corporations  
2016  
銀行及金融服務企業獎2016



**DECEMBER 2016**

**PROchoice Award 2016 –  
Corporate Social Responsibility**

CAPITAL WEEKLY



CAPITAL  
智慧品牌大獎  
PROchoice  
2016

# REPORT OF THE DIRECTORS

The directors have pleasure in submitting their annual report together with the audited consolidated financial statements for the year ended December 31, 2016.

## PRINCIPAL PLACE OF BUSINESS

China Construction Bank (Asia) Corporation Limited (“the Bank”) is a licensed bank incorporated and domiciled in Hong Kong and has its registered office and principal place of business at 28/F, CCB Tower, 3 Connaught Road Central, Central, Hong Kong.

## PRINCIPAL ACTIVITIES

The principal activities of the Bank and its subsidiaries (collectively referred to as “the Group”) are the provision of a range of banking and related financial services through the Bank’s branches and subsidiaries. Other particulars of the Bank’s subsidiaries are set out in Note 27 to the consolidated financial statements.

An analysis of the group’s performance for the year by operating segment is set out in Note 19 to the financial statements.

## CONSOLIDATED FINANCIAL STATEMENTS

The profit of the Group for the financial year ended December 31, 2016 and the state of the Bank’s and the Group’s affairs as at that date are set out in the consolidated financial statements on pages 31 to 166.

## DIVIDENDS

The directors do not recommend the payment of a final dividend for the year ended December 31, 2016 (2015: HKD Nil).

## CHARITABLE DONATIONS

During the year, charitable donations made by the Group amounted to HKD1,643,040 (2015: HKD1,380,000).

## CERTIFICATES OF DEPOSIT AND MEDIUM TERM NOTE ISSUED

During the year, the following notes were issued by the Bank under its Certificate of Deposit (“CD”) Programme to raise funds for general corporate purposes:

<b>Class</b>	<b>Issued under</b>	<b>Amount Issued HKD’000</b>	<b>Consideration received HKD’000</b>
CDs	CD Programme	11,837,330	11,811,629

## EQUITY LINKED AGREEMENTS

During the year, the Bank has not entered into any equity-linked agreement under Companies (Directors’ Report) Regulation (Cap 622D).



# REPORT OF THE DIRECTORS

## DIRECTORS

### (a) Directors of the Bank

The directors of the Bank during the year and up to the date of the report were:

WANG Hongzhang ( <i>Chairman</i> )	
JIANG Xianzhou ( <i>Vice Chairman</i> )	
James S. DICKSON LEACH	
CHAN Wing Kee GBM, GBS, OBE, JP	
Lord Peter LEVENE	
WONG Kai Man BBS, JP	(appointed on July 4, 2016)
MAO Yumin	(appointed as non-executive director on August 9, 2016)
XUE Shengli	
HU Zhanghong	
JIANG Chang	(appointed on January 18, 2016)
Miranda KWOK Pui Fong	
YING Chengkang	(resigned on January 18, 2016)
MAO Yumin	(resigned as executive director on May 25, 2016)
Bucky FONG Wing Foon	(resigned on July 4, 2016)
KANG Yi	(resigned on December 13, 2016)

Pursuant to Clause 111 of the Bank's Articles of Association, all the Directors of the Bank shall remain in office for the ensuing year.

Mr. MAO Yumin resigned as executive director of the Bank on May 25, 2016. Mr. YING Chengkang resigned on January 18, 2016 as non-executive director of the Bank. Mr. Bucky FONG Wing Foon resigned as independent non-executive director of the Bank on July 4, 2016 and Mr. KANG Yi resigned as non-executive director of the Bank on December 13, 2016. Mr. MAO Yumin, Mr. YING Chengkang, Mr. Bucky FONG Wing Foon and Mr. KANG Yi have respectively confirmed that they have no disagreement with the Board and nothing relating to the affairs of the Bank needed to be brought to the attention of the shareholder of the Bank.

### (b) Directors of the Bank's subsidiaries

During the year and up to the date of this report, Mr. JIANG Xianzhou and Ms. Miranda KWOK Pui Fong are also directors in certain subsidiaries of the Bank. Other directors of the Bank's subsidiaries during the year and up to the date of this report include:

CHOW Sai Keung	
CHENG Tat Kin	
LI Sai Cheong	
Christine JUE Wai Ling	*(appointed on January 21, 2016 and resigned on September 30, 2016)
Raymond TSE	(resigned on November 30, 2016)
YUEN Yiu Leung	
Edward CHIU Tak Wah	
LIN Ju	*(appointed on January 4, 2016 and September 30, 2016)
YAN Ka Lok	(appointed on September 30, 2016)
YING Jian Jia	(appointed on September 30, 2016)
GUO Zhipeng	(appointed on May 25, 2016)
KWOK Yuen Wai	(appointed on May 25, 2016)
MAO Yumin	(resigned on May 25, 2016)
YANG Hao	(resigned on January 4, 2016)
ZHU Feng	(appointed on January 21, 2016 and resigned on November 4, 2016)

\* The appointment and/or resignation of the directors are related to different subsidiaries.

# REPORT OF THE DIRECTORS

## DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

No transactions, arrangements and contracts of significance in relation to the Group's business to which any of its holding companies, subsidiaries, fellow subsidiaries, joint venture company or associated company 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.

## DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

At no time during the year was the Bank, or any of its holding companies, subsidiaries, fellow subsidiaries, joint venture company or associated company a party to any arrangement to enable the directors of the Bank to hold any interests in the shares or debentures of, the Bank or its specified undertakings or any other body corporate.

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of any business of the Bank were entered into or existed during the year.

## PERMITTED INDEMNITY PROVISIONS

The Articles of Association provides that every director, secretary or other officer of the Bank shall be entitled to be indemnified by the Bank against all costs, charges, losses, expenses and liabilities incurred by him in the execution and/or discharge of his duties and/or the exercise of his powers and/or otherwise in relation to or in connection with his duties, powers or office. The Bank has maintained appropriate directors and officers liability insurance which provides personal protection for the directors and management against any financial loss arising from the potential exposures associated with supervising or managing the Bank.

## COMPLIANCE WITH HONG KONG BANKING (DISCLOSURE) RULES

The consolidated financial statements for the year ended December 31, 2016 comply with the applicable disclosure provisions of the Banking (Disclosure) Rules.

## AUDITOR

The consolidated financial statements have been audited by PricewaterhouseCoopers who retire and being eligible, offer themselves for re-appointment.

On behalf of the Board



**WANG Hongzhang**

*Chairman*

Hong Kong, March 31, 2017

# INDEPENDENT AUDITOR'S REPORT

## To the Members of China Construction Bank (Asia) Corporation Limited

*(incorporated in Hong Kong with limited liability)*

## OPINION

### What we have audited

The consolidated financial statements of China Construction Bank (Asia) Corporation Limited (the "Bank") and its subsidiaries (the "Group") set out on pages 31 to 131, which comprise:

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

### Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 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 ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

### Independence

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

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, 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.

# INDEPENDENT AUDITOR'S REPORT

## KEY AUDIT MATTERS (continued)

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

- Information Technology – Implementation of new general ledger and core banking system
- Credit Risk – Impairment allowances on advances to customers

### Key Audit Matter

### How our audit addressed the Key Audit Matter

#### **#1 Information Technology – Implementation of new general ledger and core banking system**

During 2016, the Group implemented a new IT system (“new system”) which replaced the general ledger for all business activities within the Group and also the core banking system for the Corporate and Institutional banking businesses.

Given that the new general ledger supports all business activities across the Group and the significance of the Corporate and Institutional banking businesses to the Group, the implementation of the new system had a material and widespread impact on the financial statements of the Group. Our audit relied extensively on the manual controls that are dependent on the outputs of the new system and the automated controls.

Therefore, the implementation of the new system was considered an area of focus for our audit.

The key controls over the implementation of the new system were tested as part of our audit. We evaluated and tested the controls over the following:

- System security (including access controls) and software and program change management (including system logistic and calculation functionalities);
- Standing data and transaction data migration and verification;
- Interface between the new system and key application systems; and
- Key reports generated by the new system used for financial reporting purposes.

We also performed the following key procedures:

- Independently assessed a sample of transactions in the new system to evaluate the appropriateness of the accounts used in automated posting of transaction data;
- Evaluated whether system access controls were in place for proper segregation of duties;
- Tested the reconciliation of the pre-existing general ledger and the new general ledger at the system go-live date; and
- Assessed the reasonableness of actions taken by management to identify and resolve any material exceptions in connection with standing and transaction data migration to the new system.

The work we performed enabled us to rely on the new system for the purpose of our audit.

# INDEPENDENT AUDITOR'S REPORT

## KEY AUDIT MATTERS (continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
<p><b>#2 Credit Risk – Impairment allowances on advances to customers</b></p> <p>As at December 31, 2016, the Group's gross advances to customers was HK\$233.3 billion against which impairment allowances of HK\$984 million were set aside.</p> <p>The total impairment allowances on advances to customers consisted of both individual and collective impairment allowances.</p> <p>The individual impairment allowances were based on the present value of the cash flows, which were expected to be received from each impaired individually significant advance, discounted at its original effective interest rate. Management's judgement about the borrower's financial situation had been applied in estimating the cash flows.</p> <p>Collective impairment allowances were calculated using a number of models for different portfolios of advances to customers grouped by similar credit characteristics. The models required a number of input parameters which included, current economic conditions, the emergence period between the loss occurring and it being identified and the historical loss and recovery experience in portfolios of similar risk characteristics. These inputs required significant management judgement.</p> <p>We focused on this area because of the significance of the advances to customers and their impairment allowances and the judgement applied by management. As part of our audit we focused on (1) whether the identification of impaired advances for individual impairment assessment was appropriate; (2) whether the estimated cash flows used by management in the individual impairment assessment; and (3) whether the key inputs and the models used in the collective impairment assessments, were supported by available evidence and consistently applied.</p>	<p>We tested the controls over the assessment of the credit quality and the identification, escalation, assessment and reporting of non-performing advances to customers.</p> <p>We reviewed the minutes of the Group's Risk Management Committee, Credit approval committee, Special attention credit meeting and Special Assets Management Committee meetings, which were held regularly, for approval of the loan grading and impairment allowances made on advances to customers.</p> <p>We performed independent credit reviews on selected advances to customers and assessed the reasonableness of the assigned loan grading. We also checked whether the impaired advances to customers based on their assigned loan grading were included in the individual impairment assessments.</p> <p>For individual impairment allowances, we independently assessed on a sample basis the appropriateness of the estimated cash flows taking into account the financial health of the borrowers, the recoverability of, and the underlying collateral for, the advances to customers. Our assessment was also based on our industry knowledge and market development. We re-performed a sample of the calculations of present value of the estimated cash flows.</p> <p>For collective impairment allowances, our key procedures included:</p> <ul style="list-style-type: none"><li>• Tested the underlying loan data used in the impairment models by agreeing the related information with the Group's loan systems and general ledger;</li><li>• Tested the models by independently re-performing the calculations for each portfolio;</li></ul>

# INDEPENDENT AUDITOR'S REPORT

## KEY AUDIT MATTERS (continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
<b>#2 Credit Risk – Impairment allowances on advances to customers (continued)</b>	
Please refer to Note 4(c)(vi), Note 6 and Note 22 to the consolidated financial statements.	<ul style="list-style-type: none"><li>• Tested the appropriateness of the key inputs (historical loss experience, emergence periods and current economic factors) based on our knowledge of market practice and changing market conditions; and</li><li>• Assessed whether the models used in calculating the collective impairment allowances were appropriate and consistently applied from year to year.</li></ul> <p>We found management's judgement exercised in identifying the impaired advances for individual assessment and in estimating the individually and collectively assessed allowances on advances to customers to be reasonable.</p>

## OTHER INFORMATION

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

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

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

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

# INDEPENDENT AUDITOR'S REPORT

## RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

As part of an audit in accordance with HKSAAs, we exercise professional judgment 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.

# INDEPENDENT AUDITOR'S REPORT

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Antoinette Hoon.

**PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, March 31, 2017



# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Year ended December 31, 2016

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

	Note	2016	2015
Interest income		9,459,910	12,865,718
Interest expense		(4,985,144)	(7,516,254)
<b>Net interest income</b>	9	<b>4,474,766</b>	5,349,464
Net fees and commission income	10	1,204,956	1,074,586
Net trading income/(losses)	11	744,668	(139,279)
Net gains/(losses) from financial instruments designated at fair value through profit or loss	12	12,673	(76,542)
Net gains from disposal of available-for-sale financial instruments		145,288	60,181
Other operating income	13	57,532	51,450
<b>Total operating income</b>		<b>6,639,883</b>	6,319,860
Operating expenses	14	(2,964,771)	(2,809,559)
<b>Operating profit before impairment losses</b>		<b>3,675,112</b>	3,510,301
Impairment allowances released on advances to banks		–	671
Impairment allowances charged on loans and advances	15	(138,822)	(451,809)
Impairment allowances charged to repossessed assets		(3,684)	(170)
Impairment allowances charged to held-to-maturity investments		(8,739)	–
<b>Operating profit</b>		<b>3,523,867</b>	3,058,993
Gain on disposal of fixed assets		10	–
Share of profits of an associate	29	19,369	28,486
Share of profits of a jointly controlled entity	28	50,547	43,338
<b>Profit before taxation</b>		<b>3,593,793</b>	3,130,817
Taxation	17	(550,746)	(630,121)
<b>Profit for the year</b>		<b>3,043,047</b>	2,500,696
<b>Other comprehensive (losses)/income for the year net of tax</b>			
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Net movement in investment revaluation reserve	18	(377,056)	38,801
<b>Total comprehensive income for the year</b>		<b>2,665,991</b>	2,539,497

The accompanying notes are the integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2016

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

	Note	2016	2015
<b>ASSETS</b>			
Cash and balances with banks and central banks	20	95,598,680	82,020,035
Placements with banks	21	36,216,806	59,036,367
Advances to banks		–	1,360,748
Advances to customers and trade bills	22	233,296,079	238,090,313
Financial assets measured at fair value through profit or loss	23	–	3,807
Available-for-sale financial assets	24	96,261,129	85,695,259
Held-to-maturity investments	25	26,998,299	5,473,670
Derivative financial instruments	26	7,734,551	6,289,264
Interest in a joint venture	28	1,987,787	1,937,240
Interest in an associate	29	285,283	265,914
Deferred tax assets	30	139,680	112,428
Fixed assets	31	3,467,344	3,563,991
Other assets	32	9,781,150	23,659,467
<b>Total assets</b>		<b>511,766,788</b>	507,508,503
<b>LIABILITIES</b>			
Deposits and balances of banks		86,320,785	80,965,080
Deposits from customers	33	322,222,569	305,625,384
Certificates of deposit and other debt securities issued	34	31,822,975	52,501,887
Derivative financial instruments	26	7,633,715	6,744,725
Current tax payable	30	66,744	146,728
Deferred tax liabilities	30	19,399	18,276
Other liabilities	35	9,408,265	9,897,287
Subordinated debts	36	5,773,574	5,776,365
<b>Total liabilities</b>		<b>463,268,026</b>	461,675,732
<b>EQUITY</b>			
Share capital	37	28,827,843	28,827,843
Reserves		19,670,919	17,004,928
<b>Total equity</b>		<b>48,498,762</b>	45,832,771
<b>Total equity and liabilities</b>		<b>511,766,788</b>	507,508,503

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

**WANG Hongzhang**  
Chairman

**JIANG Xianzhou**  
Vice Chairman and Chief Executive Officer

The accompanying notes are the integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year ended December 31, 2016

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

	Note	Investment						Retained profits	Total
		Share capital	General reserve	revaluation reserve	Regulatory reserve	Other reserve	Merger reserve		
<b>Balance as at January 1, 2016</b>		<b>28,827,843</b>	<b>750,956</b>	<b>76,438</b>	<b>2,307,924</b>	<b>15,913</b>	<b>62,262</b>	<b>13,791,435</b>	<b>45,832,771</b>
<b>Changes in equity for 2016:</b>									
Profit for the year		-	-	-	-	-	-	3,043,047	3,043,047
Other comprehensive losses	18	-	-	(377,056)	-	-	-	-	(377,056)
Total comprehensive income		-	-	(377,056)	-	-	-	3,043,047	2,665,991
Regulatory reserve		-	-	-	-	-	-	-	-
<b>Balance as at December 31, 2016</b>		<b>28,827,843</b>	<b>750,956</b>	<b>(300,618)</b>	<b>2,307,924</b>	<b>15,913</b>	<b>62,262</b>	<b>16,834,482</b>	<b>48,498,762</b>

The accompanying notes are the integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year ended December 31, 2016

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

	Note	Share capital	General reserve	Investment revaluation reserve	Regulatory reserve	Other reserve	Merger reserve	Retained profits	Total
Balance as at January 1, 2015		28,827,843	750,956	37,637	2,360,788	15,913	62,262	11,237,875	43,293,274
Changes in equity for 2015:									
Profit for the year		-	-	-	-	-	-	2,500,696	2,500,696
Other comprehensive income	18	-	-	38,801	-	-	-	-	38,801
Total comprehensive income		-	-	38,801	-	-	-	2,500,696	2,539,497
Regulatory reserve		-	-	-	(52,864)	-	-	52,864	-
Balance as at December 31, 2015		28,827,843	750,956	76,438	2,307,924	15,913	62,262	13,791,435	45,832,771

The accompanying notes are the integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year ended December 31, 2016

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

	Note	2016	2015
<b>Net cash inflow from operations</b>	43(a)	<b>41,661,752</b>	82,809,604
Hong Kong Profits Tax paid		<b>(554,133)</b>	(352,247)
Mainland tax paid		<b>(39,977)</b>	(297,284)
<b>Net cash inflow from operating activities</b>		<b>41,067,642</b>	82,160,073
<b>Investing activities</b>			
Purchase of available-for-sale financial assets		<b>(47,522,026)</b>	(80,142,414)
Purchase of held-to-maturity investments		<b>(26,861,828)</b>	(5,473,643)
Proceeds received from redemption and disposal of available-for-sale financial assets		<b>44,614,164</b>	51,748,536
Proceeds received from redemption and disposal of held-to-maturity investments		<b>5,284,702</b>	–
Purchase of property and equipment		<b>(184,255)</b>	(180,073)
Dividends received from listed and unlisted investments		<b>3,882</b>	3,977
<b>Net cash outflow from investing activities</b>		<b>(24,665,361)</b>	(34,043,617)
<b>Financing activities</b>			
Interest paid on subordinated debts		<b>(247,408)</b>	(247,171)
<b>Net cash outflow from financing activities</b>		<b>(247,408)</b>	(247,171)
<b>Increase in cash and cash equivalents</b>		<b>16,154,873</b>	47,869,285
<b>Cash and cash equivalents as at January 1</b>		<b>106,451,092</b>	59,496,073
Effect of foreign exchange rate changes		<b>(750,530)</b>	(914,266)
<b>Cash and cash equivalents as at December 31</b>	43(b)	<b>121,855,435</b>	106,451,092
<b>Cash flows from operating activities include:</b>			
Interest received		<b>9,759,931</b>	13,118,792
Interest paid		<b>5,603,232</b>	7,761,574

The accompanying notes are the integral part of these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 1 GENERAL INFORMATION

The consolidated financial statements for the year ended December 31, 2016 comprise China Construction Bank (Asia) Corporation Limited (“the Bank”) and its subsidiaries (together referred to as “the Group”) and the Group’s interest in an associate and a joint venture. The consolidated financial statements have been approved by the Board of Directors on March 31, 2017.

## 2 STATEMENT OF COMPLIANCE

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collectively include 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”), and accounting principles generally accepted in Hong Kong. These financial statements also comply with the disclosure requirements of the new Hong Kong Companies Ordinance (Cap.622).

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. Note 5 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group and the Bank for the current and prior accounting periods reflected in these consolidated financial statements.

## 3 BASIS OF PREPARATION

### (a) Basis of measurement

These financial statements have been prepared on the historical cost basis except that: (i) financial instruments at fair value through profit or loss are measured at fair value; (ii) derivative financial instruments are measured at fair value; (iii) available-for-sale financial assets are measured at fair value; (iv) financial instruments designated under fair value hedge; (v) certain non-financial assets are measured at designated cost. The measurement basis of major assets and liabilities are further explained in Note 4.

### (b) Functional and presentation currency

These financial statements are presented in HKD, unless otherwise stated, rounded to the nearest thousand, which is the functional currency of the Group.

### (c) Use of estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and associated assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Judgments that have a significant effect on the financial statements and estimates with significant risk of material adjustments in the subsequent are discussed in Note 6.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 3 BASIS OF PREPARATION (continued)

### (d) Local regulatory reporting

In preparing the capital adequacy ratios of the Group, they are prepared according to the basis of consolidation for regulatory purposes. The main difference between the consolidation basis for accounting and regulatory purposes is that the former includes the Bank and all its subsidiaries, an associate and a joint venture whereas the latter excludes CCB Securities Limited ("CCBS"), CCB Nominees Limited ("CCBN") and CCB (Asia) Trustee Company Limited ("CCBT") which conduct non-banking related business. Details of the subsidiaries which are not included in consolidation for regulatory purposes are as follows:

Name of company	Principal activities	Total assets		Total equity	
		December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
CCBS	Securities brokerage business	770,317	614,341	604,272	608,024
CCBN	Custodian and nominee services	39,054	39,078	38,998	39,023
CCBT	Trustee and custodian business	28,378	6,849	4,002	(7,140)

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Consolidated financial statements

#### (i) Subsidiaries and non-controlling interests

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group has the power over the entity, and is exposed to, or has the rights to the variable returns from its involvement with the entity, and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

The financial results and performance of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. When preparing the consolidated financial statements, the Group makes necessary adjustments on the accounting period and accounting policies of subsidiaries to comply with those of the Group.

Significant intragroup balances and transactions, and any significant profits or losses arising from intragroup transactions are eliminated in full in preparing the consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (a) Consolidated financial statements (continued)

#### (i) Subsidiaries and non-controlling interests (continued)

When the Group ceases to have control any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

In the Bank's statement of financial position, its investments in subsidiaries are stated at cost less impairment losses, if any (Note 4(g)).

#### (ii) Associates and joint arrangements

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

Joint arrangement is an arrangement of which two or more parties have joint control. The classification of a joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing the control. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures.

Investments in associates or joint ventures are accounted for using the equity method in the consolidated financial statements and are initially recorded at acquisition cost, and adjusted thereafter for the post acquisition change in the Group's share of net assets of the associates or joint ventures. The Group's share of the post-acquisition, post-tax results of the associates or joint ventures for the year is recognised in the consolidated statement of comprehensive income. The Group's interest in associates or joint ventures is included from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

Profits and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's interest in the associates or joint ventures. The Group discontinues recognising its share of net losses of the associates or joint ventures after the carrying amount of investments in associates and joint ventures together with any long-term interests that in substance form part of the Group's net investment in the associates or joint ventures are reduced to zero, except to the extent that the Group has incurred legal or constructive obligations to assume additional losses. Where the associates or joint ventures make net profits subsequently, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (b) Translation of foreign currency transactions

Foreign currency transactions are, on initial recognition, translated into the functional currency at the spot exchange rates at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated into the functional currency at the spot exchange rates at that date. The resulting exchange differences are recognised in net trading income/(losses). Non-monetary items denominated in foreign currencies that are measured at historical cost are translated into functional currency using the spot exchange rates at the transaction dates. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the spot exchange rates at the dates the fair values are determined; exchange differences are recognised in profit or loss, except for the differences arising from the translation of available-for-sale equity instruments, which are recognised in other comprehensive income.

### (c) Financial instruments

#### (i) Categorisation

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

#### *Financial assets and financial liabilities at fair value through profit or loss*

Financial assets and financial liabilities at fair value through profit or loss include those classified as held for trading, and those designated as at fair value through profit or loss.

A financial asset or financial liability is classified as held for trading if it is: (i) acquired or incurred principally for the purpose of selling or repurchasing it in the near term; (ii) 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; or (iii) a derivative (except for a derivative that is a designated and effective hedging instrument or a financial guarantee contract).

Financial assets or financial liabilities are designated at fair value through profit or loss upon initial recognition when: (i) the financial assets or financial liabilities are managed, evaluated and reported internally on a fair value basis; (ii) the designation eliminates or significantly reduces an accounting mismatch in the gain and loss recognition arising from the difference in the measurement basis of the financial assets or financial liabilities; or (iii) if a contract contains one or more embedded derivatives, an entity may designate the entire hybrid (combined) contract as a financial asset or financial liability at fair value through profit or loss unless the embedded derivative(s) does not significantly modify the cash flows that otherwise would be required by the contract; or it is clear with little or no analysis when a similar hybrid (combined) instrument is first considered that separation of the embedded derivative(s) is prohibited.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (c) Financial instruments (continued)

#### (i) Categorisation (continued)

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

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than: (i) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or (ii) those that meet the definition of loans and receivables.

##### *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: (i) those that the Group intends to sell immediately or in the near future, which will be classified as held for trading; (ii) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or (iii) those where the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available-for-sale. Loans and receivables mainly comprise deposits with central banks, deposits and placements with banks and non-bank financial institutions, loans and advances to customers, and receivables.

##### *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 as: (i) financial assets at fair value through profit or loss; (ii) held-to-maturity investments; or (iii) loans and receivables.

##### *Other financial liabilities*

Other financial liabilities are financial liabilities other than those designated as at fair value through profit or loss and mainly comprise borrowings from central banks, deposits and placements from banks and non-bank financial institutions, deposits from customers and debt securities issued.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (c) Financial instruments (continued)

#### (ii) Derivatives and hedge accounting

Derivatives are recognised at fair value at the trade date upon initial recognition, and subsequently measured at fair value. The positive fair value is recognised as an asset while the negative fair value is recognised as a liability. The Group uses derivatives to hedge its exposure to foreign exchange and interest rate risks.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated and qualified as a hedging instrument, and if so, the nature of the item being hedged. For derivatives not designated or qualified as hedging instruments, including those that are intended to provide effective economic hedges of specific interest rate and foreign exchange risks, but not qualified for hedge accounting, changes in the fair value of these derivatives are recognised in “net trading income/(losses)” of the consolidated statement of comprehensive income.

The Group documents, at inception, 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 its 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. These criteria should be met before a hedge can be qualified to be accounted for under hedge accounting.

#### *Fair value hedge*

Fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss.

The changes in fair value of hedging instruments that are designated and qualify as fair value hedges are recorded in net trading income/(losses), together with the changes in fair value of the hedged item attributable to the hedged risk. The net difference is recognised as ineffectiveness in the profit or loss.

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 interest income or expense over the period to maturity. If the hedged item is de-recognised, the unamortised carrying value adjustment is recognised immediately in the profit or loss.

#### (iii) Embedded derivatives

Certain derivatives are embedded into non-derivative hybrid instruments (the host contracts). The embedded derivatives are separated from the host contract and accounted for as a separate derivative when (i) the economic characteristics and risks of the embedded derivative are not closely related to the host contract; (ii) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (iii) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in profit or loss. When the embedded derivative is separated, the host contract is accounted for as a financial instrument in accordance with the accounting policies as set out in Note 4(c)(i).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (c) Financial instruments (continued)

#### (iv) Recognition and derecognition

All financial assets and financial liabilities are recognised in the statement of financial position, when and only when, the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset if the part being considered for de-recognition meets one of the following conditions: (i) the contractual rights to receive the cash flows from the financial asset expire; (ii) the contractual rights to receive the cash flows of the financial asset have been transferred and the Group transfers substantially all the risks and rewards of ownership of the financial asset; or (iii) the Group retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to the eventual recipient in an agreement that meets all the conditions of transfer of cash flows and transfers substantially all the risks and rewards of ownership of the financial asset.

The difference between the carrying amount of the financial asset derecognised and the consideration received and the cumulative changes in fair value previously recognised in equity are recognised in profit or loss.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but retains control, the Group continues to recognise the financial asset to the extent of its continuing involvement in the financial asset. If the Group has not retained control, it derecognises the financial asset and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer.

The financial liability is derecognised only when: (i) the underlying present obligation specified in the contracts is discharged, cancelled or expired, or (ii) an agreement between the Group and an existing lender to replace the original financial liability with a new financial liability with substantially different terms, or a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability.

The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (c) Financial instruments (continued)

#### (v) Measurement

Financial instruments are measured initially at fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the instrument. Transaction costs for financial instruments at fair value through profit or loss are expensed immediately.

Subsequent to initial recognition, held-to-maturity investments, loans and receivables and other financial liabilities are measured at amortised cost, while other categories of financial instruments are measured at fair value, without any deduction for transaction costs that may occur on sale or other disposal. Investments in available-for-sale equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, are measured at cost less impairment losses, if any.

Gains and losses from changes in the fair value of financial instruments at fair value through profit or loss are recognised in net trading income/(losses).

Unrealised gains and losses arising from changes in the fair value of available-for-sale financial assets 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 net trading income/(losses).

When the available-for-sale financial assets are sold, gains or losses on disposal are recognised in net gains from disposal of available-for-sale financial instruments. Gains or losses on disposal include those previously recognised in other comprehensive income being transferred to the profit or loss.

For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or financial liability is derecognized or impaired, and through the amortisation process.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (c) Financial instruments (continued)

#### (vi) Impairment

At the end of each reporting period, the Group assesses the carrying amount of financial assets (except for those at fair value through profit or loss). If there is any objective evidence that a financial asset is impaired, the Group will recognise the impairment loss in profit or loss. Losses expected as a result of future events, no matter how likely, are not recognised as impairment losses.

Objective evidence that a financial asset is impaired includes one or more events that occurred after the initial recognition of the asset where the event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Objective evidence includes the following evidence:

- significant financial difficulty of the borrower or issuer;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Group, for economic or legal reasons relating to the borrower's or issuer's financial difficulty, granting to the borrower a concession that the Group would not otherwise consider;
- restructure of the borrowing terms as a result of deterioration of the financial position;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- decrease in market value of the collateral due to downgrade of the credit rating of the borrowers;
- disappearance of an active market for financial assets because of significant financial difficulties;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including adverse changes in the payment status of borrowers in the group, an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices for mortgages in the relevant area, or adverse changes in industry conditions that affect the borrowers in the group;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the issuer of an equity instrument;
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost; and
- other objective evidence indicating there is an impairment of the financial asset.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (c) Financial instruments (continued)

#### (vi) Impairment (continued)

##### *Loans and receivables and held-to-maturity investments*

##### *Individual assessment*

Loans and receivables and held-to-maturity investments, which are considered individually significant, are assessed individually for impairment. If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred on an individual basis, the amount of the loss is 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, and recognised in profit or loss.

Cash flows relating to short-term loans and receivables and held-to-maturity investments are not discounted if the effect of discounting is immaterial. The calculation of the present value of the estimated future cash flows of a collateralised loan or receivable reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

##### *Collective assessment*

Homogeneous groups of loans and advances to customers not considered individually significant and individually assessed and loans and receivables and held-to-maturity investments with no objective evidence of impairment on an individual basis are assessed for impairment losses on a collective basis. If there is observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those financial assets, the impairment is recognised and recorded in profit or loss.

For homogeneous groups of loans and advances that are not considered individually significant, the Group adopts a roll rate methodology to assess impairment losses on a collective basis. This methodology utilises a statistical analysis of historical trends of probability of default and amount of consequential loss, as well as an adjustment of observable data that reflects the current economic conditions.

Loans and receivables and held-to-maturity investments which are individually significant and therefore have been individually assessed but for which no impairment can be identified, are grouped together in portfolios of similar credit risk characteristics for the purpose of assessing a collective impairment loss. The collective impairment loss is assessed after taking into account: (i) historical loss experience in portfolios of similar risk characteristics; (ii) the emergence period between a loss occurring and that loss being identified; and (iii) the current economic and credit environments and whether in management's experience these indicate that the actual losses level is likely to be greater or less than that suggested by historical experience.

The emergence period between a loss occurring and its identification is determined by management based on the historical experience.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (c) Financial instruments (continued)

#### (vi) Impairment (continued)

*Loans and receivables and held-to-maturity investments (continued)*

*Collective assessment (continued)*

Impairment losses recognised on a collective basis represent a transitional step which identifies the impairment losses on individual assets (which are subject to individual assessment) in the pool of financial assets that are collectively assessed for impairment.

At the end of each reporting period, collective assessment covers those loans and receivables and held-to-maturity investments that were impaired but were not individually identified as such until some time in the future. As soon as information is available to specifically identify objective evidence of impairment on individual assets in a pool, those assets are removed from the pool of collectively assessed financial assets.

*Impairment reversal and loan write-offs*

If, in a subsequent period, the amount of the impairment loss on loans and receivables and held-to-maturity investments decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. The amount of the reversal is recognised in profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds the amortised cost at the date of the reversal had the impairment not been recognised.

When the Group determines that a loan has no reasonable prospect of recovery after the Group has completed all the necessary legal or other proceedings, the loan is written off against its allowance for impairment losses. If in a subsequent period the loan written off is recovered, the amount recovered will be recognised in profit or loss through impairment losses.

*Rescheduled loans*

Rescheduled loans are loans that have been restructured due to deterioration in the borrower's financial position to the extent that the borrower is unable to repay according to the original terms and where the Group has made concessions that it would not otherwise consider under normal circumstances. Rescheduled loans are assessed individually and classified as impaired loans and advances upon restructuring. Rescheduled loans are subject to ongoing monitoring. Once a rescheduled loan has met specific conditions by the end of the observation period of normally 6 months, with the approval from management, they would no longer be considered as impaired.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (c) Financial instruments (continued)

#### (vi) Impairment (continued)

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

When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value that had been recognised in other comprehensive income is reclassified to the profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is removed from equity is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss. For available-for-sale investments in equity instruments measured at cost, the amount of any impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset and recognised in profit or loss.

If, in a subsequent period, the fair value of available-for-sale financial assets increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss shall be treated in accordance with the following principles: (i) the impairment loss on debt instruments classified as available-for-sale shall be reversed, with the amount of the reversal recognised in profit or loss; (ii) the impairment loss on equity instruments classified as available-for-sale shall not be reversed through the profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income; or (iii) the impairment loss in respect of available-for-sale equity investments carried at cost shall not be reversed.

#### (vii) Fair value measurement

If there is an active market for financial instruments, the fair value of financial instruments is based on the prices within the bid-ask spread that is most representative of fair value in the circumstances, and without any deduction for transaction costs that may occur on sales or disposals. A quoted price is from an active market where price information is readily and regularly available from an exchange, dealer, industry group or pricing service agency and that price information represents actual and regularly occurring orderly transactions.

If a quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include the price used by market participants in an orderly transaction, reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. The Group selects valuation techniques that are commonly accepted by market participants for pricing the instruments and these techniques have been demonstrated to provide reliable estimates of prices obtained in actual market transactions. Periodically, the Group reviews the valuation techniques and tests them for validity.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (c) Financial instruments (continued)

#### (viii) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when the Group has a legally enforceable right to offset the recognised amounts and the transactions are intended to be settled on a net basis, or by realising the asset and settling the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

### (d) Fixed assets

Fixed assets are assets held by the Group for the conduct of business and are expected to be used for more than one year.

#### (i) Cost

Fixed assets are initially recognised at cost. The cost of a purchased fixed asset comprises the purchase price, related taxes, and any directly attributable expenditure for bringing the asset to working condition for its intended use.

Where the individual components of an item of fixed asset have different useful lives or provide benefits to the Group in different patterns thus necessitating use of different depreciation rates or methods, they are recognised as separate fixed assets.

Subsequent costs, including the cost of replacing part of an item of fixed assets, are recognised in the carrying amount of the item if the recognition criteria are satisfied, and the carrying amount of the replaced part is derecognised. Expenditures relating to ordinary maintenance of fixed assets are recognised in profit or loss.

#### (ii) Depreciation and impairment

Depreciation is calculated to write off to the profit or loss the cost of items of fixed assets, less their estimated residual value, if any, using the straight line method over their estimated useful lives. Impaired fixed assets are depreciated net of accumulated impairment losses.

Types of assets	Estimated useful lives
– Freehold land	indefinite
– Leasehold land classified as held under finance leases	the unexpired term of lease
– Buildings (over interests in leasehold land classified as held under finance lease)	period of lease term, ranged from 6 years to 34 years
– Buildings (over freehold land)	50 years
– Leasehold improvements	shorter of lease term or their estimated useful lives, 7 years
– Furniture and equipment	2–8 years

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (d) Fixed assets (continued)

#### (ii) Depreciation and impairment (continued)

The Group reviews the estimated useful life and the depreciation method applied at least once a financial year.

Impairment losses on fixed assets are accounted for in accordance with the accounting policies as set out in Note 4(g).

#### (iii) Disposal

Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the net disposal proceeds and the carrying amount of the fixed asset and are recognised in profit or loss on the date of retirement or disposal.

### (e) Lease

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee, irrespective of whether the legal title to the asset is eventually transferred or not. An operating lease is a lease other than a finance lease.

#### (i) Finance lease

Where the Group is a lessor under finance leases, an amount representing the sum of the minimum lease receivables and initial direct costs at the commencement of the lease term, is included in "loans and advances to customers" on statement of financial position as a lease receivable. Unrecognised finance income under finance leases is amortised using the effective interest rate method over the lease term. Hire purchase contracts having the characteristics of finance leases are accounted for in the same manner as finance leases.

Impairment losses on lease receivables are accounted for in accordance with the accounting policies as set out in Note 4(g).

#### (ii) Operating lease

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the profit or loss, using the straight-line method, 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 assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the consolidated statement of comprehensive income in the accounting period in which they are incurred.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (f) Repossessed assets

In the recovery of impaired loans and advances, the Group may take possession of assets held as collateral through court proceedings or voluntary delivery of possession by the borrowers. Repossessed assets are recognised and reported in "other assets" in the statement of financial position when the Group intends to achieve an orderly realisation of the impaired assets and the Group is no longer seeking repayment from the borrower.

When the Group seizes assets to compensate for the losses of loans and advances and interest receivable, the repossessed assets are initially recognised at fair value, plus any taxes paid for the seizure of the assets, litigation fees and other expenses incurred for collecting the repossessed assets. Repossessed assets are recognised at the carrying value, net of allowances for impairment losses (Note 4(g)).

### (g) Allowances for impairment losses on non-financial assets

At the end of each reporting period, the Group assesses whether there is any indication that a non-financial asset may be impaired. If any indication exists that an asset may be impaired, the Group estimates the recoverable amount of the asset.

If, in a subsequent period, the amount of impairment loss of the non-financial asset decreases and the decrease can be linked objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the profit or loss. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods.

### (h) Employee benefits

Employee benefits are all forms of consideration given and compensations incurred by the Group in exchange for services rendered by employees or the termination of the employment relationship. Employee benefits are recognised as a liability in the period in which the associated services are rendered by its employees, with a corresponding increase in cost of relevant assets or the expenses in profit or loss. Where payment or settlement is deferred and the effect of discount would be material, these amounts are stated at their present values in the statement of financial position.

The Group contributes to defined contribution retirement schemes under either recognised Occupational Retirement Scheme ("ORSO") or Mandatory Provident Fund Schemes ("MPF") that are available to employees. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the funds do not hold sufficient assets to pay all employees the benefits relating to employee service in current or prior periods.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (i) Provisions and contingent liabilities

A provision is recognised in the statement of financial position if, as the result of a past event, the Group has a present legal or constructive obligation that can be reliably estimated and it is probable that an outflow of economic benefits will be required to settle the obligation. A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimate. Where the effect of the time value of money is material, the best estimate is determined by discounting the related future cash outflows.

A potential obligation arising from a past transaction or event whose existence can only be confirmed by the occurrence or non-occurrence of future uncertain events; or a present obligation that arises from past transactions or events where it is not probable that an outflow of economic benefits is required to settle the obligation or the amount of the obligation cannot be measured reliably, is disclosed as a contingent liability unless the probability of outflow of economic benefit is remote.

### (j) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. A financial instrument issued is an equity instrument if, and only if, both conditions (i) and (ii) below are met: (i) The financial instrument includes no contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; and (ii) If the financial instrument will or may be settled in the Group's own equity instruments, it is a non-derivative instrument that includes no contractual obligations for the Group to deliver a variable number of its own equity instruments; or a derivative that will be settled only by the Group exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Equity instruments issued by the Group are recorded at the fair value of proceeds received, net of direct issuance expenses.

### (k) Financial guarantees

Financial guarantees are contracts that require the Group as the guarantor (the "issuer") to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs when a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. The fair value of the guarantee (being the guarantee fees received) is initially recognised as deferred income in "other liabilities". The deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. Provisions are recognised in the statement of financial position if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and the amount of that claim on the Group is expected to exceed the carrying amount of the deferred income.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (I) Income recognition

Provided it is probable that economic benefits will flow to the Group and the amount, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

#### (i) Interest income

Interest income for interest bearing financial instruments is recognised in profit or loss, based on the effective interest method. Interest income includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest basis.

The effective interest method is a method of calculating the amortised cost of financial assets and liabilities and of allocating the interest income and interest expense 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 instrument. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all amount 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.

Interest on the impaired financial assets is recognised using the rate of interest used to discount future cash flows for the purpose of measuring the related impairment loss.

#### (ii) Fee and commission income

Fee and commission income is recognised in profit or loss when the corresponding service is provided. Origination or commitment fees received 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 granted but without drawdown of loan, the related loan commitment fees are recognised on a straight-line basis as fee and commission income over the commitment period. If the commitment early terminates without the Group making a loan, the fee is recognised as commission upon termination.

#### (iii) Finance income from finance leases and hire purchase contracts

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.

#### (iv) Dividend income

Dividend income from unlisted equity investments is recognised in profit or loss on the date when the Group's right to receive payment is established. Dividend income from a listed equity investment is recognised when the share price of the investment goes ex-dividend.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (m) Income tax

Current income tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the end of each reporting period, and any adjustment to tax payable in respect of previous periods. 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 also arises from unused tax losses and unused tax credits. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Current income tax and movements in deferred tax balances are recognised in 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.

At the end of each reporting period, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled according to the requirements of tax laws. The Group also considers the possibility of realisation and the settlement of deferred tax assets and deferred tax liabilities in the calculation.

Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group has the legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity. Otherwise, the balances of deferred tax assets and deferred tax liabilities, and movements therein, are presented separately from each other and are not offset.

### (n) Cash equivalents

Cash equivalents are short-term, highly liquid 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (o) Related parties

If the Group has the power, directly or indirectly, to control, jointly control or exercise significant influence over another party, or vice versa, or where the Group and one or more parties are subject to common control or joint control from another party, they are considered to be related parties. Related parties may be individuals or enterprises. The Group's related parties include but are not limited to the following:

- (i) the Bank's immediate and ultimate parent companies;
- (ii) the Bank's subsidiaries;
- (iii) other entities which are controlled by the Bank's immediate and ultimate parent companies;
- (iv) an investor who has joint control over the Group;
- (v) an investor who can exercise significant influence over the Group;
- (vi) an associate of the Group;
- (vii) a joint venture entity of the Group;
- (viii) principal individual investors of the Group, and close family members of such individuals (principal individual investors are the individual investors who have the power, directly or indirectly, to control, jointly control or exercise significant influence over another party);
- (ix) key management personnel of the Group and close family members of such individuals (key management personnel represent those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director of that entity);
- (x) key management personnel of the Group's parents and close family members of such individuals;
- (xi) other entities that are controlled or jointly controlled by the Group's principal individual investors, key management personnel, or close family members of such individuals;
- (xii) a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group; and
- (xiii) other entities, or any member of a group of which it is a part, provides key management personnel services to the Group or the Group's immediate and ultimate parent companies.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (p) Operating segments

The identification of operating segments of the Group is on the basis of internal reports that are regularly reviewed by the Executive Committee in order to allocate resources to the segment and assess its performance. On the basis of the operating segments, the Group identifies the reportable segments, using a combination of factors including products and services, geographical areas, regulatory environments etc., which the management has chosen for organization. The operating segments that meet the specified criteria have been aggregated, and the operating segments that meet quantitative thresholds have been reported separately.

The amount reported for each operating segment item is the measure reported to the chief operating decision makers for the purposes of allocating resources to the segment and assessing its performance. Segment information is prepared in conformity with the accounting policies adopted for preparing and presenting the consolidated financial statements of the Group.

### (q) Comparatives

Certain comparative figures have been adjusted to conform with the presentation and disclosures in the current year.

## 5 CHANGES IN ACCOUNTING POLICIES

### (a) The Group has adopted the following new or revised HKFRSs and Interpretations effective for the current year.

There is no early adoption of any new HKFRSs not yet effective for the year ended December 31, 2016.

#### Amendments to HKAS 1 for the disclosure initiative

The amendments clarify guidance in HKAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.

#### Amendments to HKAS 16 and HKAS 38 “Clarification of Acceptable Methods of Depreciation and Amortisation”

These amendments clarify when a method of depreciation or amortisation based on revenue may be appropriate.

The amendment to HKAS 16 clarifies that depreciation of an item of property, plant and equipment based on revenue generated by using the asset is not appropriate.

The amendment to HKAS 38 also establish a rebuttable presumption that amortisation of an intangible asset based on revenue generated by using the asset is not appropriate. The rebuttable presumptions are (1) where the intangible asset is expressed as a measure of revenue; or (2) where it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 5 CHANGES IN ACCOUNTING POLICIES (continued)

### (a) The Group has adopted the following new or revised HKFRSs and Interpretations effective for the current year. (continued)

#### **Amendments to HKFRS 11 Joint Arrangements “Accounting for Acquisitions of Interests in Joint Operations”**

This amendment provides new guidance on how to account for the acquisition of an interest in a joint venture operation that constitutes a business. The amendments require an investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a ‘business’. The amendments are applicable to both the acquisition of the initial interest in a joint operation and the acquisition of additional interest in the same joint operation. However, a previously held interest is not re-measured when the acquisition of an additional interest in the same joint operation results in retaining joint control.

#### **Amendments to HKFRS 10, HKFRS 12 and HKAS 28 ‘Investment entities: applying the consolidation exception’**

The amendments clarify the application of the consolidation exception for investment entities and their subsidiaries.

The amendments to HKFRS 10 clarify that the exception from preparing consolidated financial statements is available to intermediate parent entities which are subsidiaries of investment entities. The exception is available when the investment entity parent measures its subsidiaries at fair value. The intermediate parent would also need to meet the other criteria for exception listed in HKFRS 10.

The amendments also clarify that an investment entity should consolidate a subsidiary which is not an investment entity and which provides services in support of the investment entity’s investment activities, such that it acts as an extension of the investment entity. However, the amendments also confirm that if the subsidiary is itself an investment entity, the investment entity parent should measure its investment in the subsidiary at fair value through profit or loss. This approach is required regardless of whether the subsidiary provides investment-related services to the parent or to third parties.

The amendments to HKAS 28 allow an entity which is not an investment entity, but has an interest in an associate or a joint venture which is an investment entity, a relief to retain the fair value measurement applied by the investment entity associate or joint venture, or to unwind the fair value measurement and instead perform a consolidation at the level of the investment entity associate or joint venture for their subsidiaries when applying the equity method.

#### **Annual Improvements to HKFRSs**

The 2012-2014 cycle of annual improvement contains amendments to four standards with consequential amendments to other standards and interpretations including HKFRS 5 Non-current assets held for sale and discontinued operations, HKFRS 7 Financial instruments: disclosures, HKAS 19 Employee benefits and HKAS 34 Interim financial reporting.

The adoption of these amendments and annual improvements does not have any material impact on the financial position and the financial result of the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 5 CHANGES IN ACCOUNTING POLICIES (continued)

**(b) The Group has not adopted the following new or revised HKFRSs and Interpretations effective for the current year.**

**Amendments to HKAS 27, 'Separate financial statements' regarding the equity method**

The amendment allows the entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

## 6 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Group reviews the portfolios of loans and advances periodically to assess whether impairment losses exist and if they exist, the amounts of impairment losses. Objective evidence for impairment includes observable data indicating that there is a measurable decrease in the estimated future cash flows identified with an individual loan and advance. It also includes observable data indicating adverse changes in the repayment status of borrowers in the assets portfolio or national or local economic conditions that correlate with defaults on the assets in the portfolio.

The impairment loss for a loan that is individually assessed for impairment is the decrease in the estimated discounted future cash flows.

When loans and advances are collectively assessed for impairment, the estimate is based on historical loss experience for assets with credit risk characteristics similar to the loans and advances that are being assessed. Historical loss experience is adjusted on the basis of the relevant observable data that reflects current economic conditions. Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual losses.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 7 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED THAT ARE RELEVANT TO THE GROUP BUT NOT YET EFFECTIVE

The Group has not applied the following new and revised HKFRSs and HKASs that have been issued that are relevant to the Group but are not yet effective, in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

### **HKFRS 9 'Financial instruments'**

The complete version of HKFRS 9 replaces most of the guidance in HKAS 39. HKFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit and losses. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income. There is now a new expected credit losses model that replaces the incurred loss impairment model used in HKAS 39.

For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income for liabilities designated at fair value through profit or loss.

HKFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under HKAS 39. The standard is effective for accounting periods beginning on or after January 1, 2018. Early adoption is permitted. The Group formed a steering committee for the implementation of the standard and is currently assessing the impact of HKFRS 9 and it is not practicable to quantify the effect on adoption of the standard as at the date of the publication of these financial statements.

### **Amendments to HKFRS 10 and HKAS 28 regarding the sale or contribution of assets between an investor and its associate or joint venture**

These amendments address an inconsistency between HKFRS 10 and HKAS 28 in the sale or contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary. The effective date of this amendment is yet to be determined. The application of this new standard has no material financial impact to the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 7 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED THAT ARE RELEVANT TO THE GROUP BUT NOT YET EFFECTIVE (continued)

### HKFRS 15, 'Revenue from contracts with customers'

This is the converged standard on revenue recognition. It replaces HKAS 11, 'Construction contracts', HKAS 18, 'Revenue' and related interpretations. Revenue is recognised when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service.

The core principle of HKFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

HKFRS 15 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

The new standard is mandatory for financial years commencing on or after January 1, 2018. At this stage, the group does not intend to adopt the standard before its effective date.

The application of this new standard has no material financial impact to the Group.

### HKFRS 16 'Leases'

HKFRS 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for group's operating leases. As at the reporting date, the group has non-cancellable operating lease commitments, see Note 42. However, the group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 7 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED THAT ARE RELEVANT TO THE GROUP BUT NOT YET EFFECTIVE (continued)

### HKFRS 16 'Leases' (continued)

The new standard is mandatory for financial years commencing on or after January 1, 2019. At this stage, the group does not intend to adopt the standard before its effective date.

### Amendments to HKAS 7, 'Disclosure Initiative'

The amendments require entities to provide disclosures that enable user of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The amendment is mandatory for financial years commencing on or after January 1, 2017. The application of this new standard has no material financial impact to the Group.

### Amendments to HKAS 12, 'Recognition of Deferred Tax Assets for Unrealised Losses'

The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value.

The amendment is mandatory for financial years commencing on or after January 1, 2017. The application of this new standard has no material financial impact to the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 8 FINANCIAL RISK MANAGEMENT

The Group derives the majority of its revenue from managing risk from customer transactions. Effectively assessing and managing all types of risk is central to the success of the Group. Apart from a prudential risk culture, the Group has established risk governance, structure, risk management processes including policies and procedures for the identification, measurement, control and monitoring of credit, liquidity, operational, market and capital risks, by means of which risk and return are evaluated with the goal of producing sustainable revenue and reducing income volatilities.

The Board of Directors of the Bank, with the assistance of the Risk Committee, provides effective oversight over the affairs of the Group, the governance framework and practices through delegation of authority to the functional committees and the senior management. The Risk Committee shall review regularly the Group's Risk Appetite Statement and recommend for the Board's approval. The Chief Executive Officer is responsible for overseeing all lines of businesses within the Group, supported by the Executive Committee comprising the senior management members. In addition, led by the senior management members, the functional committees including the Risk Management Committee, the Asset and Liability Committee ("ALCO"), the Information Technology Committee, Credit Committee, and Internal Control, Compliance and Operations Committee approve policies and procedures formulated by various working committees and functional management to identify, analyse, manage and control credit risk, market risk, liquidity risk, operational risk and capital risks through the use of reliable and up-to-date management and information systems. Policies and procedures are updated on an ongoing basis to reflect changes in markets, products and industry best practices. The internal auditors also perform risk-based audits to ensure the soundness of the governance and compliance with the relevant policies and procedures.

The Group has established policies and procedures to govern the launch of new products and services. A functional committee, New Product Committee, is delegated by the Executive Committee to review and approve new product and service. Comprising of management members from key functional areas, the functional committee convenes meetings to assess and discuss product proposals of the Group. This aims to ensure that risks are properly identified and effective control measures are in place to mitigate any risks involved prior to the roll-out of any new products or services.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 8 FINANCIAL RISK MANAGEMENT (continued)

### (a) Credit risk

Credit risk is the risk of loss arising from a borrower's or counterparty's inability to meet its obligations. Credit risk exists in the Group's loans, leases, credit cards, trade finance and treasury transactions. There is also credit risk in off-balance sheet financial arrangements such as loan commitments, trade-related contingencies and transaction-related contingencies.

The Group has appointed the intermediate holding company, CCB, as its credit adviser. Risk Management Division is responsible for providing centralised management and control of different types of risks including credit risk. Whereas credit approval matters are handled by the Credit Division, both divisions are independent of the business units, and supervised by the Deputy Chief Executive overseeing Risk Management. In addition, functional committees, namely Risk Management Committee and Credit Committee are set up under the Executive Committee and the Risk Committee to provide guidance in the respective risk areas. The Risk Management Committee is a central forum for overseeing the Group's overall asset quality as well as resolving all the important risk or governance issues on credit risk, operational risk, market risk, liquidity risk, interest rate risk, strategic risk and reputation risk. It is chaired by the Deputy Chief Executive overseeing Risk Management, and the other members are the Group's President and Executive Director, the Head of Risk Management, the Head of Legal and Compliance, the Head of Market Risk. The Credit Committee is responsible for loan quality maintenance, authority delegation, credit related policy-making and maintenance, credit approval and credit risk management issues. It is chaired by the Deputy Chief Executive overseeing Risk Management, and the other members are the Head of Risk Management, the Head of Credit, the Deputy Head of Risk Management and designated individual credit approver(s).

Overall, credit risks of the Group are managed through the following key functions:

- Ensure the Group's risk profile is in line with the risk appetite and strategies set by the Bank.
- Establishing credit strategies, policies and procedures of the Group and issuing lending and monitoring guidelines to credit officers and business units. Credit policies and procedures are constantly revisited and updated whenever warranted to accommodate portfolio development, market changes and regulatory requirements.
- Approving credits within the lending authority delegated by the Credit Committee according to the risk, size and nature of the transactions.
- Maintaining the internal risk rating system for measurement of credit risk exposures. The Group adopts a two dimensional risk rating methodology for the corporate portfolio, for which risk ratings are assigned to the obligor and facility separately. This system provides granularity in the rating scale and hence more refined risk differentiation for better risk and reward analysis and enhanced risk quantification. For a certain part of the consumer portfolio, in-house scoring models are also adopted to measure the credit risk involved.
- Monitoring and controlling large exposures, connected lending, product and industry concentration based on established policies and internal risk limits to ensure prudent credit decisions are made and that the Group complies with statutory requirements and supervisory guidelines.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 8 FINANCIAL RISK MANAGEMENT (continued)

### (a) Credit risk (continued)

- Monitoring criticised loans and managing recoveries of problem assets. Collection and problem asset management are separately handled by specialised teams which possess the relevant experience and expert knowledge.
- Assessing collective and individual loan impairment losses and allowances regularly to ensure the adequacy of impairment allowances.
- Managing and monitoring the Group's loan quality.
- Supervising the stress-testing programme to provide a forward-looking assessment of the Group's risk exposures under stressed conditions, and enable the Group to project tail risks on a bank-wide basis, to quantify such potential losses and the impact on the Bank in terms of profitability, liquidity and capital adequacy.
- Co-ordinating and driving credit related initiatives throughout the Group to ensure compliance with regulatory requirements.

### (i) Credit risk for advances

In addition to underwriting standards, the Group manages credit risks through an effective and prudent credit approval process. In making credit recommendations and decisions, only officers with appropriate banking experience and product knowledge are delegated specific approval authorities. There is an additional post-approval review process which monitors the quality of credit decisions and issues. Results of the post-approval review are used to ensure quality of the credit decisions made, to identify negative trends which need attention or actions, and to ensure adherence to existing policies and procedures.

In the approval process, the credit officers assess the purpose and structure of the loan, the ability of a particular borrower or counterparty to service the proposed facilities, as well as the nature of the underlying collateral where applicable. The Group categorizes its loans and leases into either consumer or corporate and commercial credits and monitors their risks separately as discussed below:

Consumer credits are grouped by products and their risk attributes for purposes of evaluating credit risk, and on-going monitoring of asset quality. Standard credit underwriting criteria are established and exceptional approvals for deviations from such criteria are required and monitored.

Corporate and commercial credits are evaluated for the default risk, taking into consideration the related credit enhancements. To support the credit assessment, internal risk rating will be assigned to the customers. These risk ratings are monitored regularly and updated upon any changes in the borrower's or counterparty's financial position, repayment ability and the related credit enhancements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 8 FINANCIAL RISK MANAGEMENT (continued)

### (a) Credit risk (continued)

#### (ii) Credit risk for treasury transactions

The credit risk of the Group's investment in debt securities and treasury hedging transactions is managed by the use of both internal and external credit ratings and credit limits set on individual counterparties. Internal and external credit ratings, and news on each counterparty are closely tracked and monitored.

#### (iii) Credit-related commitments

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

#### (iv) Collateral and other credit enhancements

The Group obtains collateral in respect of loans advanced to mitigate the credit risk of the transactions and has established policies and guidelines on the eligibility and valuation of collateral and other credit enhancements. However, the approval of credits will be based on the assessment of debt servicing ability rather than solely dependent on collateral or other credit enhancements. The main collateral types and credit enhancements include charges over properties, securities, deposits, account receivables, vehicles and machinery, and guarantees.

#### (v) Risk concentration

The Group sets various risk limits to control exposure to countries, individual counterparties, industries, intra-group exposures and loan portfolios to avoid excessive risk concentration.

#### (vi) Credit review and audit

The internal auditors conduct periodic reviews and independent audits of the Group's credit portfolio and credit risk management process. This is mainly to ensure due compliance with established credit policies and procedures, and to evaluate the effectiveness of the credit management process and control mechanism. The results of these reviews and audits are reported to the Audit Committee as well as the Board of Directors for effective oversight and monitoring.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 8 FINANCIAL RISK MANAGEMENT (continued)

### (a) Credit risk (continued)

#### (vii) Maximum exposure

	2016	2015
<b>Credit risk exposures relating to on-balance sheet assets by class are as follows:</b>		
Cash and balances with banks and central banks	<b>95,598,680</b>	82,020,035
Placements with banks	<b>36,216,806</b>	59,036,367
Advances to banks	–	1,360,748
Advances to customers and trade bills	<b>233,296,079</b>	238,090,313
Financial assets measured at fair value through profit or loss	–	3,807
Available-for-sale financial assets – debt securities	<b>96,227,170</b>	85,661,416
Held-to-maturity investments	<b>26,998,299</b>	5,473,670
Derivative financial instruments	<b>7,734,551</b>	6,289,264
Other assets	<b>9,676,009</b>	23,606,335
<b>Credit risk exposures relating to off-balance sheet items are as follows:</b>		
Financial guarantees and other credit related contingent liabilities	<b>4,572,839</b>	3,003,644
Loan commitments and other credit related commitments	<b>74,638,658</b>	61,241,291
	<b>584,959,091</b>	565,786,890

The above table shows the maximum credit risk exposure to the Group as at December 31, 2016 and 2015, without taking account of any collateral held, master netting agreements or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts. For letters of guarantee issued, the maximum exposure to credit risk is the maximum amount that the Group could be required to pay if the guarantees are called upon. For loan commitments and other credit related liabilities that are irrevocable over the life of the respective facilities or revocable in the event of a significant adverse change, the maximum exposure to credit risk is disclosed as the full amount of the committed facilities sought on these balances.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 8 FINANCIAL RISK MANAGEMENT (continued)

### (a) Credit risk (continued)

#### (vii) Maximum exposure (continued)

##### *Credit risk mitigation, collateral and other credit enhancements*

The Group uses a variety of techniques to reduce the credit risk arising from its lending activities. Enforceable legal documentation establishes the Group's direct, irrevocable and unconditional recourse to any collateral, security or other credit enhancements provided. The table below describes the nature of collateral held and their financial effect by class of financial asset:

Balances and placements with banks and other financial institutions	These exposures are generally considered to be low risk due to the nature of the counterparties. Collateral is generally not sought on these balances.
Derivative financial instruments	Master netting agreements are typically used to enable the effects of derivative assets and liabilities with the same counterparty to be offset if both the Bank and the counterparty elect to settle on a net basis or in the event of default of either party.
Financial assets measured at fair value through profit or loss – debt securities	These exposures are carried at fair value which reflects the credit risk. No collateral is sought directly from the issuer or the counterparty.
Available-for-sale investment securities – debt securities	The fair values of these securities have reflected the credit risk. No collateral is sought directly from the issuer or the counterparty.
Loans and advances and trade bills	These exposures are secured, partially secured or unsecured depending on the type of customers and the products offered to them. Types of collaterals include residential properties, other properties, standby LC acceptable to the Group and bank deposits, etc. Other credit enhancements mainly represent recognised guarantee. Analysis of gross advances to customers covered by collateral is listed in Unaudited Supplementary Financial Information Note 4(a)(i).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 8 FINANCIAL RISK MANAGEMENT (continued)

### (a) Credit risk (continued)

#### (vii) Maximum exposure (continued)

*Credit risk mitigation, collateral and other credit enhancements (continued)*

Contingent liabilities and commitments

The components and nature of contingent liabilities and commitments is disclosed in Note 40. Regarding the commitments that are unconditionally cancellable without prior notice, the Group would assess the necessity to withdraw the credit line in case the credit quality of a borrower deteriorates. Accordingly, these commitments do not expose the Group to significant credit risk. The exposure on commitments that are not unconditionally cancellable including letter of credit, letter of guarantee issued and other loan commitments and credit related liabilities are secured, partially secured or unsecured depending on the type of customers and the products offered to them.

#### (viii) Credit quality of gross advances to customers and trade bills and gross advances to banks

	2016	2015
<b>Gross advances to customers</b>		
Neither past due nor impaired	<b>231,872,340</b>	203,611,762
Past due but not impaired	<b>1,189,473</b>	671,568
Impaired	<b>259,046</b>	223,704
	<b>233,320,859</b>	204,507,034
<b>Trade bills</b>		
Neither past due nor impaired	<b>1,015,462</b>	34,590,943
Past due but not impaired	–	1,834
Impaired	<b>139,053</b>	139,549
	<b>1,154,515</b>	34,732,326
<b>Gross advances to banks</b>		
Neither past due nor impaired	–	1,360,748

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 8 FINANCIAL RISK MANAGEMENT (continued)

### (a) Credit risk (continued)

#### (viii) Credit quality of gross advances to customers and trade bills and gross advances to banks (continued)

(1) *Neither past due nor impaired*

The credit grading of gross advances and trade bills that were neither past due nor impaired can be analysed by reference to the loan classification system as defined by the Hong Kong Monetary Authority ("HKMA") as follows:

	2016	2015
<b>Gross advances to customers</b>		
Pass	231,600,772	203,435,151
Special mention	271,568	176,611
	231,872,340	203,611,762
<b>Trade bills</b>		
Pass	1,015,462	34,590,943
<b>Gross advances to banks</b>		
Pass	–	1,360,748

(2) *The aging analysis of gross advances to customers and trade bills which were past due but not impaired are as follows:*

	2016	2015
<b>Gross advances to customers</b>		
Overdue three months or less	1,189,473	671,568
<b>Trade bills</b>		
Overdue three months or less	–	1,834

(3) *Impaired advances and trade bills*

Classified or impaired advances to customers and trade bills follow the definition set out in the Banking (Disclosure) Rules and represent advances which are either classified as "substandard" or below under the Group's classification of loan quality, or individually assessed to be impaired. Details are shown in Note 22(d).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 8 FINANCIAL RISK MANAGEMENT (continued)

### (a) Credit risk (continued)

#### (ix) Credit quality of financial assets other than advances

The following table presents an analysis of investments in debt securities by rating agency designation at the reporting date, based on Standard and Poor's Ratings Services, or their equivalents, to the respective issues of the debt securities. In the absence of such issue ratings, the ratings designated for the issuers are reported. If there are different ratings for the same securities, the securities are reported against the lower rating.

	2016	2015
AAA	18,058,583	5,834,588
AA+ to A-	93,280,992	73,133,320
Lower than A-	8,014,159	8,928,836
Unrated	3,880,474	3,242,149
	<b>123,234,208</b>	91,138,893
<b>Of which classified as</b>		
Trading	–	3,807
Available-for-sale financial assets	96,227,170	85,661,416
Held-to-maturity investments	27,007,038	5,473,670
	<b>123,234,208</b>	91,138,893

#### (x) Collateral and other credit enhancements held against financial assets

At the reporting date, the lower of gross loan amount and the estimated fair value of the collateral and other credit enhancements held against financial assets is as follows:

	2016	2015
Fair value of collateral and other credit enhancements held against financial assets that are:		
– neither past due nor impaired	126,073,037	120,190,174
– past due but not impaired	1,072,417	547,606
	<b>127,145,454</b>	120,737,780

Collateral mainly includes residential properties, commercial and industrial properties and automobiles.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 8 FINANCIAL RISK MANAGEMENT (continued)

### (a) Credit risk (continued)

#### (xi) Repossession of collateral

During the year, the Group obtained assets by taking possession of collateral with the carrying amount as follows:

	2016	2015
<b>Nature of collateral</b>		
Residential properties	10,053	2,730
Other assets	464	430
	<b>10,517</b>	3,160

### (b) Liquidity risk

Liquidity risk is the risk that the Bank may not be able to fund the increase in assets or meet obligations as they fall due without incurring unacceptable losses. This may be caused by market disruption or liquidity squeeze whereby the Bank may only unwind specific exposures at significantly discounted values.

The purpose of liquidity management is to ensure sufficient cash flows to meet all financial commitments and to capitalise on opportunities for business expansion. This includes the Bank's ability to meet deposit withdrawals either on demand or at contractual maturity, to repay borrowings as they mature, to comply with the statutory liquidity ratio, and to make new loans and investments as opportunities arise.

The Bank has established liquidity risk management policy which sets out the liquidity risk management framework of the Bank, which has been enhanced according to the requirements of HKMA Supervisory Policy Manuals "Regulatory Framework for Supervision of Liquidity Risk (LM1)" and "Sound Systems and Controls for Liquidity Risk Management (LM2)" in 2016.

#### Liquidity risk management framework

The Board of Directors is ultimately responsible for an effective liquidity risk management framework in place. Risk Committee (RC) is one of the committees set up by the Board of Directors. The duties of RC are to approve the risk management framework that is in line with the Bank's business objectives and risk profile, and ensure that the liquidity framework is duly implemented and maintained by the senior management members.

Risk Management Committee (RMC) is set up to oversee the Bank's overall asset quality as well as resolving all important risk-related or governance issues on liquidity risk. The RMC is responsible for providing guidance and overseeing the Bank's liquidity risk management strategy and development; reviewing or approving liquidity risk management policies and reviewing the Bank's liquidity risk position.

Asset and Liability Committee ("ALCO") is a functional committee delegated by the Bank's senior management to oversee the liquidity risk management in light of the business strategy.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 8 FINANCIAL RISK MANAGEMENT (continued)

### (b) Liquidity risk (continued)

#### Liquidity risk management framework (continued)

Regular meetings of various committees are held to review the compliance status of liquidity measurements and the needs of change in strategy and policy. Daily liquidity management is performed by the Treasury. Risk Management Division is responsible for the daily monitoring of the liquidity limits and measurements, and submits regular reports of the liquidity profile to ALCO. Internal Audit periodically performs independent reviews on liquidity management framework to ensure the validity and effectiveness of the Bank's liquidity risk management functions.

#### Funding Strategies

The objective of the Bank's funding strategy is to strive for a balance between business growth opportunities and funding stability. The Bank seeks to maintain diversified and stable funding sources with an appropriate mix of liabilities including customer deposits, interbank borrowings and issuance of negotiable certificates of deposit. The annual budgeted balance sheet of the Bank, which contains a plan for the composition of various sources of liabilities, is approved by the Board of Directors in each calendar year. Various considerations such as the target business growth, market sentiment, target financial ratios and regulatory requirements would be taken into account in the process of budgeting.

To manage the currency mismatch and avoid over-reliance on the currency swap market, the Bank sets limits on swapped fund ratios of major currency positions which are subject to daily monitoring. The swapped fund ratios limit the extent of one currency's assets being funded by other currencies through the swap market.

The funding support provided by CCB Group is one of the important components in the Bank's funding strategies.

#### Stress scenario analysis

The Bank regularly performs liquidity stress tests to project the Bank's cash flows under stress scenarios and evaluate the sufficiency of liquidity cushion. The stress scenarios cover institution-specific crisis scenario, general market crisis scenario and combined crisis scenario. The cash flows under each stress scenario are determined by applying a standard set of prescribed stress assumptions to the Bank's cash flow projection. The stress test results are regularly reported to the RMC and ALCO. The definition of liquidity cushion being held by the Bank is consistent to the definition of High Quality Liquid Assets for purposes of determining the Bank's Liquidity Coverage Ratio. It is the Bank's policy that the liquidity cushion should be able to cover projected cash outflows under various prescribed stress scenarios.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 8 FINANCIAL RISK MANAGEMENT (continued)

### (b) Liquidity risk (continued)

#### Contingency Funding Plan (CFP)

The Bank has a CFP that sets out the Bank's strategies for identifying the occurrence of liquidity event and the operational procedures for addressing such emergency situation if it really takes place. The CFP contains a set of early warning indicators that helps to identify any emerging liquidity risks at an early stage. The CFP also includes detailed action steps and properly assigned responsibilities within the liquidity risk management framework. The list of potential funding sources, with due consideration of their reliability, priority and the expected available time during liquidity crisis, is included.

The Bank has not entered into any agreement or arrangement under which the Bank has to fulfil contingent funding obligations.

#### Liquidity measurements

##### (i) Maturity analysis

The maturity analysis lists out the assets and liabilities by their remaining maturities into different time buckets. The gap amount for each time bucket represents the liquidity exposure after netting the assets and liabilities maturing in the same bucket. The Bank maintains daily gap limits for each time bucket to manage liquidity risk. For some liabilities without prescribed maturity date such as demand deposits from customers, the liabilities are listed in the bucket of "Repayable on Demand", resulting a larger negative gap in this time bucket. The Bank considers this is an inherent risk to a consumer and commercial bank that offers the demand deposit products to customers. By experience the demand deposits have stable outstandings and the negative gap does not materialise into an immediate outflow of liquidity. However, to mitigate the liquidity risk, inter-bank and other borrowing facilities, as well as contingency funding plan are in place to cover withdrawals at unexpected levels of demand. Apart from the stable customer deposits, the Bank has other sources to fund the earning assets, such as inter-bank borrowings, certificates of deposit issued, funding support from CCB and share capital.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 8 FINANCIAL RISK MANAGEMENT (continued)

### (b) Liquidity risk (continued)

#### Liquidity measurements (continued)

##### (i) Maturity analysis (continued)

The table below sets out the maturity profile of assets and liabilities analysed by the remaining period to repayment as at the reporting date:

As at December 31, 2016

	Repayable on demand	1 month or less	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	After 5 years	Undated	Total
<b>Assets</b>								
Cash and balances with banks and central banks	3,936,350	91,662,330	-	-	-	-	-	95,598,680
Placements with banks	-	-	33,421,244	1,795,562	1,000,000	-	-	36,216,806
Advances to banks	-	-	-	-	-	-	-	-
Advances to customers and trade bills	473,654	25,027,059	16,853,859	57,005,554	96,569,044	37,366,909	-	233,296,079
Financial assets measured at fair value through profit or loss	-	-	-	-	-	-	-	-
Available-for-sale financial assets	-	10,713,950	4,115,742	8,355,927	71,587,659	1,453,892	33,959	96,261,129
Held-to-maturity investments	-	999,976	1,560,145	7,412,387	17,025,791	-	-	26,998,299
Derivative financial instruments	-	1,279,173	1,168,920	4,561,599	724,859	-	-	7,734,551
Interest in a joint venture	-	-	-	-	-	-	1,987,787	1,987,787
Interest in an associate	-	-	-	-	-	-	285,283	285,283
Deferred tax assets	-	-	-	-	-	-	139,680	139,680
Fixed assets	-	-	-	-	-	-	3,467,344	3,467,344
Other assets	9,500	8,417,672	560,051	548,820	230,045	14,188	874	9,781,150
<b>Total assets</b>	<b>4,419,504</b>	<b>138,100,160</b>	<b>57,679,961</b>	<b>79,679,849</b>	<b>187,137,398</b>	<b>38,834,989</b>	<b>5,914,927</b>	<b>511,766,788</b>
<b>Liabilities</b>								
Deposits and balances of banks	6,797,900	65,106,654	13,920,461	495,770	-	-	-	86,320,785
Deposits from customers	77,968,602	77,051,056	105,612,792	61,174,935	415,184	-	-	322,222,569
Certificates of deposit and other debt securities issued	-	4,523,343	4,394,769	8,953,016	13,287,033	664,814	-	31,822,975
Derivative financial instruments	-	1,179,419	1,365,544	4,720,115	368,637	-	-	7,633,715
Current tax payable	-	-	-	66,744	-	-	-	66,744
Deferred tax liabilities	-	-	-	-	-	-	19,399	19,399
Other liabilities	3,720	4,915,440	723,610	924,983	1,168	-	2,839,344	9,408,265
Subordinated debts	-	-	-	-	-	5,773,574	-	5,773,574
<b>Total liabilities</b>	<b>84,770,222</b>	<b>152,775,912</b>	<b>126,017,176</b>	<b>76,335,563</b>	<b>14,072,022</b>	<b>6,438,388</b>	<b>2,858,743</b>	<b>463,268,026</b>
<b>Net (liabilities)/assets gap</b>	<b>(80,350,718)</b>	<b>(14,675,752)</b>	<b>(68,337,215)</b>	<b>3,344,286</b>	<b>173,065,376</b>	<b>32,396,601</b>	<b>3,056,184</b>	<b>48,498,762</b>
Of which:								
Debt securities included in:								
- trading assets	-	-	-	-	-	-	-	-
- available-for-sale financial assets	-	10,713,950	4,115,742	8,355,927	71,587,659	1,453,892	-	96,227,170
- held-to-maturity investments	-	999,976	1,560,145	7,412,387	17,025,791	-	-	26,998,299

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 8 FINANCIAL RISK MANAGEMENT (continued)

### (b) Liquidity risk (continued)

#### Liquidity measurements (continued)

##### (i) Maturity analysis (continued)

As at December 31, 2015

	Repayable on demand	1 month or less	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	After 5 years	Undated	Total
<b>Assets</b>								
Cash and balances with banks and central banks	14,288,136	67,731,899	-	-	-	-	-	82,020,035
Placements with banks	-	-	43,035,204	16,001,163	-	-	-	59,036,367
Advances to banks	-	347,938	176,586	836,224	-	-	-	1,360,748
Advances to customers and trade bills	9,887,425	30,394,075	28,365,035	62,799,680	71,840,585	34,803,513	-	238,090,313
Financial assets measured at fair value through profit or loss	-	-	-	3,306	501	-	-	3,807
Available-for-sale financial assets	-	6,166,128	12,809,016	18,613,769	45,547,340	2,525,163	33,843	85,695,259
Held-to-maturity investments	-	-	4,974,833	-	498,837	-	-	5,473,670
Derivative financial instruments	-	1,094,063	1,155,428	3,842,658	197,115	-	-	6,289,264
Interest in a joint venture	-	-	-	-	-	-	1,937,240	1,937,240
Interest in an associate	-	-	-	-	-	-	265,914	265,914
Deferred tax assets	-	-	-	-	-	-	112,428	112,428
Fixed assets	-	-	-	-	-	-	3,563,991	3,563,991
Other assets	3,048	21,834,046	708,584	501,807	565,759	45,408	815	23,659,467
<b>Total assets</b>	<b>24,178,609</b>	<b>127,568,149</b>	<b>91,224,686</b>	<b>102,598,607</b>	<b>118,650,137</b>	<b>37,374,084</b>	<b>5,914,231</b>	<b>507,508,503</b>
<b>Liabilities</b>								
Deposits and balances of banks	2,869,495	70,172,349	2,099,963	5,823,273	-	-	-	80,965,080
Deposits from customers	64,339,855	86,292,456	78,925,916	75,292,510	774,647	-	-	305,625,384
Certificates of deposit and other debt securities issued	-	4,379,911	16,507,802	11,043,756	18,687,865	1,882,553	-	52,501,887
Derivative financial instruments	-	1,126,117	1,324,170	3,911,372	383,066	-	-	6,744,725
Current tax payable	-	-	-	146,728	-	-	-	146,728
Deferred tax liabilities	-	-	-	-	-	-	18,276	18,276
Other liabilities	1,297	4,491,777	1,185,459	1,188,709	187,205	9,097	2,833,743	9,897,287
Subordinated debts	-	-	-	-	-	5,776,365	-	5,776,365
<b>Total liabilities</b>	<b>67,210,647</b>	<b>166,462,610</b>	<b>100,043,310</b>	<b>97,406,348</b>	<b>20,032,783</b>	<b>7,668,015</b>	<b>2,852,019</b>	<b>461,675,732</b>
<b>Net (liabilities)/assets gap</b>	<b>(43,032,038)</b>	<b>(38,894,461)</b>	<b>(8,818,624)</b>	<b>5,192,259</b>	<b>98,617,354</b>	<b>29,706,069</b>	<b>3,062,212</b>	<b>45,832,771</b>
Of which:								
Debt securities included in:								
- trading assets	-	-	-	3,306	501	-	-	3,807
- available-for-sale financial assets	-	6,166,128	12,809,016	18,613,769	45,547,340	2,525,163	-	85,661,416
- held-to-maturity investments	-	-	4,974,833	-	498,837	-	-	5,473,670

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 8 FINANCIAL RISK MANAGEMENT (continued)

### (b) Liquidity risk (continued)

#### Liquidity measurements (continued)

##### (ii) Undiscounted cash flows by contractual maturities

The following table details the remaining contractual maturities at the reporting date of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the reporting date) and the earliest date to pay.

#### As at December 31, 2016

	Repayable on demand	1 month or less	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	After 5 years	Undated	Total
<b>Non-derivative financial liabilities</b>								
Deposits and balances of banks	6,797,900	65,129,010	13,951,398	505,214	-	-	-	86,383,522
Deposits from customers	77,968,602	77,087,769	105,878,384	61,797,985	427,958	-	-	323,160,698
Certificates of deposit and other debt securities issued	-	4,645,898	4,670,289	9,579,552	14,576,064	745,806	-	34,217,609
Current tax payable	-	-	-	66,744	-	-	-	66,744
Deferred tax liabilities	-	-	-	-	-	-	19,399	19,399
Other liabilities	3,720	4,915,440	723,610	924,983	1,168	-	2,839,344	9,408,265
Subordinated debts	-	-	35,015	123,583	988,664	6,557,148	-	7,704,410
	84,770,222	151,778,117	125,258,696	72,998,061	15,993,854	7,302,954	2,858,743	460,960,647
<b>Cash inflow/(outflow) of derivatives settled on a net basis</b>	-	86,004	(150,909)	77,132	432,289	-	-	444,516
<b>Cash flow of derivatives settled on a gross basis</b>								
- inflow	-	114,801,795	95,256,183	199,521,264	5,301,474	-	-	414,880,716
- outflow	-	114,699,989	95,225,139	199,736,172	5,605,844	-	-	415,267,144
<b>Contingent liabilities and commitments</b>								
- contingent liabilities	492,319	237,319	409,175	1,355,608	1,978,418	100,000	-	4,572,839
- commitments	52,020,434	210,470	2,000	7,973,626	13,308,152	1,123,976	-	74,638,658

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 8 FINANCIAL RISK MANAGEMENT (continued)

### (b) Liquidity risk (continued)

#### Liquidity measurements (continued)

##### (ii) Undiscounted cash flows by contractual maturities (continued)

As at December 31, 2015

	Repayable on demand	1 month or less	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	After 5 years	Undated	Total
<b>Non-derivative financial liabilities</b>								
Deposits and balances of banks	2,869,495	70,193,020	2,103,626	5,908,868	-	-	-	81,075,009
Deposits from customers	64,339,855	86,357,446	79,265,808	76,039,710	831,692	-	-	306,834,511
Certificates of deposit and other debt securities issued	-	4,416,976	16,736,607	11,348,684	20,014,273	3,145,182	-	55,661,722
Current tax payable	-	-	-	146,728	-	-	-	146,728
Deferred tax liabilities	-	-	-	-	-	-	18,276	18,276
Other liabilities	683,581	4,364,251	1,011,603	809,396	185,616	9,097	2,833,743	9,897,287
Subordinated debts	-	77,898	143,333	501,962	1,808,202	6,076,304	-	8,607,699
	67,892,931	165,409,591	99,260,977	94,755,348	22,839,783	9,230,583	2,852,019	462,241,232
<b>Cash inflow/(outflow) of derivatives settled on a net basis</b>								
	-	(38,944)	(48,381)	(200,075)	71,107	-	-	(216,293)
<b>Cash flow of derivatives settled on a gross basis</b>								
- inflow	-	140,164,698	154,251,274	275,134,127	7,033,602	-	-	576,583,701
- outflow	-	140,194,973	154,260,276	275,511,130	7,650,569	-	-	577,616,948
<b>Contingent liabilities and commitments</b>								
- contingent liabilities	332,991	135,831	550,955	1,733,183	148,947	101,737	-	3,003,644
- commitments	49,125,258	247,141	144,448	3,600,801	8,122,643	1,000	-	61,241,291

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 8 FINANCIAL RISK MANAGEMENT (continued)

### (c) Market risk

#### Market risk management by the Group

Market risk is the risk of loss arising from adverse changes in market rates and prices such as foreign exchange rates and interest rates and prices of debt securities. Market risk arises from both the Group's trading and non-trading business. A trading book consists of positions in financial instruments held either with trading intent or in order to hedge other elements of the trading book. Non-trading book records those financial instruments which are not included in the trading book. The Group's exposure to market risk arises from its day-to-day activities associated with loans, deposits, securities held for liquidity purposes and trading activities.

The Group's Risk Management Committee is responsible for overseeing the market risk of the Group. The Group's market risk framework comprises market risk management policies and control procedures with appropriate delegation of market risk limits.

The Group's trading activities are primarily related to foreign exchange and money market transactions. The Group manages its exposure to market risk through the establishment of various trading limits. In addition to the overall limits, documented trading policies and procedures define acceptable boundaries within which traders can execute transactions in their assigned markets.

#### Value-at-Risk ("VaR") for the Group

VaR is a technique which estimates the potential losses that could occur on risk positions taken due to movements in market rates and prices over a specified time horizon and to a given level of confidence. The Group uses VaR to measure and report the trading book market risk position. The Group sets up VaR limit to control the trading book maximum market risk exposure. The Group adopts historical simulation approach to calculate VaR at a 99% confidence level for a one-day holding period.

The table below shows the trading VaR for the Group.

	2016	2015
Trading VaR	948	5,027
Trading VaR for interest rate risk	401	3,841
Trading VaR for foreign exchange risk	701	1,437

### (i) Currency risk

#### Currency risk management by the Group

The Group's foreign currency positions arise from treasury activities and foreign exchange dealing to support the commercial and consumer banking operations. The Group has formulated a foreign exchange policy in managing the Group's foreign exchange risk. The foreign currency positions are managed within established limits, including open risk position limits.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 8 FINANCIAL RISK MANAGEMENT (continued)

### (c) Market risk (continued)

#### Value-at-Risk ("VaR") for the Group (continued)

##### (i) Currency risk (continued)

#### Currency risk management by the Group (continued)

In addition to adopting VaR to measure foreign exchange risk, a stress testing programme was developed to assess the potential loss that the Group may incur from the foreign exchange positions. The stress testing programme incorporates sensitivity analysis on changes in foreign exchange rates with various degree of severity. The methodology and assumptions of stress testing programme are properly documented, reviewed and approved by the Risk Management Committee and/or the Steering Committee on Stress-testing, with its update at least once a year or when the portfolio or the market conditions changes significantly.

The Group developed the medium stress scenario based on annualized volatility (95% confidence interval) of major foreign currencies in past 10-year historical record, as well as some forward-looking adjustment factor(s). The stress testing is conducted on outstanding foreign exchange positions. The result of the medium stress scenario are used to estimate the impact on the Group's profit before tax in response to the changes in the foreign exchange rates as specified in the stress testing programme and the result is as follows:

	Increase/(decrease) in Group's profit before taxation	
	2016	2015
Increase in foreign exchange rates	13,778	10,942
Decrease in foreign exchange rates	(13,778)	(10,942)

The following percentage changes are adopted on the significant foreign currency positions in stress testing (for medium stress scenario)(\*):

- 11.8% for Chinese Renminbi (2015: 11.8%) (Note);
- 17.2% for Euro (2015: 16.7%);
- 20.9% for Pound Sterling (2015: 15.3%);
- 28.1% for Swiss Franc (2015: 21.0%);

(\*) The above estimation excluded the RMB capital

Note: The stress scenario for Chinese Renminbi position was formulated taking the reform of central parity rate on August 11, 2015 into consideration. The historical data from August 11, 2015 till December 31, 2015 was adopted consequentially to replace the original data of the past 10 years.

Brexit impact to the euro-zone currencies was considered in this FX stress testing. For GBP, the market data from July 2015 to June 2016 was used instead of 10-year historical data to reflect the Brexit period volatility. For EUR and CHF, the data of historical period of July 2014 to June 2016 is used to capture the CHF unpegged effect in Jan 2015 and Brexit impact in June 2016.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 8 FINANCIAL RISK MANAGEMENT (continued)

### (c) Market risk (continued)

#### Value-at-Risk ("VaR") for the Group (continued)

##### (i) Currency risk (continued)

The following table indicates the currency concentration of the Group's assets and liabilities.

#### As at December 31, 2016

	HKD	USD	EUR	RMB	Others	Total
<b>Assets</b>						
Cash and balances with banks and central banks	13,229,750	72,395,086	2,621,479	3,562,889	3,789,476	95,598,680
Placements with banks	18,380,000	11,476,216	244,722	6,115,868	–	36,216,806
Advances to banks	–	–	–	–	–	–
Advances to customers and trade bills	136,927,199	68,161,261	10,513,079	12,669,050	5,025,490	233,296,079
Financial assets measured at fair value through profit or loss	–	–	–	–	–	–
Available-for-sale financial assets	14,270,278	52,508,940	3,152,468	26,329,443	–	96,261,129
Held-to-maturity securities	15,034,547	10,373,626	–	1,590,126	–	26,998,299
Derivative financial instruments (Note)	20,699	7,088,291	475,223	62,971	87,367	7,734,551
Interest in a joint venture	1,987,787	–	–	–	–	1,987,787
Interest in an associate	285,283	–	–	–	–	285,283
Deferred tax assets	139,680	–	–	–	–	139,680
Fixed assets	3,467,344	–	–	–	–	3,467,344
Other assets	6,097,457	2,900,630	108,469	631,740	42,854	9,781,150
Spot assets	209,840,024	224,904,050	17,115,440	50,962,087	8,945,187	511,766,788
<b>Liabilities</b>						
Deposits and balances of banks	5,742,610	67,632,408	7,844,282	4,898,019	203,466	86,320,785
Deposits from customers	179,058,658	93,613,626	2,036,933	41,036,510	6,476,842	322,222,569
Certificates of deposit and other debt securities issued	2,011,818	17,177,689	4,073,204	6,281,878	2,278,386	31,822,975
Derivative financial instruments (Note)	24,356	195,288	31,359	6,672,974	709,738	7,633,715
Current tax payable	64,274	–	–	2,470	–	66,744
Deferred tax liabilities	19,399	–	–	–	–	19,399
Other liabilities	8,154,889	559,025	77,063	572,214	45,074	9,408,265
Subordinated debts	–	5,773,574	–	–	–	5,773,574
Spot liabilities	195,076,004	184,951,610	14,062,841	59,464,065	9,713,506	463,268,026
Forward purchases (Note)	51,321,144	203,962,961	3,497,540	174,436,686	11,398,227	444,616,558
Forward sales (Note)	(16,815,382)	(237,523,873)	(6,066,995)	(172,698,531)	(11,236,233)	(444,341,014)
<b>Net long/(short) position</b>	<b>49,269,782</b>	<b>6,391,528</b>	<b>483,144</b>	<b>(6,763,823)</b>	<b>(606,325)</b>	<b>48,774,306</b>

Note: The derivative financial instruments are also represented under "Forward purchases" and "Forward sales" in the table above.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 8 FINANCIAL RISK MANAGEMENT (continued)

### (c) Market risk (continued)

#### Value-at-Risk ("VaR") for the Group (continued)

##### (i) Currency risk (continued)

As at December 31, 2015

	HKD	USD	EUR	RMB	Others	Total
<b>Assets</b>						
Cash and balances with banks and central banks	34,759,107	32,674,898	2,008,248	11,887,496	690,286	82,020,035
Placements with banks	26,167,000	25,614,246	1,777,183	5,472,595	5,343	59,036,367
Advances to banks	-	659,277	25,840	675,631	-	1,360,748
Advances to customers and trade bills	120,847,984	71,373,210	3,609,238	41,383,132	876,749	238,090,313
Financial assets measured at fair value through profit or loss	3,690	-	-	117	-	3,807
Available-for-sale financial assets	10,711,549	39,163,099	2,405,245	33,415,366	-	85,695,259
Held-to-maturity securities	4,698,793	774,877	-	-	-	5,473,670
Derivative financial instruments (Note)	29,936	5,817,941	133,189	180,392	127,806	6,289,264
Interest in a joint venture	1,937,240	-	-	-	-	1,937,240
Interest in an associate	265,914	-	-	-	-	265,914
Deferred tax assets	112,428	-	-	-	-	112,428
Fixed assets	3,563,991	-	-	-	-	3,563,991
Other assets	1,271,987	21,095,507	99,419	1,166,428	26,126	23,659,467
Spot assets	204,369,619	197,173,055	10,058,362	94,181,157	1,726,310	507,508,503
<b>Liabilities</b>						
Deposits and balances of banks	15,073,042	51,201,028	13,456	14,578,200	99,354	80,965,080
Deposits from customers	159,077,491	65,835,343	1,111,420	74,810,896	4,790,234	305,625,384
Certificates of deposit and other debt securities issued	5,757,932	21,475,422	4,477,590	18,449,378	2,341,565	52,501,887
Derivative financial instruments (Note)	12,490	375,614	64,478	5,767,536	524,607	6,744,725
Current tax payable	130,269	400	-	16,059	-	146,728
Deferred tax liabilities	18,276	-	-	-	-	18,276
Other liabilities	7,666,243	818,227	107,788	1,215,391	89,638	9,897,287
Subordinated debts	-	5,776,365	-	-	-	5,776,365
Spot liabilities	187,735,743	145,482,399	5,774,732	114,837,460	7,845,398	461,675,732
<b>Forward purchases (Note)</b>	52,628,184	276,397,940	6,578,096	250,783,162	14,830,078	601,217,460
<b>Forward sales (Note)</b>	(24,118,027)	(321,724,064)	(10,837,168)	(235,492,862)	(9,077,957)	(601,250,078)
<b>Net long/(short) position</b>	45,144,033	6,364,532	24,558	(5,366,003)	(366,967)	45,800,153

Note: The derivative financial instruments are also represented under "Forward purchases" and "Forward sales" in the table above.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 8 FINANCIAL RISK MANAGEMENT (continued)

### (c) Market risk (continued)

#### Value-at-Risk ("VaR") for the Group (continued)

##### (ii) Interest rate risk

#### Interest rate risk management by the Group

The Group's interest rate exposure arises from the positions in the banking book and proprietary trading. The interest rate risk exposure in the banking book arises from its normal course of banking activities, such as lending, accepting deposits, investing in securities for liquidity purposes and issuance of debts as needed to fund assets. The governing objective in interest rate risk management is to minimise the potential significant loss as a result of changes in interest rates. The Group holds weekly interest rate setting meetings to review the latest market rate movements and the overall portfolio yield. Interest rate risk is managed on a daily basis by the Treasury Division within the limits approved by the Risk Management Committee. The instruments used to manage interest rate risk include interest rate swaps and other derivatives.

The Group is exposed to two major sources of interest rate risk, namely, repricing risk and basis risk.

Repricing risk arises from the timing differences in rate changes and cash flows that occur in the repricing and maturity of fixed and floating rate assets and liabilities, and, to a much less significant extent, contingent liabilities and commitments (e.g. loan commitments). The Group uses forward rate agreements and interest rate swaps to mitigate the repricing risk. The Group generally monitors mismatches by monthly time buckets up to one year and by yearly time buckets thereafter.

Basis risk arises from different pricing basis of assets and liabilities, which results in changes in the yield on assets and cost of liabilities by different amount within the same repricing period. For example, loan assets are being tied to the Hong Kong dollar prime rate, and deposit liabilities tied to the Hong Kong Interbank Offer Rate ("HIBOR"). Basis risk primarily occurs in the Group's Hong Kong dollar books. The Group has established stress testing programme to assess the potential erosion of net interest income that the Group may incur from basis risk.

The Group mainly uses two methodologies to measure and monitor its interest rate risk exposure. One methodology is VaR measurement. Another methodology is using stress test to assess the banking book interest rate risk ("IRRBB"). The IRRBB stress-testing has further incorporated the repricing gap and several types of yield curve movement. For interest rate risk monitoring purpose, the Risk Management Committee reviews the IRRBB stress-testing from time to time, in particular when reviewing the repricing limits.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 8 FINANCIAL RISK MANAGEMENT (continued)

### (c) Market risk (continued)

#### Value-at-Risk ("VaR") for the Group (continued)

##### (ii) Interest rate risk (continued)

#### Interest rate risk management by the Group (continued)

Based on data of the statement of financial position and the IRRBB stress-testing results, change of 100 basis points in interest rates would change the Group's profit after tax and retained profits as follows:

	Increase/(decrease) in Group's profit after tax and retained profits	
	2016	2015 (restated)
Increase by 100 basis points	199,578	316,839
Decrease by 100 basis points	(199,578)	(316,839)

#### Interest rate repricing gap

The table below summarises the Group's exposure to interest rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The carrying amounts of derivative financial instruments, which are principally used to reduce the Group's exposure to interest rate movements, are under the heading "Non-interest bearing".

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 8 FINANCIAL RISK MANAGEMENT (continued)

### (c) Market risk (continued)

#### Value-at-Risk ("VaR") for the Group (continued)

##### (ii) Interest rate risk (continued)

#### Interest rate repricing gap as at December 31, 2016

	1 month or less	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	After 5 years	Non- interest bearing	Total
<b>Assets</b>							
Cash and balances with banks and central banks	91,662,330	-	-	-	-	3,936,350	95,598,680
Placements with banks	-	33,421,244	1,795,562	1,000,000	-	-	36,216,806
Advances to banks	-	-	-	-	-	-	-
Advances to customers and trade bills	150,329,153	59,250,870	12,646,570	9,990,133	26,748	1,052,605	233,296,079
Financial assets measured at fair value through profit or loss	-	-	-	-	-	-	-
Available-for-sale financial assets	11,597,092	8,774,083	10,023,737	64,378,366	1,453,892	33,959	96,261,129
Held-to-maturity investments	1,139,976	14,012,564	7,412,387	4,433,372	-	-	26,998,299
Derivative financial instruments	-	-	-	-	-	7,734,551	7,734,551
Interest in a joint venture	-	-	-	-	-	1,987,787	1,987,787
Interest in an associate	-	-	-	-	-	285,283	285,283
Deferred tax assets	-	-	-	-	-	139,680	139,680
Fixed assets	-	-	-	-	-	3,467,344	3,467,344
Other assets	7,006	6	28	165	-	9,773,945	9,781,150
<b>Total assets</b>	<b>254,735,557</b>	<b>115,458,767</b>	<b>31,878,284</b>	<b>79,802,036</b>	<b>1,480,640</b>	<b>28,411,504</b>	<b>511,766,788</b>
<b>Liabilities</b>							
Deposits and balances of banks	65,311,172	13,920,461	495,770	-	-	6,593,382	86,320,785
Deposits from customers	134,819,376	105,611,200	61,174,896	405,587	-	20,211,510	322,222,569
Certificates of deposit and other debt securities issued	4,523,878	5,482,191	7,869,957	13,283,751	663,198	-	31,822,975
Derivative financial instruments	-	-	-	-	-	7,633,715	7,633,715
Current tax payable	-	-	-	-	-	66,744	66,744
Deferred tax liabilities	-	-	-	-	-	19,399	19,399
Other liabilities	-	-	-	-	-	9,408,265	9,408,265
Subordinated debts	-	-	-	5,773,574	-	-	5,773,574
<b>Total liabilities</b>	<b>204,654,426</b>	<b>125,013,852</b>	<b>69,540,623</b>	<b>19,462,912</b>	<b>663,198</b>	<b>43,933,015</b>	<b>463,268,026</b>
<b>Net repricing gap</b>	<b>50,081,131</b>	<b>(9,555,085)</b>	<b>(37,662,339)</b>	<b>60,339,124</b>	<b>817,442</b>		

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 8 FINANCIAL RISK MANAGEMENT (continued)

### (c) Market risk (continued)

#### Value-at-Risk ("VaR") for the Group (continued)

##### (ii) Interest rate risk (continued)

Interest rate repricing gap as at December 31, 2015

	1 month or less	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	After 5 years	Non- interest bearing	Total
<b>Assets</b>							
Cash and balances with banks and central banks	67,761,554	-	-	-	-	14,258,481	82,020,035
Placements with banks	-	43,035,204	16,001,163	-	-	-	59,036,367
Advances to banks	292,665	206,019	862,064	-	-	-	1,360,748
Advances to customers and trade bills	135,921,123	57,417,162	30,226,254	13,365,050	26,781	1,133,943	238,090,313
Financial assets measured at fair value through profit or loss	-	501	3,306	-	-	-	3,807
Available-for-sale financial assets	6,940,345	16,205,829	20,649,396	39,340,683	2,525,163	33,843	85,695,259
Held-to-maturity investments	-	4,974,833	-	498,837	-	-	5,473,670
Derivative financial instruments	-	-	-	-	-	6,289,264	6,289,264
Interest in a joint venture	-	-	-	-	-	1,937,240	1,937,240
Interest in an associate	-	-	-	-	-	265,914	265,914
Deferred tax assets	-	-	-	-	-	112,428	112,428
Fixed assets	-	-	-	-	-	3,563,991	3,563,991
Other assets	2,737	5	26	-	-	23,656,699	23,659,467
<b>Total assets</b>	<b>210,918,424</b>	<b>121,839,553</b>	<b>67,742,209</b>	<b>53,204,570</b>	<b>2,551,944</b>	<b>51,251,803</b>	<b>507,508,503</b>
<b>Liabilities</b>							
Deposits and balances of banks	70,463,035	2,099,963	6,068,596	-	-	2,333,486	80,965,080
Deposits from customers	133,415,902	87,027,829	67,306,061	738,979	-	17,136,613	305,625,384
Certificates of deposit and other debt securities issued	5,084,260	16,772,554	10,924,772	17,838,045	1,882,256	-	52,501,887
Derivative financial instruments	-	-	-	-	-	6,744,725	6,744,725
Current tax payable	-	-	-	-	-	146,728	146,728
Deferred tax liabilities	-	-	-	-	-	18,276	18,276
Other liabilities	-	-	-	-	-	9,897,287	9,897,287
Subordinated debts	-	-	-	-	5,776,365	-	5,776,365
<b>Total liabilities</b>	<b>208,963,197</b>	<b>105,900,346</b>	<b>84,299,429</b>	<b>18,577,024</b>	<b>7,658,621</b>	<b>36,277,115</b>	<b>461,675,732</b>
<b>Net repricing gap</b>	<b>1,955,227</b>	<b>15,939,207</b>	<b>(16,557,220)</b>	<b>34,627,546</b>	<b>(5,106,677)</b>		

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 8 FINANCIAL RISK MANAGEMENT (continued)

### (d) Capital management

Being an authorised institution incorporated in Hong Kong, the Bank is regulated by the HKMA who sets and monitors capital requirements for the Bank as well as the consolidated position for the banking subsidiaries as prescribed by the HKMA. A non-banking financial subsidiary, CCBS, is subject to the supervision and capital requirements of the Hong Kong Securities and Futures Commission.

According to the Banking (Capital) Rules (“Capital Rules”), the Group is required to maintain adequate regulatory capital and capital buffers to support credit risk, market risk and operational risk.

In addition to meeting the regulatory requirements, the Group’s primary objectives when managing capital are to safeguard the Group’s ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between higher shareholder returns and the advantages and security afforded by a sound capital position, and, when necessary, makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of the capital adequacy ratios and capital buffers as calculated in accordance with the Capital Rules and the Group’s policy on the management of capital is updated regularly to incorporate latest regulatory requirements.

The Group maintains a policy on internal capital adequacy assessment process (“CAAP”) that sets out the methodologies, assumptions and techniques that the Group adopts in allocating the capital requirements on the residual risks that are not covered by the Capital Rules. The Group adopts the scoring approach in deriving the internal minimum capital requirement.

Throughout the years ended December 31, 2016 and 2015, the Group has complied with the capital requirements imposed by the HKMA. Additional information is disclosed in Unaudited Supplementary Financial Information Note 3.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 8 FINANCIAL RISK MANAGEMENT (continued)

### (e) Fair value of financial assets and liabilities

#### (i) Financial assets and liabilities measured at fair value

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 value using the following hierarchy method:

Level 1: fair values measured using quoted market prices (unadjusted) in active markets for identical financial instruments.

Level 2: fair values measured using valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes quoted prices in active markets for similar financial instruments, or 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: fair values measured using significant unobservable inputs. This category includes inputs to valuation techniques not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Where available, the most suitable measure for fair value is the quoted market price. In the absence of organised secondary markets for most of the unlisted securities and over-the-counter derivatives, direct market prices of these financial instruments may not be available. The fair values of such instruments are therefore calculated based on established valuation techniques using current market parameters or market prices provided by counterparties.

Options traded over the counter are valued using broker quotes price. For other derivative financial instruments, the Group uses estimated discounted cash flows to determine their fair value and the discount rate used is a market rate at the end of the reporting period applicable for an instrument with similar terms and conditions. The fair value of interest rate swaps and currency swaps are calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the reporting date.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 8 FINANCIAL RISK MANAGEMENT (continued)

### (e) Fair value of financial assets and liabilities (continued)

#### (i) Financial assets and liabilities measured at fair value (continued)

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value treatment is categorised:

	Level 1	Level 2	Total
<b>As at December 31, 2016</b>			
<b>Assets</b>			
Held for trading:			
debt securities	–	–	–
Available-for-sale securities:			
treasury bills	10,304,015	13,487,088	23,791,103
certificates of deposit	–	2,073,419	2,073,419
debt securities	49,719,624	20,643,024	70,362,648
equity securities	16,717	–	16,717
Derivatives financial instruments:			
exchange rate contracts			
forwards	–	6,839,837	6,839,837
options purchased	–	165,068	165,068
interest rate swaps	–	278,019	278,019
currency swaps	–	448,490	448,490
equity options purchased	–	3,095	3,095
equity swaps	–	42	42
	<b>60,040,356</b>	<b>43,938,082</b>	<b>103,978,438</b>
<b>Liabilities</b>			
Certificates of deposit and other debt securities issued	–	4,672,423	4,672,423
Derivatives financial instruments:			
exchange rate contracts			
forwards	–	7,096,185	7,096,185
options written	–	165,068	165,068
interest rate swaps	–	54,693	54,693
currency swaps	–	314,632	314,632
equity options issued	–	42	42
equity swaps	–	3,095	3,095
Subordinated debts	–	5,730,847	5,730,847
	–	<b>18,036,985</b>	<b>18,036,985</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 8 FINANCIAL RISK MANAGEMENT (continued)

### (e) Fair value of financial assets and liabilities (continued)

#### (i) Financial assets and liabilities measured at fair value (continued)

	Level 1	Level 2	Total
As at December 31, 2015			
<b>Assets</b>			
Held for trading:			
debt securities	3,807	–	3,807
Available-for-sale securities:			
treasury bills	7,649,942	3,547,116	11,197,058
certificates of deposit	–	27,726,275	27,726,275
debt securities	22,387,185	24,350,898	46,738,083
equity securities	16,607	–	16,607
Derivatives financial instruments:			
exchange rate contracts			
forwards	–	5,893,443	5,893,443
options purchased	–	257,833	257,833
interest rate swaps	–	31,275	31,275
currency swaps	–	91,867	91,867
equity options purchased	–	14,586	14,586
equity swaps	–	260	260
	30,057,541	61,913,553	91,971,094
<b>Liabilities</b>			
Certificates of deposit and other debt			
securities issued	–	6,315,883	6,315,883
Derivatives financial instruments:			
exchange rate contracts			
forwards	–	6,162,908	6,162,908
options written	–	257,833	257,833
interest rate swaps	–	51,717	51,717
currency swaps	–	257,421	257,421
equity options issued	–	260	260
equity swaps	–	14,586	14,586
Subordinated debts	–	5,776,365	5,776,365
	–	18,836,973	18,836,973

There were no significant transfers between instruments in Level 1 and Level 2 for the year ended December 31, 2016 and 2015.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 8 FINANCIAL RISK MANAGEMENT (continued)

### (e) Fair value of financial assets and liabilities (continued)

#### (ii) Financial assets and liabilities not measured at fair value

Financial assets and liabilities that are presented not at their fair value on the statement of financial position mainly represent cash and balances with banks, placements with banks, and advances to customers and trade bills. These financial assets are measured at amortised cost less impairment. Financial liabilities not presented at their fair value on the statement of financial position mainly represent deposits and balances of banks, deposits from customers, and certificates of deposit and other debt securities issued. These financial liabilities are measured at amortised cost.

The Group assessed that, except for medium term notes in other debt securities measured at amortised cost and their fair values are stated in Note 34, the differences between fair values and carrying amounts of those financial assets and liabilities not presented on the Group's consolidated statement of financial position at their fair values are minimal as most of the Group's financial assets and liabilities are either short-term or priced at floating rates.

### (f) Offsetting financial assets and financial liabilities

#### (i) Financial assets

The following financial assets are subject to offsetting, enforceable master netting arrangements or similar agreements.

**As at December 31, 2016**

	Gross amounts of financial liabilities recognised in the statement of financial position	Gross set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not set off in the statement of financial position		
				Financial instruments	Cash collateral received	Net amount
Derivative financial assets	7,734,551	-	7,734,551	(3,784,336)	-	3,950,215
Other assets	130,099	(126,640)	3,459	-	-	3,459
	7,864,650	(126,640)	7,738,010	(3,784,336)	-	3,953,674

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 8 FINANCIAL RISK MANAGEMENT (continued)

### (f) Offsetting financial assets and financial liabilities (continued)

#### (i) Financial assets (continued)

As at December 31, 2015

	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets	Gross amounts of recognised financial assets	Net amounts of financial assets presented in the statement	Related amounts not set off in the statement of financial position	Cash collateral received	Net amount
Derivative financial assets	6,289,264	–	6,289,264	(4,106,646)	–	–	2,182,618
Other assets	74,998	(53,555)	21,443	–	–	–	21,443
	6,364,262	(53,555)	6,310,707	(4,106,646)	–	–	2,204,061

#### (ii) Financial liabilities

The following financial liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements.

As at December 31, 2016

	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets	Net amounts of financial liabilities presented in the statement	Related amounts not set off in the statement of financial position	Cash collateral received	Net amount
Derivative financial liabilities	7,633,715	–	7,633,715	(3,784,336)	–	–	3,849,379
Other liabilities	162,451	(126,640)	35,811	–	–	–	35,811
	7,796,166	(126,640)	7,669,526	(3,784,336)	–	–	3,885,190

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 8 FINANCIAL RISK MANAGEMENT (continued)

### (f) Offsetting financial assets and financial liabilities (continued)

#### (ii) Financial liabilities (continued)

As at December 31, 2015

	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amount
	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets	Net amounts of financial liabilities presented in the statement of financial position	Financial instruments	Cash collateral received	Net amount
Derivative financial liabilities	6,744,725	–	6,744,725	(4,106,646)	–	2,638,079
Other liabilities	149,554	(90,276)	59,278	–	–	59,278
	6,894,279	(90,276)	6,804,003	(4,106,646)	–	2,697,357

For the financial assets and liabilities subject to enforceable master netting arrangements or similar arrangements above, each agreement between the Group and the counterparty allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis, in the absence of such an election, financial assets and liabilities will be settled on a gross basis, however, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 9 NET INTEREST INCOME

	2016	2015
<b>Interest income</b>		
<i>Interest income arising from financial assets that are not measured at fair value through profit or loss</i>		
Placements and advances to banks	1,262,250	3,676,277
Advances to customers and trade bills	6,047,588	7,369,250
Available-for-sale financial assets	1,893,648	1,812,990
Held-to-maturity investments	256,424	7,201
	<b>9,459,910</b>	12,865,718
<b>Interest expense</b>		
<i>Interest expense arising from financial liabilities that are not measured at fair value through profit or loss</i>		
Deposits and balances of banks	402,583	1,643,893
Deposits from customers	3,495,391	4,127,563
Certificates of deposit and other debt securities issued	724,797	1,391,679
	<b>4,622,771</b>	7,163,135
<i>Interest expense arising from financial liabilities that are measured at fair value through profit or loss</i>		
Certificates of deposit issued	34,554	33,254
	<b>34,554</b>	33,254
<i>Interest expense arising from financial liabilities under fair value hedge</i>		
Certificates of deposit and other debt securities issued	75,672	68,283
Subordinated debt	252,147	251,582
	<b>327,819</b>	319,865
<b>Net Interest Income</b>	<b>4,474,766</b>	5,349,464

There were no interest income accrued on impaired financial assets for the year ended December 31, 2016 and 2015.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 10 NET FEES AND COMMISSION INCOME

	2016	2015
<b>Fees and commission income</b>		
Securities broking and related services	224,105	293,059
Insurance	277,548	196,031
Remittance, settlement and account management fees	121,222	83,851
Fees received from intermediate holding company and a fellow subsidiary (Note 39(a))	469,395	381,591
Trade finance	52,421	102,620
Cards	142,549	143,977
Credit facilities	97,350	43,800
Others	4,894	4,307
	1,389,484	1,249,236
<b>Fees and commission expense</b>		
Cards	(46,398)	(42,964)
Brokerage	(19,332)	(41,932)
Others	(118,798)	(89,754)
	(184,528)	(174,650)
Net fees and commission income	1,204,956	1,074,586

The fees and commission income above include income of \$292,320 (2015: \$290,397) and expenses of \$46,398 (2015: \$42,964) relating to financial assets and financial liabilities not measured at fair value through profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 11 NET TRADING INCOME/(LOSSES)

	2016	2015
<b>Profits/(losses) from trading activities</b>		
Foreign exchange	803,288	(170,970)
Interest rate derivatives	(80,361)	5,466
Debt securities	1,863	(51,379)
Other trading	32,653	43,800
	<b>757,443</b>	(173,083)
<b>Net (loss)/gain from hedging activities</b>		
Fair value hedges		
– Net gain/(loss) on hedging instruments	234,842	(17,146)
– Net (loss)/gain on hedged items	(247,617)	50,950
	<b>(12,775)</b>	33,804
	<b>744,668</b>	(139,279)

“Foreign exchange” under “Net trading income/(losses)” includes gains and losses from spot and forward contracts, options, and the income and costs from foreign exchange swaps contracts which were used for economically hedging the assets and liabilities of the Bank. It also includes the net translation losses on foreign currency denominated assets and liabilities amounted to \$498,822 in 2016 (2015: \$32,944).

## 12 NET GAINS/(LOSSES) FROM FINANCIAL INSTRUMENTS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016	2015
Net gains/(losses) from certificates of deposit issued	12,673	(76,542)

## 13 OTHER OPERATING INCOME

	2016	2015
Dividend income from available-for-sale equity financial assets		
unlisted	3,817	3,900
listed	65	77
Others	53,650	47,473
	<b>57,532</b>	51,450



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 14 OPERATING EXPENSES

	2016	2015
Staff costs		
salaries and other benefits	<b>1,444,168</b>	1,362,701
pension and provident fund costs	<b>107,861</b>	99,258
	<b>1,552,029</b>	1,461,959
Premises and equipment expenses excluding depreciation		
rental of premises	<b>393,246</b>	374,755
reversal of impairment on fixed assets	-	(2)
maintenance	<b>62,359</b>	60,676
leasing of equipment	<b>30,819</b>	29,194
utilities	<b>18,296</b>	17,631
others	<b>117,742</b>	102,116
	<b>622,462</b>	584,370
Auditor's remuneration	<b>7,156</b>	6,864
Depreciation	<b>280,896</b>	242,758
Marketing expenses	<b>244,761</b>	260,582
Professional fees	<b>63,829</b>	46,627
Other operating expenses	<b>193,638</b>	206,399
	<b>790,280</b>	763,230
	<b>2,964,771</b>	2,809,559

## 15 LOAN IMPAIRMENT CHARGE

	2016	2015
<b>Advances to customers</b>		
Individually assessed impairment allowances charged (Note 22(b))	<b>75,718</b>	79,332
Collectively assessed impairment allowances charged (Note 22(b))	<b>48,186</b>	321,330
	<b>123,904</b>	400,662
<b>Trade bills</b>		
Individually assessed impairment allowances charged (Note 22(c))	<b>25,503</b>	42,637
Collectively assessed impairment allowances (released)/charged (Note 22(c))	<b>(10,585)</b>	8,510
	<b>14,918</b>	51,147
<b>Total</b>	<b>138,822</b>	451,809

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 15 LOAN IMPAIRMENT CHARGE (continued)

Include in the above impairment allowances on loans charged/(released):

	2016	2015
<b>Advances to customers</b>		
New and additional charges	285,357	451,168
Releases	(113,127)	(3,853)
Recoveries	(48,326)	(46,653)
	123,904	400,662
<b>Trade bills</b>		
New and additional charges	26,407	90,226
Releases	(11,489)	(39,079)
	14,918	51,147
<b>Total</b>	138,822	451,809

## 16 BENEFITS AND INTERESTS OF DIRECTORS

### (i) Directors' emoluments

	2016	2015
Fees	1,309	890
Salaries	10,183	12,225
Discretionary Bonuses	7,120	5,281
Other emoluments	13	–
Contributions to provident fund	928	1,184
	19,553	19,580

### (ii) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Bank, or any of its holding companies, subsidiaries, fellow subsidiaries, joint venture or associate 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 17 TAXATION

### (a) Taxation in the consolidated statement of comprehensive income represents:

	2016	2015
<b>Current tax – Hong Kong Profits Tax</b>		
Provision for the year	578,761	417,954
Over-provision in respect of prior years	(90,619)	(99,106)
	488,142	318,848
<b>Current tax – Overseas</b>		
Provision for the year	8,944	78,728
Withholding tax in the Mainland	17,040	230,007
	25,984	308,735
<b>Deferred tax</b>		
Origination and reversal of temporary differences	36,620	2,538
	550,746	630,121

The provision of Hong Kong Profits Tax for 2016 is calculated at 16.5% (2015: 16.5%) of the estimated assessable profits for the year. Taxation for overseas transactions are charged at the appropriate current rates of taxation ruling in the countries in which the transactions took place.

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

	2016	2015
Profit before taxation	3,593,793	3,130,817
Notional tax on profit before tax, calculated at the rates applicable to profits in the countries concerned	592,976	516,585
Income not subject to taxation	(34,265)	(152,942)
Expenses not deductible for taxation purposes	64,491	102,377
Over-provision in prior years	(90,619)	(99,106)
Foreign withholding tax	17,040	230,007
Tax effect of temporary differences not recognised and reversal of previously recognised deferred tax assets	1,123	33,200
Actual tax expense	550,746	630,121

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 18 OTHER COMPREHENSIVE (LOSSES)/INCOME

	2016	2015
<b>Items that may be subsequently reclassified to profit or loss:</b>		
<b>Available-for-sale investment revaluation reserve</b>		
Changes in fair value recognised during the year	(287,830)	9,215
Reclassification adjustments for amounts transferred to profit or loss	(151,975)	29,586
Tax effect	62,749	–
Other comprehensive (losses)/income	(377,056)	38,801

## 19 SEGMENTAL INFORMATION

### (a) Reportable segments

The Group manages its businesses by divisions, which are organized by products services and customer types. In a manner consistent with the way in which information is reported internally to the executive management for the purposes of resource allocation and performance assessment, the Group has presented the following 4 reportable segments.

#### (i) Corporate and institutional banking

This segment mainly represents the provision of a range of financial products and services to corporations and financial institutions. The products and services mainly include commercial loans, syndicated loans, trade financing, foreign exchange and deposit-taking activities.

#### (ii) Consumer and commercial banking

This segment mainly represents the provision of a range of financial products and services to individual customers and small and medium sized enterprises. The products and services mainly comprise residential and commercial mortgages, personal loans, credit cards, auto-financing, commercial loans, trade financing, deposit-taking activities, foreign exchange, wealth management, insurance and securities agency services.

#### (iii) Treasury

This segment covers the Bank's treasury operations. The Treasury Division enters into inter-bank money market transactions and invests in debt instruments. It also trades in debt instruments, derivatives and foreign currency for its own account. The Treasury carries out customer driven derivatives, such as foreign currency transactions. Its function also includes the management of the Group's overall liquidity position, including the issuance of certificates of deposit.

#### (iv) Others

This segment mainly represents management of shareholders' funds and investments in premises and other unallocated units.

Segment assets and liabilities are mainly composed of placement with banks, advances to banks and customers, investment securities, derivatives financial instruments, deposits and certificates of deposit and other debt securities issued.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 19 SEGMENTAL INFORMATION (continued)

### (a) Reportable segments (continued)

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

The primary revenue stream of the Group is derived from net interest income and the executive management relies to a large extent on net interest income in managing its business. Hence, net interest income for all reportable segments are presented under segmental information.

	2016					Total
	Corporate and Institutional Banking	Consumer and Commercial Banking	Treasury	Others	Inter-segment elimination	
Net interest income	1,361,660	2,639,616	(59,109)	532,599	–	4,474,766
Total operating income						
– External	2,367,770	1,201,678	2,779,162	291,273	–	6,639,883
– Inter-segment	(855,849)	2,283,094	(2,207,289)	780,044	–	–
Total operating income	1,511,921	3,484,772	571,873	1,071,317	–	6,639,883
Depreciation and amortization	(31,409)	(160,325)	(11,526)	(77,636)	–	(280,896)
Total operating expenses	(332,426)	(1,946,057)	(130,874)	(555,414)	–	(2,964,771)
Operating profit before impairment losses	1,179,495	1,538,715	440,999	515,903	–	3,675,112
Release of/(charge on) impairment	80,131	(225,655)	(5,721)	–	–	(151,245)
Non-operating profit	–	–	–	69,926	–	69,926
Profit before taxation	1,259,626	1,313,060	435,278	585,829	–	3,593,793
Total assets	145,169,036	95,891,214	263,177,107	8,258,226	(728,795)	511,766,788
Total liabilities	118,161,195	219,163,861	122,750,164	3,921,601	(728,795)	463,268,026

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 19 SEGMENTAL INFORMATION (continued)

### (a) Reportable segments (continued)

	2015					
	Corporate and Institutional Banking	Consumer and Commercial Banking	Treasury	Others	Inter-segment elimination	Total
Net interest income	1,574,715	2,371,156	663,246	740,347	–	5,349,464
Total operating income						
– External	3,861,932	587,802	1,830,170	39,956	–	6,319,860
– Inter-segment	(2,124,494)	2,638,288	(1,453,434)	939,640	–	–
Total operating income	1,737,438	3,226,090	376,736	979,596	–	6,319,860
Depreciation and amortization	(28,952)	(143,056)	(7,447)	(63,303)	–	(242,758)
Total operating expenses	(347,915)	(1,898,888)	(116,663)	(446,093)	–	(2,809,559)
Operating profit before impairment losses	1,389,523	1,327,202	260,073	533,503	–	3,510,301
Charge on impairment	(158,698)	(292,610)	–	–	–	(451,308)
Non-operating profit	–	–	–	71,824	–	71,824
Profit before taxation	1,230,825	1,034,592	260,073	605,327	–	3,130,817
Total assets	145,758,456	95,216,677	259,692,193	7,514,261	(673,084)	507,508,503
Total liabilities	116,922,269	194,140,352	147,001,953	4,284,242	(673,084)	461,675,732

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 19 SEGMENTAL INFORMATION (continued)

### (b) Geographical information

The following table sets out information about the geographical location of the Group's revenue from external customers, profit before taxation, total assets, total liabilities, specified non-current assets, contingent liabilities and commitments. The geographical location of customers is based on the location at which the services were provided. Segment assets or liabilities are based on the geographical location of the asset or liabilities. Specified non-current assets comprise fixed assets, interests in leasehold land, interest in a joint venture and interest in an associate and the geographical location is based on the physical location of the asset for fixed assets, and the location of the operation to which they are allocated for interest in a joint venture and interest in an associate.

	Revenue from external customers	Profit before taxation	Total assets	Total liabilities	Specified non-current assets	Contingent liabilities and commitments
As at December 31, 2016 Hong Kong (place of domicile)	6,639,883	3,593,793	511,766,788	463,268,026	5,740,414	79,211,497
As at December 31, 2015 Hong Kong (place of domicile)	6,319,860	3,130,817	507,508,503	461,675,732	5,767,145	64,244,935

## 20 CASH AND BALANCES WITH BANKS AND CENTRAL BANKS

	2016	2015
Cash in hand	273,981	233,266
Balances with banks	3,662,369	1,927,199
Balances with central banks	–	12,127,672
Placement with banks maturing within one month	91,662,330	67,731,898
	95,598,680	82,020,035

## 21 PLACEMENT WITH BANKS

	2016	2015
Placement with banks maturing between one and twelve months	35,216,806	59,036,367
Placement with banks maturing more than twelve months	1,000,000	–
	36,216,806	59,036,367

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 22 ADVANCES TO CUSTOMERS AND TRADE BILLS

### (a) Advances to customers and trade bills less impairment

	2016	2015
<b>Advances to customers less impairment</b>		
Gross advances to customers	<b>233,320,859</b>	204,507,034
Dealers' commission and deferred fee income	<b>(120,588)</b>	(63,896)
	<b>233,200,271</b>	204,443,138
Less: Impairment allowances		
collectively assessed	<b>(840,574)</b>	(910,638)
individually assessed	<b>(142,928)</b>	(114,226)
Net advances to customers	<b>232,216,769</b>	203,418,274
<b>Trade bills less impairment</b>		
Trade bills	<b>1,154,515</b>	34,732,326
Less: Impairment allowances		
collectively assessed	<b>(1,271)</b>	(11,856)
individually assessed	<b>(73,934)</b>	(48,431)
Net trade bills	<b>1,079,310</b>	34,672,039
<b>Net advances to customers and trade bills</b>	<b>233,296,079</b>	238,090,313

### (b) Movement in impairment allowances on advances to customers

	2016		
	Collectively assessed allowances	Individually assessed allowances	Total
As at January 1, 2016	<b>910,638</b>	<b>114,226</b>	<b>1,024,864</b>
Loans written off as uncollectible	<b>(159,251)</b>	<b>(54,341)</b>	<b>(213,592)</b>
Recoveries of advances written off	<b>41,001</b>	<b>7,325</b>	<b>48,326</b>
Impairment losses charged to the statement of comprehensive income (Note 15)	<b>48,186</b>	<b>75,718</b>	<b>123,904</b>
As at December 31, 2016	<b>840,574</b>	<b>142,928</b>	<b>983,502</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 22 ADVANCES TO CUSTOMERS AND TRADE BILLS (continued)

### (b) Movement in impairment allowances on advances to customers (continued)

	2015		Total
	Collectively assessed allowances	Individually assessed allowances	
As at January 1, 2015	684,849	55,144	739,993
Loans written off as uncollectible	(137,535)	(24,909)	(162,444)
Recoveries of advances written off	41,994	4,659	46,653
Impairment losses charged to the statement of comprehensive income (Note 15)	321,330	79,332	400,662
As at December 31, 2015	910,638	114,226	1,024,864

### (c) Movement in impairment allowances on trade bills

	2016		Total
	Collectively assessed allowances	Individually assessed allowances	
As at January 1, 2016	<b>11,856</b>	<b>48,431</b>	<b>60,287</b>
Impairment losses (released)/charged to the statement of comprehensive income (Note 15)	<b>(10,585)</b>	<b>25,503</b>	<b>14,918</b>
As at December 31, 2016	<b>1,271</b>	<b>73,934</b>	<b>75,205</b>

	2015		Total
	Collectively assessed allowances	Individually assessed allowances	
As at January 1, 2015	3,346	5,794	9,140
Impairment losses charged to the statement of comprehensive income (Note 15)	8,510	42,637	51,147
As at December 31, 2015	11,856	48,431	60,287

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 22 ADVANCES TO CUSTOMERS AND TRADE BILLS (continued)

### (d) Impaired advances and trade bills and impairment allowance

#### (i) Impaired advances and allowances are analysed as follows:

	2016		2015	
		% of gross advances		% of gross advances
Gross impaired advances	259,046	0.11	223,704	0.11
Individual impairment allowances	(142,928)		(114,226)	
	116,118		109,478	
Gross individually assessed impaired advances	157,101	0.07	138,075	0.07
Individual impairment allowances	(142,928)		(114,226)	
	14,173		23,849	
Net realisable value of collateral held against the impaired advances	41,287		42,701	

Impaired advances are advances with objective evidence of impairment.

The above individual impairment allowances were made after taking into account the realisable value of collateral in respect of such advances.

As at December 31, 2016, the Group's gross impaired advances to customers included \$101,945 (2015: \$85,629) advances mainly comprised credit card advances and unsecured personal loans for which impairment allowances were collectively assessed.

#### (ii) Impaired trade bills and allowances are analysed as follows:

	2016		2015	
		% of gross trade bills		% of gross trade bills
Gross impaired trade bills	139,053	12.04	139,549	0.40
Individual impairment allowances	(73,934)		(48,431)	
	65,119		91,118	
Gross individually assessed impaired trade bills	139,053	12.04	139,549	0.40
Individual impairment allowances	(73,934)		(48,431)	
	65,119		91,118	
Net realisable value of collateral held against the impaired trade bills	–		–	

Impaired trade bills are advances with objective evidence of impairment.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 22 ADVANCES TO CUSTOMERS AND TRADE BILLS (continued)

### (e) Net investment in finance leases and hire purchase contracts

Loans and advances to customers include net investments in equipment leased to customers under finance leases and hire purchase contracts having the characteristics of finance leases. The contracts usually run for an initial period of 5 to 20 years. The total minimum lease payments receivable and their present value at the year-end are as follows:

	2016	2015 (restated)
Total minimum lease payments	7,989,048	8,078,471
Unearned future finance income on finance leases	(1,132,782)	(1,083,383)
Present value of the minimum lease payments	6,856,266	6,995,088
Impairment allowances		
individually assessed	(1,199)	(4,532)
collectively assessed	(25,443)	(37,116)
Impairment allowances	(26,642)	(41,648)
Net investment	6,829,624	6,953,440

The residual maturity analysis of the minimum lease payments and present value of the minimum lease payments are analysed as follows:

	2016	2015 (restated)
<b>Total minimum lease payments</b>		
Not later than one year	1,724,514	1,778,709
Later than one year and not later than five years	3,044,086	3,286,427
Later than five years	3,220,448	3,013,335
	7,989,048	8,078,471

	2016	2015
<b>Present value of the minimum lease payments</b>		
Not later than one year	1,599,852	1,648,406
Later than one year and not later than five years	2,720,921	2,947,993
Later than five years	2,535,493	2,398,689
	6,856,266	6,995,088

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 23 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016	2015
Held for trading	-	3,807

Financial assets measured at fair value through profit or loss analysed by type of issuer and place of listing are as follows:

	Held for Trading	
	2016	2015
Other debt securities issued by		
government	-	3,807
corporate	-	-
	-	3,807
Analysed by place of listing		
listed in Hong Kong	-	3,807

## 24 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2016	2015
Treasury bills issued by central governments	<b>23,791,103</b>	11,197,058
Certificates of deposit issued by banks	<b>2,073,419</b>	27,726,275
Other debt securities issued by		
Banks	<b>42,908,928</b>	31,392,273
Corporate	<b>27,453,720</b>	15,345,810
	<b>96,227,170</b>	85,661,416
Equity shares issued by corporate		
listed outside Hong Kong	<b>16,717</b>	16,607
unlisted	<b>17,242</b>	17,236
	<b>33,959</b>	33,843
	<b>96,261,129</b>	85,695,259
Analysed by place of listing		
listed in Hong Kong	<b>38,198,176</b>	19,572,807
listed outside Hong Kong	<b>39,255,240</b>	31,391,556
unlisted	<b>18,807,713</b>	34,730,896
	<b>96,261,129</b>	85,695,259

The unlisted equity shares of \$17,242 (2015: \$17,236) is marked at cost. The fair value information has not been disclosed as there is no active trading market for the private equities and no observable inputs in order to reliably estimate the fair value of the unlisted equity. The equity is an investment made by the Group for being members of the electronic payment system in Hong Kong. Management has no intention to dispose of this investment as at December 31, 2016.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 25 HELD-TO-MATURITY INVESTMENTS

	2016	2015
Held-to-maturity investments	<b>27,007,038</b>	5,473,670
Less: Impairment allowances – collectively assessed	<b>8,739</b>	–
	<b>26,998,299</b>	5,473,670
Debt securities issued by		
Banks	<b>24,737,563</b>	4,974,833
Corporate	<b>2,269,475</b>	498,837
	<b>27,007,038</b>	5,473,670
Analysed by place of listing		
Listed in Hong Kong	<b>1,005,748</b>	–
Listed outside Hong Kong	<b>542,919</b>	–
Unlisted	<b>25,458,371</b>	5,473,670
	<b>27,007,038</b>	5,473,670
Market value		
Listed securities	<b>1,512,316</b>	–
Unlisted securities	<b>25,473,317</b>	5,472,374
	<b>26,985,633</b>	5,472,374

The fair value of held-to-maturity financial assets is based on quoted market bid prices.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 26 DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives include forward, swap and option transactions undertaken by the Group in the foreign exchange and interest rate markets. The Group uses derivatives for trading activities and sale to customers as risk management products. These positions are actively managed through entering into offsetting deals with external parties to ensure the Group's net exposures are within acceptable risk levels. No significant proprietary positions are maintained by the Group as at the reporting date. The Group also uses these derivatives in the management of its own asset and liability portfolios and structural positions.

### (a) Notional amounts of derivatives

	2016				2015			
	Managed in conjunction with financial instruments designated at fair value through profit or loss	Held for trading	Used for accounting hedges	Total	Managed in conjunction with financial instruments designated at fair value through profit or loss	Held for trading	Used for accounting hedges	Total
Exchange rate contracts								
forwards	88,886,803	350,591,095	-	439,477,898	121,602,321	474,304,045	-	595,906,366
options purchased	-	5,801,071	-	5,801,071	-	12,553,282	-	12,553,282
options written	-	5,801,071	-	5,801,071	-	12,553,282	-	12,553,282
Interest rate swaps	3,824,510	-	32,419,317	36,243,827	2,842,915	-	23,643,510	26,486,425
Currency swaps	5,138,660	-	-	5,138,660	5,311,095	-	-	5,311,095
Equity options								
purchased/issued	-	93,093	-	93,093	-	141,426	-	141,426
Equity swaps	-	93,093	-	93,093	-	141,426	-	141,426
	97,849,973	362,379,423	32,419,317	492,648,713	129,756,331	499,693,461	23,643,510	653,093,302

The principal derivatives instruments used by the Group are interest and foreign exchange rate related contracts, which are primarily over-the-counter derivatives. The Group also participates in exchange traded derivatives.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 26 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

### (b) Notional amounts of derivatives by remaining maturity analysis

The following table provides an analysis of the notional amounts of derivatives of the Group by relevant maturity grouping based on the remaining periods to settlement at the reporting date.

	2016			2015		
	1 year or less	Over 1 year to 5 years	Total	1 year or less	Over 1 year to 5 years	Total
Exchange rate contracts						
forwards	438,428,310	1,049,588	439,477,898	594,712,974	1,193,392	595,906,366
options purchased	5,801,071	–	5,801,071	11,188,145	1,365,137	12,553,282
options written	5,801,071	–	5,801,071	11,188,145	1,365,137	12,553,282
Interest rate swaps	4,255,770	31,988,057	36,243,827	2,415,118	24,071,307	26,486,425
Currency swaps	–	5,138,660	5,138,660	–	5,311,095	5,311,095
Equity options purchased/issued	93,093	–	93,093	141,426	–	141,426
Equity swaps	93,093	–	93,093	141,426	–	141,426
	454,472,408	38,176,305	492,648,713	619,787,234	33,306,068	653,093,302

### (c) Fair values and credit risk weighted amounts of derivatives

	2016			2015		
	Fair value assets	Fair value liabilities	Credit risk weighted amount	Fair value assets	Fair value liabilities	Credit risk weighted amount
Exchange rate contracts						
forwards	6,839,837	7,096,185	4,820,888	5,893,443	6,162,908	4,763,353
options purchased	165,068	–	44,588	257,833	–	136,557
options written	–	165,068	–	–	257,833	–
Interest rate swaps	278,019	54,693	136,253	31,275	51,717	62,254
Currency swaps	448,490	314,632	226,119	91,867	257,421	127,402
Equity options purchased/issued	3,095	42	2,758	14,586	260	4,274
Equity swaps	42	3,095	–	260	14,586	–
	7,734,551	7,633,715	5,230,606	6,289,264	6,744,725	5,093,840

As at December 31, 2016 and 2015, the credit risk weighted amount was calculated in accordance with the Capital Rules and depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 20% to 100% (2015: 20% to 100%) for all derivatives.

Derivative financial instruments are presented in net when there is legally enforceable right to set off the recognised amounts, and there is an intention to settle them on a net basis or realise the asset and settle the liability simultaneously. As at December 31, 2016, no derivative financial instruments have fulfilled the above criteria, and therefore no derivative financial instruments were offset on the statement of financial position (2015: Nil).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 26 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

### (d) Fair values of derivatives designated as hedging instruments

	2016		2015	
	Assets	Liabilities	Assets	Liabilities
Interest rate contracts	217,051	49,002	16	15,410

#### Fair value hedges

Fair value hedges principally consist of interest rate swaps that are used to protect against changes in the fair value of available for sale debt securities held, certificates of deposit, medium term notes and subordinated debts issued due to movements in market interest rates. At December 31, 2016, the net fair value of interest rate swaps was assets of \$168,049 while at December 31, 2015, the net fair value of interest rate swaps was liabilities of \$15,394.

## 27 SUBSIDIARIES

Particulars of the subsidiaries as at December 31, 2016 are as follows:

Name of company	Place of incorporation and place of business	Particulars of issued shares held	Percentage held		Principal activities
			Directly	Indirectly	
CCB Nominees Limited ("CCBN")	Hong Kong	HK\$6,000,000 of 600,000 ordinary shares	100%	–	Custodian and nominee services
CCB Securities Limited ("CCBS")	Hong Kong	HK\$500,000,000 of 500,000,000 ordinary shares	100%	–	Securities brokerage business
CCB (Asia) Trustee Company Limited ("CCBT")	Hong Kong	HK\$10,000,000 of 100,000 ordinary shares	100%	–	Trustee and custodian business
CCB (Asia) Insurance Broker Limited ("CCBIB")	Hong Kong	HK\$10,000,000 of 10,000,000 ordinary shares	100%	–	Insurance broker business
CCB Hong Kong Property Management Company Limited	Hong Kong	HK\$10,000 of 10,000 ordinary shares	100%	–	Management services and investment holding
CCB Properties (Hong Kong) Holdings Limited ("CCBPHK")	Hong Kong	HK\$1 of 1 ordinary share	–	100%	Investment holding
Better Chief Limited ("BCL")	Hong Kong	HK\$100 of 100 ordinary shares	–	100%	Property investment
Hong Kong (SAR) Hotel Limited ("HKSAR Hotel")	Hong Kong	HK\$10,000 of 10,000 ordinary shares	–	100%	Hotel operation and management

All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertakings held directly by the Bank does not differ from the proportion of ordinary shares held. There is no non-controlling interest for both years for all of the subsidiaries.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 28 INTEREST IN A JOINT VENTURE

	2016	2015
As at January 1	1,937,240	1,893,902
Share of profits	50,547	43,338
As at December 31	1,987,787	1,937,240

The joint venture listed below has share capital consisting solely of ordinary shares, which is held indirectly by the Group.

Particulars of the joint venture as at December 31, 2016 are as follows:

Name of company	Place of business/ Place of incorporation	Percentage of ownership held by the Group	Nature of the relationship	Measurement method
Diamond String Limited	Hong Kong	50%	Note	Equity

Note: Diamond String Limited's principal activity is property investment and it is strategic to the Group's activities, viz., holding property for the Bank's operation. Diamond String Limited is a private company and there is no quoted market price available for its shares.

### Contingent liabilities, guarantees and commitments in respect of joint venture

There are no contingent liabilities, guarantees and commitments relating to the Group's interest in Diamond String Limited as at December 31, 2016 and 2015.

Diamond String Limited has commitments contracted as at December 31, but not provided for, which are as follows:

	2016	2015
Contracted sum	-	35,811
Deposit paid	-	(12,958)
Commitments outstanding	-	22,853

There was no dividend paid by Diamond String Limited to the Group during the year ended December 31, 2016 and 2015.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 28 INTEREST IN A JOINT VENTURE (continued)

### Summarised financial information for a joint venture

Set out below is the summarised financial information for Diamond String Limited which is accounted for using the equity method.

	As at December 31	
	2016	2015
<b>Current</b>		
Cash and cash equivalents	–	–
Other current assets	188,911	32,229
<b>Total current assets</b>	<b>188,911</b>	32,229
Financial liabilities	(785,998)	(222,019)
Other current liabilities	(45,189)	(24,911)
<b>Total current liabilities</b>	<b>(831,187)</b>	(246,930)
<b>Non-current</b>		
Financial assets	–	212,370
Other assets	1,804,200	1,817,899
<b>Total non-current assets</b>	<b>1,804,200</b>	2,030,269
Financial liabilities	(849,501)	(1,603,790)
Other liabilities	(24,684)	(25,133)
<b>Total non-current liabilities</b>	<b>(874,185)</b>	(1,628,923)
<b>Net assets</b>	<b>287,739</b>	186,645

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 28 INTEREST IN A JOINT VENTURE (continued)

### Summarised financial information for a joint venture (continued)

#### Summarised statement of comprehensive income

	For the year ended December 31	
	2016	2015
Revenue	236,836	222,691
Depreciation and amortisation	(55,943)	(55,501)
Interest income	274	292
Interest expense	(20,506)	(22,986)
Profit before taxation	124,237	108,811
Income tax expense	(23,143)	(22,135)
Profit for the year & total comprehensive income	101,094	86,676
Dividends received from joint venture	–	–

#### Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interest in the joint venture.

Summarised financial information	2016	2015
Net assets as at January 1	186,645	99,969
Profit for the year	101,094	86,676
<b>Net assets as at December 31</b>	<b>287,739</b>	186,645
Interest in a joint venture @ 50%	143,869	93,322
Fair value adjustment of investment in property held by the joint venture at the acquisition date	1,843,918	1,843,918
<b>Carrying value of interest in a joint venture as at December 31</b>	<b>1,987,787</b>	1,937,240

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 29 INTEREST IN AN ASSOCIATE

	2016	2015
Share of net assets	285,283	265,914

Particulars of the associate as at December 31, 2016 are as follows:

Name of company	Place of business/Place of incorporation	Particulars of issued and paid up capital	Percentage of ownership held by the Group	Principal activities	Nature of relationship	Measurement method
QBE Hongkong & Shanghai Insurance Limited ("QBE")	Hong Kong	HK\$78,192,220 of 78,192,220 ordinary shares	25.50%	Insurance	Note	Equity

Note: QBE is the authorised insurance agents and brokers and it is a strategic partnership for the Group, providing insurance products to the Bank's customers. QBE is a private company and there is no quoted market price available for its shares.

There are no contingent liabilities, guarantees and commitments relating to the Group's interest in the associate as at December 31, 2016 and 2015.

The movement of the interest in the associate is as follows:

	2016	2015
As at January 1	265,914	237,428
Share of profits	19,369	28,486
As at December 31	285,283	265,914

There was no dividend paid by QBE to the Group during the year ended December 31, 2016 and 2015.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 29 INTEREST IN AN ASSOCIATE (continued)

### Summarised financial information for an associate

The Group has incorporated QBE's results from December 1, 2015 to November 30, 2016 (2015: December 1, 2014 to November 30, 2015) since the financial statements of QBE as at December 31, 2016 is not yet ready and the impact of its one month result is not significant.

Set out below is the summarised financial information for QBE which is accounted for using the equity method.

	<b>As at November 30</b>	
	<b>2016</b>	2015
<b>Current</b>		
Current assets	<b>3,239,216</b>	2,814,999
Current liabilities	<b>(1,910,092)</b>	(1,612,576)
<b>Non-current</b>		
Non-current assets	<b>682,813</b>	617,835
Non-current liabilities	<b>(893,182)</b>	(777,457)
<b>Net assets</b>	<b>1,118,755</b>	1,042,801

### Summarised statement of comprehensive income

	<b>For the 12 months ended November 30</b>	
	<b>2016</b>	2015
Revenue	<b>1,729,352</b>	1,692,326
Depreciation and amortisation	<b>19,097</b>	13,866
Interest income	<b>29,891</b>	25,202
Interest expense	<b>(3)</b>	(13)
Profit before taxation	<b>85,505</b>	130,786
Income tax expense	<b>(9,551)</b>	(19,075)
Profit for the year & total comprehensive income	<b>75,954</b>	111,711
Dividends received from associate	-	-

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 29 INTEREST IN AN ASSOCIATE (continued)

### Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interest in an associate.

Summarised financial information	2016	2015
Opening, net asset as at December 1	1,042,801	931,090
Profit for the year	75,954	111,711
Closing, net assets as at November 30	1,118,755	1,042,801
Interest in an associate @ 25.5%	285,283	265,914

## 30 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### (a) Current tax payable in the consolidated statement of financial position represents:

	2016	2015
Provision for Hong Kong Profits Tax for the year	578,761	417,954
Provisional Profits Tax paid	(545,597)	(287,622)
Balance of Profits Tax provision relating to prior years	31,705	(63)
	64,869	130,269
Provision for tax in the Mainland	1,875	16,459
Current tax payable	66,744	146,728

### (b) Deferred tax assets and deferred tax liabilities

	2016	2015
Deferred tax assets recognised on the consolidated statement of financial position	139,680	112,428
	2016	2015
Deferred tax liabilities recognised on the consolidated statement of financial position	19,399	18,276

As at December 31, 2016 and 2015, majority of the deferred tax assets and deferred tax liabilities recognised will be recovered after twelve months.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 30 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

### (b) Deferred tax assets and deferred tax liabilities (Continued)

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

	Impairment allowances	Accelerated tax depreciation	Investment revaluation reserve	Provision for staff bonus	Others	Total
As at January 1, 2015	102,177	(19,648)	–	33,588	615	116,732
Credited/(charged) to the statement of comprehensive income	38,565	(8,976)	–	(33,115)	(778)	(4,304)
<b>As at December 31, 2015 &amp; January 1, 2016</b>	140,742	(28,624)	–	473	(163)	112,428
<b>Credited/(charged) to the statement of comprehensive income</b>	<b>(13,350)</b>	<b>(22,108)</b>	<b>62,749</b>	<b>–</b>	<b>(39)</b>	<b>27,252</b>
<b>As at December 31, 2016</b>	<b>127,392</b>	<b>(50,732)</b>	<b>62,749</b>	<b>473</b>	<b>(202)</b>	<b>139,680</b>

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

	Accelerated tax depreciation	Tax losses	Others	Total
As at January 1, 2015	(3,551)	15,125	(31,616)	(20,042)
Credited/(Charged) to the statement of comprehensive income	274	3,273	(1,781)	1,766
<b>As at December 31, 2015 &amp; January 1, 2016</b>	<b>(3,277)</b>	<b>18,398</b>	<b>(33,397)</b>	<b>(18,276)</b>
<b>Credited/(charged) to the statement of comprehensive income</b>	<b>694</b>	<b>(2,016)</b>	<b>199</b>	<b>(1,123)</b>
<b>As at December 31, 2016</b>	<b>(2,583)</b>	<b>16,382</b>	<b>(33,198)</b>	<b>(19,399)</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 31 FIXED ASSETS

	Leasehold land <sup>(*)</sup>	Buildings	Leasehold improvements	Furniture and equipment	Total
<b>Cost:</b>					
As at January 1, 2016	87,110	3,356,617	478,918	661,294	4,583,939
Additions	–	22,485	29,953	131,817	184,255
Written off	–	(13,159)	(11,883)	(15,708)	(40,750)
As at December 31, 2016	87,110	3,365,943	496,988	777,403	4,727,444
<b>Accumulated depreciation:</b>					
As at January 1, 2016	27,353	350,659	227,919	413,097	1,019,028
Charge for the year	1,463	90,330	59,671	129,432	280,896
Written off	–	(13,159)	(11,809)	(14,856)	(39,824)
As at December 31, 2016	28,816	427,830	275,781	527,673	1,260,100
<b>Allowances for impairment losses:</b>					
As at January 1, 2016	–	–	74	846	920
Written off	–	–	(74)	(846)	(920)
As at December 31, 2016	–	–	–	–	–
<b>Net book value:</b>					
As at December 31, 2016	58,294	2,938,113	221,207	249,730	3,467,344

(\*) All leasehold land is held under finance leases.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 31 FIXED ASSETS (continued)

	Leasehold land <sup>(*)</sup>	Buildings	Leasehold improvements	Furniture and equipment	Total
<b>Cost:</b>					
As at January 1, 2015	87,110	3,356,357	457,755	528,925	4,430,147
Additions	–	260	25,444	154,369	180,073
Written off	–	–	(4,281)	(22,000)	(26,281)
As at December 31, 2015	87,110	3,356,617	478,918	661,294	4,583,939
<b>Accumulated depreciation:</b>					
As at January 1, 2015	25,890	259,653	177,694	338,927	802,164
Charge for the year	1,463	91,006	54,273	96,016	242,758
Written off	–	–	(4,048)	(21,846)	(25,894)
As at December 31, 2015	27,353	350,659	227,919	413,097	1,019,028
<b>Allowances for impairment losses:</b>					
As at January 1, 2015	–	–	74	848	922
Reversal of impairment losses	–	–	–	(2)	(2)
As at December 31, 2015	–	–	74	846	920
<b>Net book value:</b>					
As at December 31, 2015	59,757	3,005,958	250,925	247,351	3,563,991

(\*) All leasehold land is held under finance leases.

## 32 OTHER ASSETS

	2016	2015
Accrued interest receivable	1,582,085	1,882,106
Settlement accounts	168,310	224,898
Customer liability under acceptances	119,610	404,306
Money market trade date receivable	6,093,634	20,150,390
Accounts receivable	1,546,600	776,036
Repossessed assets	10,517	3,160
Refundable deposits	96,911	91,197
Prepaid expenses	94,624	49,972
Others	68,859	77,402
	9,781,150	23,659,467

The fair value of other assets approximately equals to their carrying amount.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 33 DEPOSITS FROM CUSTOMERS

	2016	2015
Demand deposits and current accounts	24,159,148	19,759,007
Savings deposits	53,809,453	44,150,101
Time and call deposits	243,826,646	241,175,364
Structured notes	90,843	140,247
Other deposits	336,479	400,665
	<b>322,222,569</b>	305,625,384

## 34 CERTIFICATES OF DEPOSIT AND OTHER DEBT SECURITIES ISSUED

	2016	2015 (restated)
Issued at amortised cost:		
Certificates of deposit	13,050,770	21,891,314
Other debt securities	14,099,782	24,294,690
	<b>27,150,552</b>	46,186,004
Designated at fair value:		
Other debt securities	2,350,182	2,426,034
Under fair value hedge:		
Certificates of deposit	–	1,564,975
Other debt securities	2,322,241	2,324,874
	<b>2,322,241</b>	3,889,849
	<b>31,822,975</b>	52,501,887

As at December 31, 2016, the fair values of other debt securities issued at amortised cost were 14,140,293 (2015: 24,342,973). The fair values were measured using level 2 hierarchy method as disclosed in Note 8(e)(i).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 35 OTHER LIABILITIES

	2016	2015
Accrued interest payable	1,266,213	1,884,301
Settlement accounts	166,392	225,548
Accounts payable	606,075	484,218
Acceptances outstanding	119,610	404,306
Accrued salaries and welfare	235,804	244,842
Amount due to intermediate holding companies	2,739,891	2,874,365
Money market trade date payable	4,000,000	3,515,661
Accrued expenses	166,835	197,919
Others	107,445	66,127
	<b>9,408,265</b>	9,897,287

The fair value of other liabilities approximately equals to their carrying amount.

## 36 SUBORDINATED DEBT

	2016	2015
Subordinated debt		
– Under fair value hedge	5,773,574	5,776,365

On August 20, 2014, the Bank issued subordinated note with aggregate nominal amount of USD750 million, bearing a fixed interest rate of 4.25% per annum to institutional investors. The note was issued at discount with maturity due on August 20, 2024 (callable at the option of the Bank on August 20, 2019). The note was listed on the Stock Exchange of Hong Kong Limited.

Subordinated debt was raised by the Bank for the development and expansion of business. The subordinated debt will be written off at the point of non-viability as determined by the HKMA. These notes have been qualified and included as the Bank's Tier 2 Capital in accordance with the Capital Rules.

The Bank has not had any default of principal or interest or other breaches with respect to the subordinated debt during the year.

The Bank designates the subordinated debt under fair value hedge. The fair value hedge principally consists of interest rate swaps that are used to protect against changes in the fair value of the subordinated debt due to movements in market interest rates.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 37 SHARE CAPITAL AND RESERVES

### (a) Share capital

	2016	2015
<b>Issued and fully paid</b>		
162,776,068 (2015: 162,776,068) HKD ordinary shares	<b>6,511,043</b>	6,511,043
440,000,000 (2015: 440,000,000) RMB ordinary shares	<b>22,316,800</b>	22,316,800
	<b>28,827,843</b>	28,827,843

### (b) Reserves

#### (i) General reserve

General reserve is appropriated from the retained profits for future use.

#### (ii) Investment revaluation reserve

The investment revaluation reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the financial assets are derecognised and is dealt with in accordance with the accounting policies adopted for the measurement of the available-for-sale financial assets at fair value.

#### (iii) Regulatory reserve

Regulatory reserve comprises reserves maintained in accordance with Hong Kong regulations. At Group level, it includes a regulatory reserve of \$2,307,924 (December 31, 2015: \$2,307,924) to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes. Movement in this reserve is made directly through retained profits and in consultation with HKMA.

#### (iv) Other reserve

Other reserve is used to record the corresponding amount of the share options and bonus rewards granted by the former parent company to the Bank's employees. The options and rewards granted are classified as equity-settled share-based payments and the amount recognised in other reserve represents capital contribution from its former parent company and is not distributable.

#### (v) Merger reserve

Merger reserve arises as a result of the acquisition of a majority of the corporate banking business ("Acquired Business") of CCB Hong Kong Branch ("HKBR"). This amount represented the difference between the net book value of the Acquired Business and the consideration paid.

#### (vi) Retained profits

The Bank and its financial subsidiaries are required to maintain minimum capital adequacy ratios under their respective regulatory jurisdictions. The minimum capital requirements could therefore potentially restrict the amount of retained profits available for distribution to the shareholders.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 38 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE BANK

### Statement of Financial Position of the Bank

Note	2016	2015
<b>ASSETS</b>		
Cash and balances with banks and central banks	95,598,534	81,990,234
Placements with banks	36,216,806	59,036,367
Advances to banks	–	1,360,748
Advances to customers and trade bills	233,414,161	238,208,283
Financial assets measured at fair value through profit or loss	–	3,807
Available-for-sale financial assets	96,261,129	85,695,259
Derivative financial instruments	7,734,551	6,289,264
Held-to-maturity investments	26,998,299	5,473,670
Investments in subsidiaries	526,010	516,010
Interest in an associate	10,411	10,411
Deferred tax assets	139,680	112,428
Fixed assets	2,714,850	2,784,400
Other assets	9,876,384	23,635,146
<b>Total assets</b>	<b>509,490,815</b>	<b>505,116,027</b>
<b>LIABILITIES</b>		
Deposits and balances of banks	86,320,785	80,965,080
Deposits from customers	322,952,537	306,300,351
Certificates of deposit and other debt securities issued	31,822,975	52,501,887
Derivative financial instruments	7,633,715	6,744,725
Current tax payable	66,215	146,792
Other liabilities	6,793,809	7,151,578
Subordinated debts	5,773,574	5,776,365
<b>Total liabilities</b>	<b>461,363,610</b>	<b>459,586,778</b>
<b>EQUITY</b>		
Share capital	28,827,843	28,827,843
Reserves	38(a) 19,299,362	16,701,406
<b>Total equity</b>	<b>48,127,205</b>	<b>45,529,249</b>
<b>Total equity and liabilities</b>	<b>509,490,815</b>	<b>505,116,027</b>

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

**WANG Hongzhang**  
Chairman

**JIANG Xianzhou**  
Vice Chairman and Chief Executive Officer

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 38 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE BANK (continued)

### (a) Reserve movement of the Bank

Details of the changes in the Bank's reserve between the beginning and the end of the year are set out below:

	General reserve	Investment revaluation reserve	Regulatory reserve	Other reserve	Merger reserve	Retained profits	Total
<b>Balance as at January 1, 2016</b>	<b>750,956</b>	<b>76,439</b>	<b>2,307,924</b>	<b>15,913</b>	<b>62,262</b>	<b>13,487,912</b>	<b>16,701,406</b>
Profit for the year	-	-	-	-	-	2,975,012	2,975,012
Other comprehensive losses:							
change in fair value of available-for-sale financial assets	-	(377,056)	-	-	-	-	(377,056)
Total comprehensive income	-	(377,056)	-	-	-	2,975,012	2,597,956
<b>Balance as at December 31, 2016</b>	<b>750,956</b>	<b>(300,617)</b>	<b>2,307,924</b>	<b>15,913</b>	<b>62,262</b>	<b>16,462,924</b>	<b>19,299,362</b>

	General reserve	Investment revaluation reserve	Regulatory reserve	Other reserve	Merger reserve	Retained profits	Total
Balance as at January 1, 2015	750,956	37,638	2,307,924	15,913	62,262	11,044,605	14,219,298
Profit for the year	-	-	-	-	-	2,443,307	2,443,307
Other comprehensive income:							
change in fair value of available-for-sale financial assets	-	38,801	-	-	-	-	38,801
Total comprehensive income	-	38,801	-	-	-	2,443,307	2,482,108
Balance as at December 31, 2015	750,956	76,439	2,307,924	15,913	62,262	13,487,912	16,701,406

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 39 MATERIAL RELATED PARTY TRANSACTIONS

During the year, the Group entered into transactions with related parties in the normal course of its banking business including lending, acceptance and placement of inter-bank deposits, correspondent banking transactions, securities brokerage and derivative transactions. The transactions were priced at the relevant market rates at the time of each transaction.

**(a) The amount of material related party transactions during the year and outstanding balances at the reporting date are set out below:**

	Intermediate holding company		Fellow subsidiaries		Associate	
	2016	2015	2016	2015	2016	2015
Interest income	1,038,114	1,185,327	57,504	31,483	-	-
Interest expense	288,587	1,567,567	3,910	13,559	5,229	5,432
Net fees and commission income						
– Fees (Note 10)	468,545	381,591	850	-	-	-
– Others	16,675	528	-	-	-	-
Operating income	45,276	41,580	2,805	2,805	-	-
Operating expenses	84,601	63,913	3,193	4,237	-	-

Fees mainly represented the fees received from intermediate holding company for advisory and support services provided.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 39 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(a) The amount of material related party transactions during the year and outstanding balances at the reporting date are set out below: (continued)

	Intermediate holding company		Fellow subsidiaries		Associate	
	2016	2015	2016	2015	2016	2015
<b>Amounts due from:</b>						
Cash and balances with banks and central banks	82,220,803	26,206,125	155,804	155,473	-	-
Placements with banks	31,180,236	29,606,588	1,380,000	-	-	-
Advances to banks	-	1,195,332	-	-	-	-
Advances to customers and trade bills	186,937	14,452,062	3,059,700	2,309,315	-	-
Available-for-sale financial assets	993,435	2,280,559	1,884,527	-	-	-
Derivative financial instruments	4,676,627	2,758,767	-	-	-	-
Other assets	7,684,200	21,008,252	18,677	29,860	-	-
<b>Amounts due to:</b>						
Deposits and balances of banks	69,701,068	74,465,453	992	10,016	-	-
Deposits from customers	2,847	2,847	4,630,465	3,385,639	581,025	793,796
Certificates of deposit and other debt securities issued	-	-	-	-	-	-
Derivative financial instruments	1,188,625	1,484,774	-	-	-	-
Other liabilities	6,749,680	6,451,253	588	58,457	2,093	2,990
<b>Contingencies and commitments:</b>						
Direct credit substitutes	729,250	-	-	-	-	-
Transaction-related contingencies	85,296	-	-	-	-	-
Other commitments	-	-	261,609	1,162,523	-	-
<b>Derivative financial instruments: (notional amount)</b>						
Exchange rate contracts	154,561,825	237,041,027	-	-	-	-
Interest rate swaps	-	-	-	-	-	-



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 39 MATERIAL RELATED PARTY TRANSACTIONS (continued)

### (a) The amount of material related party transactions during the year and outstanding balances at the reporting date are set out below: (continued)

The Group may enter into transactions with entities directly or indirectly owned by the Mainland government through its government authorities, agencies, affiliations and other organisations (“state-owned entities”) in the normal course of business. These transactions are entered into on terms similar to those that would have been entered into with non-state-owned entities. These transactions include but are not limited to:

- lending and deposit taking;
- inter-bank balances taking and placing;
- insurance and securities agency;
- custody services;
- sale, purchase, underwriting and redemption of bonds;
- purchase, sale and leases of property and other assets; and
- rendering and receiving of utilities and other services.

The Group’s pricing and approval processes for major products and services do not depend on whether the customers or counterparties are state-owned entities. Having due regard to the substance of the relationships, the Group is of the opinion that none of these transactions are material related party transactions that require separate disclosure.

### (b) Directors and key management personnel

During the year, the Group provided credit facilities to and accepted deposits from the directors and key management personnel of the Group and its holding companies and their close family members and companies controlled or significantly influenced by them. The credit facilities and deposits were provided and taken in the ordinary course of business and on substantially the same terms as for comparable transactions with persons of a similar standing, or where applicable, with other employees. These transactions did not involve more than the normal risk of collectability or present other unfavourable features.

	2016	2015
Loans	13,336	14,172
Interest income earned	211	277
Deposits	69,428	45,369
Interest expense paid	463	723
Compensation – Salaries and other short-term benefits	32,562	35,585

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 39 MATERIAL RELATED PARTY TRANSACTIONS (continued)

### (c) Loans to Directors

Particulars of loans to directors disclosed pursuant to Section 17 of the Hong Kong Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap.622G).

	2016	2015
Aggregate amount in respect of principal and interest as at December 31	<b>13,130</b>	8,455
The maximum aggregate amount outstanding in respect of principal and interest during the year	<b>17,654</b>	11,245

## 40 CONTINGENT LIABILITIES AND COMMITMENTS

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

	2016	2015
Direct credit substitutes	<b>1,555,176</b>	645,873
Transaction-related contingencies	<b>2,332,013</b>	1,417,612
Trade-related contingencies	<b>685,650</b>	940,159
Other commitments:		
which are unconditionally cancellable or automatically cancellable		
due to the deterioration in the credit worthiness of the borrower	<b>52,020,434</b>	49,125,258
with an original maturity under one year	<b>6,346,788</b>	1,698,285
with an original maturity over one year	<b>16,271,436</b>	10,417,748
	<b>79,211,497</b>	64,244,935

Contingent liabilities and commitments are credit-related instruments which include letter of credits, guarantees and commitments to extend credit. The risk involved is essentially the same as the credit risk involved in extending loan facilities to customers. These transactions are, therefore, subject to the same credit application, portfolio maintenance and collateral requirements as for customers applying for the loans. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client defaults. As the facilities may expire without being drawn upon, the contract amounts do not represent expected future cash flows.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 41 CAPITAL COMMITMENTS

Capital commitments outstanding as at December 31, not provided for in the consolidated financial statements are as follows:

	2016	2015
Expenditure contracted but not provided for	89,632	86,869
Expenditure authorised but not contracted for	58,858	43,527
	148,490	130,396

## 42 LEASE COMMITMENTS

At December 31, 2016, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2016	2015
Buildings:		
not later than one year	271,024	269,435
later than one year and not later than five years	147,962	219,853
	418,986	489,288

The Group lease a number of properties under operating leases. The leases typically run for an initial period of 1 to 5 years with an option to renew the lease when all terms are renegotiated. Lease payments are usually increased every 3 years to reflect market rentals. None of the leases includes contingent rentals.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 43 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

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

	2016	2015
<b>Operating activities</b>		
Operating profit	<b>3,523,867</b>	3,058,993
Adjustments for:		
Dividend income	<b>(3,882)</b>	(3,977)
Depreciation	<b>280,896</b>	242,758
Releases on impairment allowances on advances to banks	–	(671)
Charges on impairment allowances on loans and advances	<b>138,822</b>	451,809
Charges on impairment allowances on repossessed assets	<b>3,684</b>	170
Charges on impairment allowances on held-to-maturity investments	<b>8,739</b>	–
Written off of loans and advances net of recoveries	<b>(165,266)</b>	(115,791)
Reversal of impairment on fixed assets	<b>(920)</b>	(2)
Written off of fixed assets	<b>936</b>	387
Interest income on held-to-maturity investments	<b>(256,424)</b>	(27)
Interest expenses on subordinated debts	<b>252,147</b>	251,582
Fair value adjustment on subordinated debts	<b>(10,541)</b>	10,541
Effect of foreign exchange rate changes	<b>2,368,217</b>	1,644,083
	<b>6,140,275</b>	5,539,855
<b>(Increase)/decrease in operating assets</b>		
Balances and placements with banks with original maturity beyond three months and balance with central banks	<b>15,000,387</b>	71,602,292
Gross advances to banks	<b>1,360,748</b>	18,346,939
Gross advances to customers and trade bills	<b>4,820,678</b>	6,743,131
Financial assets measured at fair value through profit or loss with original maturity beyond three months	<b>3,807</b>	47,229
Derivative financial instruments	<b>(1,445,287)</b>	(5,228,610)
Other assets	<b>14,107,200</b>	(18,988,893)
	<b>33,847,533</b>	72,522,088
<b>Increase/(decrease) in operating liabilities</b>		
Deposits and balances of banks	<b>5,355,705</b>	(20,981,191)
Deposits from customers	<b>16,597,185</b>	31,121,116
Derivative financial instruments	<b>888,990</b>	5,691,574
Certificates of deposit and other debt securities issued	<b>(20,678,912)</b>	(14,516,696)
Other liabilities	<b>(489,024)</b>	3,432,858
	<b>1,673,944</b>	4,747,661
Net cash inflow from operations	<b>41,661,752</b>	82,809,604

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## 43 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

### (b) Cash and cash equivalents in the consolidated statement of cash flows

	2016	2015
Cash and balances with banks and central banks	95,598,680	77,622,499
Placements with banks with original maturity within three months	16,265,146	28,481,856
Treasury bills and certificates of deposit held with original maturity within three months categorised as available-for-sale	9,991,609	346,737
	<b>121,855,435</b>	106,451,092

### (c) Reconciliation with the consolidated statement of financial position

	2016	2015
Cash and balances with banks and central banks (Note 20)	95,598,680	82,020,035
Placements with banks (Note 21)	36,216,806	59,036,367
Financial assets held categorised as		
– trading (Note 23)	–	3,807
– available-for-sale (Note 24)	96,261,129	85,695,259
Amounts shown in consolidated statement of financial position	<b>228,076,615</b>	226,755,468
Less: Amounts with an original maturity of beyond three months		
Placements with banks	(19,951,660)	(34,952,047)
Financial assets held categorised as		
– trading	–	(3,807)
– available-for-sale	(86,269,520)	(85,348,522)
Cash and cash equivalent in the consolidated statement of cash flows	<b>121,855,435</b>	106,451,092

## 44 IMMEDIATE PARENT AND ULTIMATE CONTROLLING PARTY

At December 31, 2016, the Bank's immediate parent is CCB Overseas Holdings Limited ("CCBOHL"), a company incorporated in Hong Kong. CCBOHL is controlled by CCB. Central Huijin Investment Ltd. is the controlling party of CCB, and is a wholly-owned subsidiary of China Investment Corporation which is a wholly state-owned investment and management company. The Group's intermediate parent, CCB, which is a listed bank incorporated in the Mainland, produces financial statements available for public use.

## 45 EVENTS AFTER THE REPORTING PERIOD

There are no significant events after the reporting period.

# UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the year ended December 31, 2016

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

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

## 1 OVERDUE AND RESCHEDULED ASSETS

### (a) Gross advances to customers overdue for more than three months:

	2016		2015	
	% on total advances to customers		% on total advances to customers	
Six months or less but over three months	33,753	0.01	23,084	0.01
One year or less but over six months	38,072	0.02	2,891	–
Over one year	88,459	0.04	45,531	0.02
Total gross amount of advances overdue for more than three months	160,284	0.07	71,506	0.03
Individually assessed impairment allowances made in respect of the above overdue advances	125,436		54,014	
Net realisable value of collateral held against the overdue advances	23,371		5,320	
Covered portion of overdue advances	12,102		2,891	
Uncovered portion of overdue advances	148,182		68,615	
	160,284		71,506	

Collaterals held with respect of overdue advances to customers are automobiles and residential properties.

# UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the year ended December 31, 2016

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

## 1 OVERDUE AND RESCHEDULED ASSETS (continued)

### (b) Gross trade bills overdue for more than three months:

	2016		2015	
	% on total trade bills		% on total trade bills	
Six months or less but over three months	–	–	1,697	0.01
One year or less but over six months	–	–	–	–
Over one year	<b>139,053</b>	<b>12.04</b>	135,959	0.39
Total gross amount of trade bills overdue for more than three months	<b>139,053</b>	<b>12.04</b>	137,656	0.40
Individually assessed impairment allowances made in respect of the above overdue trade bills	<b>73,934</b>		46,538	
Net realisable value of collateral held against the overdue trade bills	–		–	
Covered portion of overdue trade bills	–		–	
Uncovered portion of overdue trade bills	<b>139,053</b>		137,656	
	<b>139,053</b>		137,656	

As at December 31, 2016 and 2015, there were no overdue advances to banks.

### (c) Rescheduled advances to customers:

	2016		2015	
	% on total advances to customers		% on total advances to customers	
Rescheduled advances to customers	<b>70,730</b>	<b>0.03</b>	69,416	0.03

Rescheduled advances are those advances which have been restructured or renegotiated because of deterioration in the financial position of the borrower, or the inability of the borrower to meet the original repayment schedule and for which the revised payment terms are non-commercial to the Bank. The rescheduled advances are stated net of any advances that have subsequently become overdue for over three months and reported as overdue advances as above.

As at December 31, 2016 and 2015, there were no rescheduled advances to banks and trade bills.

### (d) Other overdue and rescheduled assets

As at December 31, 2016 and 2015, there were no other overdue and rescheduled assets.

# UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the year ended December 31, 2016

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

## 2 LIQUIDITY RATIO

### (a) Average liquidity coverage ratio ("LCR")

		2016	2015
		%	%
Average liquidity coverage ratio	– First quarter	125.2	165.7
	– Second quarter	116.2	128.6
	– Third quarter	118.7	146.1
	– Fourth quarter	123.6	119.8

The average LCR for each quarter in 2016 is based on the arithmetic mean of its LCR as at the end of each working day for each quarter for the Bank, the average value LCR is for each quarter in 2015 is based on the arithmetic mean of its LCR as at each month-end in the quarter for the Bank, as required by the Hong Kong Monetary Authority ("HKMA") for its regulatory purposes.

Other LCR disclosure requirements under the Banking (Disclosure) (Amendment) Rules 2015 are published on the Bank's website: <http://www.asia.ccb.com/hongkong>.

### (b) Liquidity cushion

The size and composition of the Bank's liquidity cushion as of December 31, 2016 and December 31, 2015 was:

		2016	2015
Cash & Central Bank reserves		372,593	12,360,938
Hong Kong Government Exchange Fund		13,487,089	3,016,302
Other securities which fulfil the High Quality Liquidity Assets definition		57,053,938	37,940,497

This is an additional information disclosed in relation to the requirement of HKMA Supervisory Policy Manual "Sound Systems and Controls for Liquidity Risk Management".



# UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the year ended December 31, 2016

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

## 3 CAPITAL ADEQUACY RATIO AND CAPITAL MANAGEMENT

### (a) Capital adequacy ratio

	Group	
	2016	2015
Common Equity Tier 1 capital ratio	14.0%	13.7%
Tier 1 capital ratio	14.0%	13.7%
Total capital ratio	16.8%	16.6%

Capital adequacy ratios were compiled in accordance with the Banking (Capital) Rules (“the Capital Rules”) issued by the HKMA. The ratios as of December 31, 2016 and 2015 were in compliance with the amended Capital Rules effective from January 1, 2013 for the implementation of the “Basel III” capital accord.

The capital adequacy ratio (“CAR”) was computed on a consolidated basis, including the Bank and its subsidiaries, CCB Hong Kong Property Management Company Limited and all of its subsidiaries (“CCBP Group”), and CCB (Asia) Insurance Broker Limited.

In accordance with the thresholds as determined in Part 3 of the Capital Rules, the Bank’s shareholdings in CCB Securities Limited, CCB Nominees Limited and CCB (Asia) Trustee Company Limited were included in the total risk weighted assets of the Group.

In calculating the risk weighted assets, the Group adopted the Standardised (Credit Risk) Approach and the Standardised (Market Risk) Approach for credit risk and market risk respectively. For operational risk, the capital requirement is calculated using the Basic Indicator Approach.

### (b) Leverage ratio

The Group is required under section 45A(6) of the Banking (Disclosure) Rules to disclose its leverage ratio calculated on a consolidated basis effective from March 31, 2015.

	2016	2015
Leverage ratio	8.53%	8.16%

Detailed breakdown of the Group’s leverage exposure measure and a summary of comparison table reconciling the assets of the Group’s accounting balance sheet with the leverage exposure measure using the standard templates as specified by the HKMA can be viewed in the Financial Results section of our website: <http://www.asia.ccb.com/hongkong>.

# UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the year ended December 31, 2016

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

## 3 CAPITAL ADEQUACY RATIO AND CAPITAL MANAGEMENT (continued)

### (c) Capital Buffer Ratio

With effect from January 1, 2016, the following capital buffers are phased-in and the applicable ratios to the Group on a consolidated basis are as follows:

	2016
Capital conservation buffer ratio	0.625%
Countercyclical capital buffer ("CCyB") ratio	0.505%
	1.130%

The geographical breakdown of risk weighted assets in relation to private sector credit exposures and the applicable CCyB ratio for each jurisdiction using the standard template as specified by the HKMA are published on the Bank's website <http://www.asia.ccb.com/hongkong>.

### (d) Credit risk

The Group uses the following external credit assessment institutions ("ECAIs") to calculate its capital adequacy requirements under the Standardised (Credit Risk) Approach prescribed in the Capital Rules:

- Moody's Investors Service
- Standard & Poor's Ratings Services

The process used to map ECAIs issue specific ratings in the Group's banking book is consistent with those prescribed in the Capital Rules.

# UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the year ended December 31, 2016

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

## 3 CAPITAL ADEQUACY RATIO AND CAPITAL MANAGEMENT (continued)

### (d) Credit risk (continued)

The capital requirements on each class of exposures under the Standardised (Credit Risk) Approach at the reporting date are summarised as follows:

	Capital charges	
	2016	2015
<b>Exposures on the statement of financial position</b>		
Public sector entity	3,017	3,147
Bank	7,226,642	9,483,672
Securities firm	20,107	2,976
Corporate	10,834,630	8,172,894
Regulatory retail	1,326,694	1,384,999
Residential mortgage loans	641,957	638,123
Other exposures which are not past due exposures	1,363,707	1,083,383
Past due exposures	20,536	21,819
Sub-total	21,437,290	20,791,013
<b>Exposures not on the statement of financial position</b>		
Direct credit substitutes	82,756	38,640
Transaction-related contingencies	89,414	54,470
Trade-related contingencies	12,411	12,867
Other commitments	660,816	398,202
Exchange rate contracts	407,328	402,185
Interest rate contracts	10,900	4,980
Equity contracts	221	342
Sub-total	1,263,846	911,686
Total capital charge for credit risk	22,701,136	21,702,699

# UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the year ended December 31, 2016

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

## 3 CAPITAL ADEQUACY RATIO AND CAPITAL MANAGEMENT (continued)

(e) The risk weighted assets for each class of credit risk exposures are set out as follows:

As at December 31, 2016

Class of exposures	Total Exposures*	Exposures covered by recognised credit risk mitigation		Exposures after recognised credit risk mitigation		Risk weighted amount		Total
		Collateral	Guarantees	Rated	Unrated	Rated	Unrated	
<b>On-balance sheet</b>								
Sovereign	23,821,786	-	169,442	23,991,228	-	-	-	-
Public sector entity	-	-	188,568	-	188,568	-	37,714	37,714
Bank	211,111,007	-	57,115,939	264,598,419	3,628,527	88,519,168	1,813,863	90,333,031
Securities firm	559,411	534,871	478,126	478,126	24,540	239,063	12,270	251,333
Corporate	210,310,735	2,168,497	(57,864,964)	45,619,229	104,658,045	30,296,710	105,136,171	135,432,881
Cash	273,981	-	-	-	273,981	-	-	-
Regulatory retail	22,406,856	295,298	-	-	22,111,558	-	16,583,669	16,583,669
Residential mortgage loans	19,698,553	-	(87,111)	-	19,611,442	-	8,024,466	8,024,466
Other exposures which are not past due exposures	16,609,109	343,388	-	-	16,265,721	-	17,046,338	17,046,338
Past due exposures	177,732	-	-	-	177,732	-	256,697	256,697
<b>Off-balance sheet</b>								
Off-balance sheet exposures other than OTC derivative transactions or credit derivative contracts	12,287,310	180,854	-	4,387,631	7,718,825	2,854,316	7,713,152	10,567,468
OTC derivative transactions								
Exchange rate contracts	12,307,486	504,594	-	11,700,622	102,270	4,989,325	102,270	5,091,595
Interest rate contracts	437,960	-	-	397,384	40,576	114,826	21,427	136,253
Equity contracts	5,628	-	-	5,628	-	2,758	-	2,758
<b>Total</b>	<b>530,007,554</b>	<b>4,027,502</b>	<b>-</b>	<b>351,178,267</b>	<b>174,801,785</b>	<b>127,016,166</b>	<b>156,748,037</b>	<b>283,764,203</b>

\* Total exposures represent the principal amount or credit equivalent amount, as applicable, net of individually assessed impairment allowances.

# UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the year ended December 31, 2016

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

## 3 CAPITAL ADEQUACY RATIO AND CAPITAL MANAGEMENT (continued)

### (e) The risk weighted assets for each class of credit risk exposures are set out as follows: (continued)

As at December 31, 2015

Class of exposures	Total Exposures*	Exposures covered by recognised credit risk mitigation		Exposures after recognised credit risk mitigation		Risk weighted amount		
		Collateral	Guarantees	Rated	Unrated	Rated	Unrated	Total
<b>On-balance sheet</b>								
Sovereign	23,358,819	-	191,726	23,550,545	-	-	-	-
Public sector entity	93,508	-	103,185	-	196,693	-	39,339	39,339
Bank	250,689,627	-	54,692,619	291,716,202	13,666,044	112,308,218	6,237,679	118,545,897
Securities firm	526,491	452,093	-	-	74,398	-	37,199	37,199
Corporate	171,257,491	4,053,348	(54,846,173)	36,300,678	76,057,293	27,544,285	74,528,296	102,072,581
Cash	233,266	-	-	-	233,266	-	-	-
Regulatory retail	23,446,829	362,011	(1,500)	-	23,083,318	-	17,312,489	17,312,489
Residential mortgage loans	19,403,250	-	(91,821)	-	19,311,429	-	7,976,534	7,976,534
Other exposures which are not past due exposures	13,095,237	285,527	(48,036)	-	12,761,674	-	13,542,291	13,542,291
Past due exposures	183,795	-	-	-	183,795	-	272,742	272,742
<b>Off-balance sheet</b>								
Off-balance sheet exposures other than OTC derivative transactions or credit derivative contracts	7,091,242	212,555	-	1,638,458	5,240,229	1,075,958	5,226,262	6,302,220
OTC derivative transactions								
Exchange rate contracts	11,681,397	-	-	11,511,500	169,897	4,890,931	136,381	5,027,312
Interest Rate contracts	151,631	-	-	145,564	6,067	56,187	6,067	62,254
Equity contracts	8,746	-	-	8,746	-	4,274	-	4,274
<b>Total</b>	<b>521,221,329</b>	<b>5,365,534</b>	<b>-</b>	<b>364,871,693</b>	<b>150,984,103</b>	<b>145,879,853</b>	<b>125,315,279</b>	<b>271,195,132</b>

\* Total exposures represent the principal amount or credit equivalent amount, as applicable, net of individually assessed impairment allowances.

# UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the year ended December 31, 2016

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

## 3 CAPITAL ADEQUACY RATIO AND CAPITAL MANAGEMENT (continued)

### (e) The risk weighted assets for each class of credit risk exposures are set out as follows: (continued)

The aggregate credit risk weighted amounts of the contingent liabilities and commitments are as follows:

	2016	2015
Credit risk weighted amounts	10,567,468	6,302,220

The risk weights used in the computation of credit risk weighted amounts range from 0% to 100% (2015: 0% to 100%).

### (f) Credit risk mitigation

As mentioned in Note 8(a) to the consolidated financial statements on the credit risk management of the Group, the Group has established policies in managing and recognising credit risk mitigation, one of which is the taking of collateral and other credit enhancements. The principal types of collateral taken by the Group are also those of the recognised credit risk mitigation as prescribed in the Capital Rules.

For regulatory capital calculation, the Group adheres to the criteria as stipulated in the Capital Rules when assessing the eligibility of the credit risk mitigation.

Recognised collateral include both financial and physical collateral. Financial collateral include cash deposit, shares and debt securities and mutual fund, whilst physical collateral include commercial real estate and residential real estate. The exposure amount after mitigation is determined by applying the standard supervisory haircut stipulated in the Capital Rules as an adjustment discount to the current collateral value.

Recognised guarantor is any sovereign entities, public sector entities, banks and regulated securities firms with a lower risk weight than the borrower.

On-balance sheet and off-balance sheet recognised netting is not adopted by the Group.

### (g) Over-the-counter (“OTC”) derivative transactions

In respect of the Group’s counterparty credit risk which arises from OTC derivative transactions, the related credit risk management has set out in Note 8(a) to the consolidated financial statements. In sum, the counterparty credit risk arising from OTC derivatives in the trading book is subject to the same credit risk management framework of the banking book. The Group manages and monitors the risk exposure by determining the current exposure amount of the transactions.

There were neither repo-style transactions nor credit derivative contracts entered into by the Group as at December 31, 2016 and 2015.

# UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the year ended December 31, 2016

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

## 3 CAPITAL ADEQUACY RATIO AND CAPITAL MANAGEMENT (continued)

### (g) Over-the-counter (“OTC”) derivative transactions (continued)

#### (i) Counterparty credit risk exposures

	2016	2015
Gross total positive fair value	7,833,842	5,744,526
Credit equivalent amount	12,751,074	11,841,774
Credit equivalent amount or net credit exposures net of recognised collateral held	12,246,480	11,841,774
Risk weighted amounts	5,230,606	5,093,840

#### (ii) Major class of exposures by counterparty type

	2016		
	Contract amount	Credit equivalent amount	Risk weighted amount
Banks	474,582,143	12,100,574	5,105,379
Securities Firm	1,698,195	41,359	20,680
Corporate	4,099,302	58,050	58,050
Others	6,374,909	551,091	46,497
	486,754,549	12,751,074	5,230,606

	2015		
	Contract amount	Credit equivalent amount	Risk weighted amount
Banks	587,249,638	11,729,624	4,981,690
Corporate	4,592,086	109,743	109,743
Others	148,187	2,407	2,407
	591,989,911	11,841,774	5,093,840

#### (h) Asset securitisation

There was no asset securitisation for which the Group is an originating institution or an investing institution as at December 31, 2016 and 2015.

# UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the year ended December 31, 2016

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

## 3 CAPITAL ADEQUACY RATIO AND CAPITAL MANAGEMENT (continued)

### (i) Market risk

	2016	2015
Interest rate exposures	495,180	668,724
Foreign exchange exposures (including options)	1,782,531	1,786,822
Capital charge for market risk	2,277,711	2,455,546

### (j) Operational risk

	2016	2015
Capital charge for operational risk	892,482	775,051

### (k) Equity exposures in banking book

Investments in equity shares which are intended to be held on a continuing basis, but which do not comprise investments in associate, jointly controlled entities or subsidiaries, are classified as available-for-sale securities and are reported in the statement of financial position as "Available-for-sale financial assets".

	2016	2015
Unrealised gains		
– recognised in reserve but not through the statement of comprehensive income	16,003	15,894



# UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the year ended December 31, 2016

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

## 4 SEGMENTAL INFORMATION

### (a) Gross advances to customers

#### (i) Gross advances to customers by industry sectors

Analysis of gross advances to customers covered by collateral is as follows:

	2016		2015	
	Outstanding balance	% of advances covered by collateral	Outstanding balance	% of advances covered by collateral
<b>Group</b>				
Advances for use in Hong Kong				
Industrial, commercial and financial				
Property development	21,386,558	27.71	13,304,723	34.80
Property investment	35,285,941	83.41	29,059,241	88.06
Financial concerns	22,009,514	58.74	8,315,954	57.61
Stockbrokers	576,828	93.07	1,426,825	52.19
Wholesale and retail trade	9,727,231	51.37	14,526,660	67.25
Manufacturing	6,383,453	42.59	8,432,071	53.19
Transport and transport equipment	10,468,148	66.18	11,416,919	71.04
Recreational activities	22,032	67.17	26,845	69.14
Information technology	2,960,092	27.35	1,652,762	2.50
Others	10,830,382	54.43	15,943,675	61.95
	<b>119,650,179</b>		104,105,675	
Individuals				
Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	5,611	100.00	6,771	100.00
Loans for the purchase of other residential properties	14,835,673	99.52	14,247,201	99.51
Credit card advances	5,546,251	0.00	6,289,380	0.00
Others	21,131,880	28.28	17,673,137	29.45
	<b>41,519,415</b>		38,216,489	
Trade finance	3,602,599	55.68	7,146,314	72.89
Advances for use outside Hong Kong	68,548,666	49.93	55,038,556	51.09
Gross advances to customers	<b>233,320,859</b>	<b>54.50</b>	204,507,034	59.06

# UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the year ended December 31, 2016

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

## 4 SEGMENTAL INFORMATION (continued)

### (a) Gross advances to customers (continued)

#### (i) Gross advances to customers by industry sectors (continued)

Further analysis of gross advances to customers which constitute not less than 10% of gross advances to customers are as follows:

	2016	2015
Property investment		
Impaired advances	1,782	68
Overdue advances	1,782	–
Individually assessed impairment allowances	–	–
Collectively assessed impairment allowances	21,753	14,181
Impairment allowances charged/(released) during the year	7,572	(457)
Advances written-off during the year	–	865

#### (ii) Gross advances to customers by geographical areas

	2016	2015
Hong Kong	195,428,886	166,722,961
China	31,755,765	32,663,974
Macau	142,972	118,999
Others	5,993,236	5,001,100
	233,320,859	204,507,034

#### (iii) Impaired advances by geographical areas

	2016		2015	
	Gross impaired advances	Individually assessed impairment allowances	Gross impaired advances	Individually assessed impairment allowances
Hong Kong	258,682	142,831	218,304	108,826
China	364	97	5,400	5,400
	259,046	142,928	223,704	114,226

More than 90% of the collective impairment allowances were allocated to Hong Kong as at December 31, 2016 and 2015 respectively. The geographical analysis is based on location of the customers and has taken account of transfer of risk.

# UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the year ended December 31, 2016

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

## 4 SEGMENTAL INFORMATION (continued)

### (b) International claims

International claims are exposures recorded on the statement of financial position based on the location of the counterparties after taking into account the transfer of risk. For a claim guaranteed by a party situated in a country different from the counterparty, risk will be transferred to the country of the guarantor. For a claim on the branch of a bank, the risk will be transferred to the country where its head office is situated. Claims on individual countries or areas, after risk transfer, amounting to 10% or more of the aggregate international claims are shown as follows:

**As at December 31, 2016**

	Non-bank private sector				Total
	Banks	Official sector	Non-bank financial Institutions	Non-financial private sector	
Developing Asia and Pacific	209,032,763	5,728,561	8,283,873	66,737,416	289,782,613
– of which China	208,155,056	5,728,561	8,283,873	66,591,599	288,759,089
Offshore centres	572,445	–	6,257,986	55,960,918	62,791,349

As at December 31, 2015

	Non-bank private sector				Total
	Banks	Official sector	Non-bank financial Institutions	Non-financial private sector	
Developing Asia and Pacific	245,038,427	4,987,373	2,824,775	83,272,981	336,123,556
– of which China	244,335,694	4,987,373	2,824,775	83,153,468	335,301,310
Offshore centres	5,093,226	–	353,572	26,952,413	32,399,211

# UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the year ended December 31, 2016

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

## 5 MAINLAND ACTIVITIES EXPOSURES

The table below summarises the Mainland China activities exposure of the Bank, categorised by types of counterparties:

**As at December 31, 2016**

<b>Types of Counterparties</b>	<b>On-balance sheet exposure</b>	<b>Off-balance sheet exposure</b>	<b>Total</b>
(a) Central government, central government-owned entities and their subsidiaries and joint ventures ("JVs")	<b>52,253,738</b>	<b>6,806,255</b>	<b>59,059,993</b>
(b) Local governments, local government-owned entities and their subsidiaries and JVs	<b>16,972,944</b>	<b>290,386</b>	<b>17,263,330</b>
(c) Mainland nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	<b>46,946,205</b>	<b>510,646</b>	<b>47,456,851</b>
(d) Other entities of central government not reported in part (a) above	<b>3,859,209</b>	<b>772,221</b>	<b>4,631,430</b>
(e) Other entities of local governments not reported in part (b) above	<b>13,496</b>	<b>–</b>	<b>13,496</b>
(f) Mainland nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	<b>17,181,333</b>	<b>3,806,089</b>	<b>20,987,422</b>
(g) Other counterparties where the exposures are considered by the reporting institution to be Mainland China activities exposures	<b>15,788,140</b>	<b>657,048</b>	<b>16,445,188</b>
<b>Total</b>	<b>153,015,065</b>	<b>12,842,645</b>	<b>165,857,710</b>
Total assets after provision	<b>509,554,842</b>		
On-balance sheet exposures as percentage of total assets	<b>30.03%</b>		

# UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the year ended December 31, 2016

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

## 5 MAINLAND ACTIVITIES EXPOSURES (continued)

As at December 31, 2015

Types of Counterparties	On-balance sheet exposure	Off-balance sheet exposure	Total
(a) Central government, central government-owned entities and their subsidiaries and joint ventures ("JVs")	40,864,669	4,846,169	45,710,838
(b) Local governments, local government-owned entities and their subsidiaries and JVs	19,823,937	114,037	19,937,974
(c) Mainland nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	38,546,523	1,001,580	39,548,103
(d) Other entities of central government not reported in part (a) above	3,973,905	1,225,459	5,199,364
(e) Other entities of local governments not reported in part (b) above	536,350	–	536,350
(f) Mainland nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	19,663,329	2,405,380	22,068,709
(g) Other counterparties where the exposures are considered by the reporting institution to be Mainland China activities exposures	7,828,818	527	7,829,345
<b>Total</b>	<b>131,237,531</b>	<b>9,593,152</b>	<b>140,830,683</b>
<b>Total assets after provision</b>	<b>505,215,042</b>		
<b>On-balance sheet exposures as percentage of total assets</b>	<b>25.97%</b>		

# UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the year ended December 31, 2016

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

## 6 CURRENCY CONCENTRATIONS

The Group had the following net foreign currency exposures which exceeded 10% of the net foreign currency exposure in all currencies:

**As at December 31, 2016**

	RMB	USD	Others	Total
<b>HKD equivalent</b>				
Spot assets	50,962,087	224,904,050	26,060,627	301,926,764
Spot liabilities (Note)	(81,780,865)	(184,959,211)	(23,776,347)	(290,516,423)
Forward purchases	174,436,686	203,962,961	14,895,767	393,295,414
Forward sales	(172,698,531)	(237,523,873)	(17,303,228)	(427,525,632)
Net long/(short) position (Note)	(29,080,623)	6,383,927	(123,181)	(22,819,877)
Net structural position	-	-	-	-

As at December 31, 2015

	RMB	USD	Others	Total
<b>HKD equivalent</b>				
Spot assets	94,181,157	197,173,055	11,784,672	303,138,884
Spot liabilities (Note)	(137,154,260)	(145,482,399)	(13,620,130)	(296,256,789)
Forward purchases	250,783,162	276,397,940	21,408,174	548,589,276
Forward sales	(235,492,862)	(321,724,064)	(19,915,125)	(577,132,051)
Net long/(short) position (Note)	(27,682,803)	6,364,532	(342,409)	(21,660,680)
Net structural position	-	-	-	-

The net options position is calculated using the Simplified Approach and there was no net options position as at December 31, 2016 and 2015.

Note: The RMB spot liabilities include the RMB17.6 billion share capital (\$22.3 billion). The net short RMB position was mainly stemmed from the conversion of RMB capital related assets into Hong Kong dollars during 2016 and 2015.

# UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the year ended December 31, 2016

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

## 7 CORPORATE GOVERNANCE

The Bank has fully complied with the requirements set out on “Corporate Governance of Locally Incorporated Authorised Institutions” under the Supervisory Policy Manual issued by the HKMA in August 2012.

There are five special committees and one sub-committee under the Board of Directors, namely Executive Committee, Strategy and Corporate Governance Committee, Audit Committee, Nomination and Remuneration Committee, Risk Committee and Compliance Sub-Committee under the Risk Committee. There are six key functional committees, of which Asset and Liability Committee and Information Technology Committee directly report to Executive Committee, while Risk Management Committee, Credit Committee, New Product Committee and Internal Control, Compliance and Operations Committee jointly report to Executive Committee and Risk Committee.

### (a) Board of Directors

The Board of Directors has the ultimate responsibilities to the shareholders, depositors, creditors, employees, other stakeholders, banking supervisors of the Group in ensuring that the business and operational functions of the Group are managed in a prudent, professional and competent manner and in conformity with relevant laws and regulations. Key specialised committees are established to be responsible to and report to the Board of Directors, and assist the Board of Directors in performing its duties according to the authorization of the Board of Directors. The functional committees are established to ensure that such operational functions, as well as efficient management of the main types of risk arising out of the business, are effectively carried out.

The key functions and powers of the Board of Directors are set out below:

- Determining the Bank’s development strategy, and supervising its implementation;
- Deciding on the business plan, investment plan and risk capital distribution plan of the Bank;
- Preparing annual financial budget and final accounts of the Bank;
- Preparing profit distribution plan and planning for making up losses of the Bank;
- Preparing plans for the increase or reduction of the Bank’s share capital, issuance of the Bank’s convertible bonds, subordinated bonds, corporate bonds or other negotiable securities and listing;
- Preparing plans for the Bank’s major acquisitions;
- Preparing plans for merger, division, dissolution and liquidation of the Bank;
- Deciding on the Bank’s equity investment, bond investment, asset acquisition, asset disposal, asset written-off, asset mortgage, other non-commercial banking business guarantees and external donations;
- Deciding on the setting up of the Bank’s internal management divisions;
- Deciding on the setting up of subsidiaries;

# UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the year ended December 31, 2016

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

## 7 CORPORATE GOVERNANCE (continued)

### (a) Board of Directors (continued)

- According to the shareholder’s requirements, appointing or removing the chief executive officer of the Bank, senior executive vice president, executive vice president and other senior management members and determining their remuneration, reward and penalty;
- Formulating the Bank’s basic management systems, and supervising the implementation of these systems;
- Deciding on risk management policies and internal control policies of the Bank, formulating risk management system and internal control system of the Bank, and supervising the implementation of such systems;
- Making proposal for the engagement, dismissal or retention of auditors to the Shareholders’ General Meeting;
- Receiving and reviewing work reports of the Bank’s senior management, and supervising, checking and assessing his/her work and adopting accountability system;
- Assessing and evaluating the duty performance of directors and senior management members;
- Regularly evaluating and continuously improving corporate governance of the Bank, and conducting a regular evaluation of the performance of the Board of Directors;
- Formulating the amendments to the Articles of Association of the Bank and the Procedural Rules for Board of Directors of the Bank, and formulating other systems, rules and measures of the Board of Directors;
- Formulating the capital planning and relevant systems on capital adequacy ratio assessment and management of the Bank, and supervising the implementation of such systems;
- Formulating relevant systems for the management of accounting consolidation of the Bank and its subsidiaries, and supervising the implementation of such systems;
- Delegating all or any part of the authorities given by the shareholder to the chief executive officer of the Bank and allowing the chief executive officer to further delegate all or part of his/her authority to other personnel of the Bank provided that the aforesaid delegation should be made by way of authorisation document; and
- Exercising other functions and powers vested by laws, regulations, rules, and relevant provisions of the relevant regulatory authorities, and the Articles of Association as well as those authorised by the Bank’s ultimate sole shareholder, China Construction Bank Corporation (“CCBC”), and/or the Shareholders’ General Meeting.

Members of the Board of Directors, who come from a variety of different backgrounds, have a diverse range of business, banking and professional expertise. Currently, the Board of Directors comprises two executive directors and nine non-executive directors. Of the nine non-executive directors, four are independent non-executive directors (“independent directors”).



# UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the year ended December 31, 2016

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

## 7 CORPORATE GOVERNANCE (continued)

### (b) Executive Committee

The Executive Committee is responsible to the Board of Directors and the main duties and powers of the Committee are:

- Establishing the daily operations management for the Bank, including organizing, implementing, completing and approving the Bank's business objectives and plans;
- Approving and deciding upon the important issues within its authority arising in daily operations management; and
- Organizing all functional committees, working committees and divisions within its jurisdiction and ensures they carry out their duties in accordance with standards and procedures.

The Executive Committee conducts regular meetings, including executive meetings and business analysis meetings.

The main agenda and duties of Executive Meeting are:

- Matters assigned by the Board of Directors:
  - Researching and formulating the Bank's specific measures to better implement the relevant policies and guidelines of shareholder and the Board of Directors;
  - Preparing and proposing matters for approval or discussion by the Board of Directors;
  - Reviewing and approving memberships and terms of reference of functional committees directly reporting to Executive Committee;
  - Reviewing reports of functional committees directly reporting to Executive Committee and functional sub-committees; reviewing and approving matters that exceed the authority of functional committees but within the authority delegated by the Board of Directors to Executive Committee; and
  - Other matters assigned by the Board of Directors for review or handling.

# UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the year ended December 31, 2016

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

## 7 CORPORATE GOVERNANCE (continued)

### (b) Executive Committee (continued)

- Matters of Business Management:
  - Analyzing the external business situations and policy environment, formulating various business development schemes, policies, plans, and major issues in the course of operation and development, and set corresponding measures;
  - Directing asset and liability management;
  - Directing system development of internal management and control;
  - Reviewing and approving Capital Planning and Allocation Guidelines;
  - Reviewing the Bank's major management systems and regulations;
  - Studying and reviewing the Bank's schemes of organizational structure and functional committees' setup, as well as allocation of divisional functions;
  - Reviewing the annual financial budgeting, financial reports, significant expenditures, and asset acquisition projects; and
  - Other management matters of importance.
- Matters of Authorization and Human Resources Management:
  - Determining and revising deputy chief executives' and division heads' authority and delegation of authority;
  - Studying and reviewing the employments of General Manager, Deputy General Manager, Assistant General Manager, and ad-hoc staff;
  - Investigating and reviewing the assessments and corresponding rewards and punishments for representatives of each line of business and division;
  - Deciding to use the title of the Bank to report, compliment, and grant honors to group(s) or individual(s); and
  - Other matters assigned by the Board of Directors for review or handling.

# UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the year ended December 31, 2016

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

## 7 CORPORATE GOVERNANCE (continued)

### (b) Executive Committee (continued)

The main agenda and duties of Business Analysis Meeting are:

- Briefing on the preceding quarter's execution of integrated business plans and capital operations;
- Analyzing the major business developments, abnormal fluctuations of financial indicators and corresponding causes;
- Listening to divisions' summary reports and key tasks and ideas for following stage;
- Addressing problems exist in business management including capital operations, financial balance, product innovation, selling channels, business flows, etc., and formulating corresponding measures;
- Forecasting the following quarter's progress of completion of Key Performance Indicators; and
- Analyzing economic situations and significant influential external factors together with the opportunities and challenges they bring about, formulating measures for development and competition, and conducting thematic researches on strategic topics.

According to the terms of reference of the Committee, the Committee shall be constituted by the senior management of the Bank. The Chairman of the Committee shall be taken by the chief executive officer. The term of office of the members of Executive Committee shall be the same as that of employment with the Bank.

### (c) Strategy and Corporate Governance Committee

The Strategy and Corporate Governance Committee is responsible to the Board of Directors and the main duties and powers of the Committee are:

- Preparing the Bank's strategy and development plan, supervising and evaluating the implementation of plan, and providing suggestions to the Board of Directors;
- Examining the Bank's annual operation plan and fixed asset investment budget, and submitting them to the Board of Directors for consideration;
- Examining the report on implementation of annual operation plan and fixed asset investment budget;
- Evaluating coordinative development of various businesses, and providing suggestions to the Board of Directors;
- Examining significant organisational adjustment and institutional scheme of the Bank, and providing suggestions to the Board of Directors;
- Examining major investment and financing plan of the Bank, and providing suggestions to the Board of Directors;
- Supervising the implementation of the relevant resolutions of the Shareholders' General Meetings and board meetings;

# UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the year ended December 31, 2016

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

## 7 CORPORATE GOVERNANCE (continued)

### (c) Strategy and Corporate Governance Committee (continued)

- Regularly receiving and reviewing the reports of senior management and making suggestions on operation management, as well as formulating rules for implementation to facilitate execution;
- Ensuring that the Bank has committed adequate efforts, time and resources according to compliance requirements;
- Formulating and regularly reviewing whether the Bank is in compliance with the laws, regulations and codes on corporate governance, and making suggestions to the Board of Directors; and
- Other matters authorised by the Board of Directors.

According to the terms of reference of the Committee, the Committee shall be composed of at least three directors. The Chairman of the Committee shall be taken by Chairman of the Board of Directors. Members other than the Chairman of the Committee shall be appointed by the Board of Directors.

### (d) Audit Committee

The Audit Committee serves as the “eyes and ears” to the Board of Directors in monitoring compliance with the Group’s policies and other internal and statutory regulations. It provides oversight of the Group’s internal and external auditors and thereby assists the Board of Directors in providing independent review of the effectiveness of the financial reporting process and internal control system of the Group.

The main duties and powers of the Audit Committee are:

- Supervising financial reports of the Bank, and examining the Bank’s accounting information and disclosure of its major events;
- Supervising and evaluating internal control of the Bank;
- Supervising and evaluating internal and external audit work of the Bank, proposing to the Board of Directors on engagement or replacement of independent audit firm, and responsible for the communication and co-ordination between external auditors and internal auditors;
- Receiving and reviewing the work report of the person in charge of the internal audit department; inspecting, monitoring and assessing the internal audit function;
- Paying attention to improper acts which may occur;
- Appointing the person in charge of the internal audit division;
- Approving the internal audit charter prepared by the internal audit division and its regular updates;
- Reporting to the Board of Directors its work, issues within its authority scope and decisions or suggestions of the Committee, and maintaining communication and co-operation with other special committees;

# UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the year ended December 31, 2016

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

## 7 CORPORATE GOVERNANCE (continued)

### (d) Audit Committee (continued)

- Discussing the problems encountered during the financial audit and suggestions, and any matters proposed by the auditor for discussion (without the presence of the management at the meeting);
- Reviewing and approving the scope of audit and its frequency;
- Reviewing the audit report and ensuring that the senior management (together with the monitoring division) take actions as necessary to tackle the internal control weaknesses, areas that do not comply with the laws, regulations and policies, or issues identified by other auditors/internal auditor in a timely manner;
- Reviewing the on-site examination report of HKMA and reporting the significant findings to the Board of Directors;
- Reporting to the Board of Directors significant audit findings, and making relevant suggestions;
- Other matters authorised by the Board of Directors.

According to the terms of reference of the Committee, the Committee shall consist of at least three directors, shall only be composed of non-executive directors, the majority of whom shall be independent directors, and at least one independent director shall have appropriate professional qualifications or expertise in appropriate accounting or relevant financial management. Members of the Committee shall be appointed by the Board of Directors. The Chairman shall be appointed for the Committee to take charge of the work of the Committee. The Chairman shall be an independent director and elected by more than half of the members of the Committee.

### (e) Nomination and Remuneration Committee

The Nomination and Remuneration Committee is responsible to the Board of Directors and the main duties and powers of the Committee are:

- Organising the formulation of standards and procedures for the election of directors and senior management members of the Bank, and submitting the proposed procedures and standards to the Board of Directors for approval;
- Proposing to the Board of Directors on candidates for directors and chief executive officer of the Bank;
- Proposing to the Board of Directors on candidates for members of various special committees of the Board of Directors;
- Examining the candidates for senior management members of the Bank nominated in accordance with rules of shareholder and making suggestions to the Board of Directors;
- Formulating development plans for the senior management members and fostering plans for the key backup talents;
- Reviewing the Bank's remuneration management system, and proposing to the Board of Directors for decision;

# UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the year ended December 31, 2016

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

## 7 CORPORATE GOVERNANCE (continued)

### (e) Nomination and Remuneration Committee (continued)

- Organising the preparation of performance evaluation methods and remuneration plan for directors of the Bank, and submitting them to the Board of Directors for review;
- Organising the preparation of performance evaluation methods and remuneration plan for senior management members of the Bank, and submitting them to the Board of Directors for approval;
- Organising performance evaluation on directors, proposing the distribution of remuneration for directors, and submitting it to the Board of Directors for review;
- Organising performance evaluation on the senior management members, proposing the plan for distribution of remuneration for senior management members and key personnel, and submitting it to the Board of Directors for approval;
- Supervising the implementation of the Bank's performance evaluation system and remuneration system;
- Reviewing corporate level's remuneration adjustments and performance-based bonus with reference to the corporate goals and objectives resolved by the Board of Directors from time to time, assessing whether such bonus involves any unidentified business interests, and submitting it to the Board of Directors for approval;
- Proposing to the Board of Directors on the appointment or re-appointment of directors and the succession plan of directors;
- Examining and approving relevant compensation to the executive directors and senior management members for loss or termination of office or appointment to ensure such compensation is consistent with provisions of relevant contracts; if it fails to abide by the relevant agreements, relevant compensation shall be proper and reasonable;
- Examining and approving compensation for dismissing or removing relevant directors due to their misconduct to ensure such arrangement is consistent with provisions of relevant agreement; if it fails to comply with the relevant agreements, relevant compensation shall be reasonable and proper;
- Reporting its decisions or suggestions to the Board of Directors unless such report is not allowed by laws or supervisory regulations;
- Reviewing the structure, size and composition of the Board of Directors (including skills, knowledge and experience), and putting forth recommendations on proposed adjustment of the Board of Directors to implement corporate strategy of the Bank;
- Regularly reviewing the contribution required from a director to perform his/her duties and powers to the Bank, and whether he/she is spending sufficient time performing them; and
- Other matters authorised by the Board of Directors.

# UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the year ended December 31, 2016

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

## 7 CORPORATE GOVERNANCE (continued)

### (e) Nomination and Remuneration Committee (continued)

According to the terms of reference of the Committee, the Committee shall be composed of at least three directors, majority of whom shall be independent directors. Members of the Committee shall be appointed by the Board of Directors. The Chairman of the Committee shall be taken by an independent director, and shall be elected by all members of the Committee and reported to the Board of Directors for approval.

### (f) Risk Committee

The Risk Committee is responsible to advise the Board of Directors in carrying out its risk management responsibilities i.e. to ensure an adequate oversight of the Bank's overall risk management framework and to promote regular and transparent communications within the organisation in respect of bank-wide risk management issues.

The main duties and powers of the Committee are:

- Examining the Bank's key risk management policies according to the overall strategy of the Bank, and supervising and evaluating implementation and effect of these policies;
- Reviewing and recommending the risk appetite framework, the narrative, risk appetite thresholds of the Bank's risk appetite statement to the Board of Directors for approval; reviewing the performance of the Bank relative to the established thresholds on a quarterly basis;
- Providing guideline to the formulation of risk management system of the Bank;
- Supervising and evaluating the setting, organisation and effect of risk management division, and making recommendations for improvement;
- Reviewing the Bank's risk report including strict compliance with any related prudential, statutory and regulatory limits and relevant requirements, as well as material risk exposures approved by the senior management members/Committee members; carrying out regular evaluation on the Bank's risk position; and giving opinions on the improvement of the Bank's risk management;
- Evaluating relevant work of senior management of the Bank in charge of risk management;
- Supervising the compliance of core businesses, management systems and major operation activities of the Bank;
- Discussing the risk management strategies of the Bank based on the existing laws/regulations/regulatory requirements with due regard to its own business scale, nature and complexity etc., and making suggestions to the Board of Directors;

# UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the year ended December 31, 2016

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

## 7 CORPORATE GOVERNANCE (continued)

### (f) Risk Committee (continued)

- Ensuring that comprehensive and integrated management is adopted with respect to the definition, identification and management of major risks:
  - Formulating a set of definitions applicable to the whole entity with respect to different types of risks faced by the Bank;
  - Comprehensively monitoring existing risks across the entity where the entity covers all branches under the Group where the Bank has management rights; and
  - Ensuring that potential risks involved in the Bank's existing and new businesses are effectively identified, understood and assessed.
- Approving the risk management framework that is in line with the Bank's business objectives, risk appetite and profile, and ensuring that the framework is duly implemented and maintained by the senior management members;
  - Monitoring and reviewing the risk governance structure of the Bank and approving the key risk management policies; ensuring the sound operation of risk management and various internal control functions; whether in terms of decision-making or reporting structure, maintaining effective independence from the business divisions that involve risks; possessing adequate power, resources, professional knowledge and expertise to perform its duties;
  - Approving the policy level limits; and
  - Ensuring that the Bank has a sound stress-testing system and reviewing the results of stress-testing program.
- Regularly reviewing the risk management framework to ensure the Bank has a suitable structural system to manage its risks arising in the course of business development and arising from the changes in external market environments;
- Ensuring that the information system and its infrastructure are provided with adequate resources to cope with the Bank's risk management and reporting needs;
- Receiving and reviewing the report on the implementation of compliance policies to ensure that compliance risks are effectively managed; and
- Other matters authorised by the Board of Directors.

According to the terms of reference of the Risk Committee, members of the Risk Committee shall be appointed by the Board of Directors. The Committee shall be composed of at least three directors, all or majority of whom shall be non-executive directors. The Chairman of the Committee shall be elected by all members of the Committee and reported to the Board of Directors for approval. Other than members of the Committee, the deputy chief executive overseeing risk management, chief financial officer, chief compliance officer, head of risk management, head of legal and compliance, and head of internal audit of the Bank shall sit in on meetings of the Committee as ex officio members.



# UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the year ended December 31, 2016

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

## 7 CORPORATE GOVERNANCE (continued)

### (g) Compliance Sub-Committee under Risk Committee

The Compliance Sub-Committee under Risk Committee (“Sub-Committee”) is responsible to the Risk Committee and the main duties and powers of the Sub-Committee are:

- Receiving and reviewing the report on the implementation of compliance policies to ensure that compliance risks are effectively managed;
- Providing guideline to the formulation of the compliance risk framework of the Bank;
- Supervising and evaluating the setting, organization and effect of Legal and Compliance Division, and making recommendations for improvement;
- Reviewing the Bank’s legal and compliance report including, but not limited to, reporting of (a) regulatory incidents, (b) regulatory developments, (c) regulatory examinations, (d) progress of compliance reviews, (e) progress of HKMA driven control self-assessments, (f) anti-money laundering activities and related controls, and (g) progress of litigation cases affecting the bank;
- Ensuring that the compliance function is provided with adequate resources; and
- Other matters authorized by the Risk Committee.

According to the terms of reference of the Sub-Committee, the Sub-Committee shall be composed of three directors, all or majority of whom shall be non-executive directors. Members of the Sub-Committee shall be nominated and appointed by the Risk Committee. The adjustment and replacement of members of the Sub-Committee shall be decided by the Risk Committee. The Chairman of the Sub-Committee shall be appointed by the Risk Committee to take charge of the work of the Sub-Committee.

### (h) Asset and Liability Committee

The Asset and Liability Committee (“ALCO”) is a functional committee under the Executive Committee. Its main function is to base on the annual business plan, financial budgets, strategic development targets and risk appetite approved by the Board to formulate strategies over the Bank’s asset and liability structure and capital allocation, and to ensure the Bank’s business is operated within the acceptable risk tolerance level, so as to achieve the annual and strategic development goals approved by the Board.

ALCO members include Deputy Chief Executive overseeing Finance Division as the Chairperson, the Senior Management of the Bank, and the Head of Risk Management Division, Finance Division, Treasury Division, Corporate Banking Division, Institutional Banking Division, Commercial Banking Division and Consumer Banking Division.

# UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the year ended December 31, 2016

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

## 7 CORPORATE GOVERNANCE (continued)

### (i) Information Technology Committee

The Information Technology Committee is set up to act as a functional committee under the Executive Committee with the following scope and responsibilities:

- Overseeing the development of the Bank's long-term and near-term information technology strategic plans, including strategy formulation, risk management and resource planning;
- Ensuring the IT strategy is co-operating and synchronized with Head Office;
- Formulating and approving major information technology policies and processes;
- Prioritizing and monitoring major information technology projects and allocation of resources, assessing the effectiveness of information technology budgeting, planning and resourcing processes;
- Major information technology activities project monitoring and resource allocations:
  - Overseeing the IT project portfolio management in terms of project initiation approval and prioritization as well as project delivery performance metrics;
  - Formulating and approving IT project governance framework and processes;
  - Reviewing and approving Project Requests, which may be submitted by business and supporting units as well as other IT function of Head Office;
  - Providing complementary approval on project initiatives approved by the Senior Management/ Executive Committee or Head Office;
  - Formulating Project Request approving process for minor projects;
  - Prioritizing approved Project Requests and live projects;
  - Appraising project delivery performance result;
  - Monitoring project progress status, budget of commitment & actual P/L booking as well as in-house manday utilization;
  - Providing a platform to assess project delivery capacity and capability in relation to respective business needs;
  - Assessing the project post-implementation review result (including the stated benefits) for the projects as requested by the Committee;
  - Assessing the effectiveness of IT project planning, budgeting of investment & P/L booking, project cost allocation and project resources allocation processes;

# UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the year ended December 31, 2016

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

## 7 CORPORATE GOVERNANCE (continued)

### (i) Information Technology Committee (continued)

- Appraising major accomplishments in the application of technology and the overall IT service performance;
- Ensuring an adequate information technology control environment in place, which is in compliance with regulations, guidelines, and governance set by regulatory bodies and Head Office;
- Providing a platform to disseminate information technology related policies and processes to business units, as well as to solicit their inputs and support.

Membership of the Information Technology Committee is appointed by the Senior Management. Currently, the Committee consists of sixteen members with the Deputy Chief Executive overseeing Information Systems Division as the Chairperson. Other members are Head of Information Systems, Head of Corporate Banking, Head of Commercial Banking, Head of Consumer Banking, Head of Credit Card and Consumer Finance, Head of Treasury, Head of Finance, Head of Risk Management, Head of Operations, Head of Legal & Compliance, Head of Products, Head of Cross-Border Financial Services, Head of Institutional Banking, Credit Card and Consumer Finance Division – Head of Operations & Services, Marketing Division – Head of eBusiness. Representative from Audit function and IT related functions of CCB, and Information Systems Division – Head of Technology Risk Management are invited as advisor in the Committee while Information Systems Representative is the secretary to the Committee.

### (j) Risk Management Committee

The Risk Management Committee is set up as a functional committee to assist both the Executive Committee and the Risk Committee in the oversight of risk management matters. The Risk Management Committee acts as a central forum for overseeing the Bank's overall asset quality as well as resolving all important risk related or governance issues on credit risk, operational risk, market risk, liquidity risk, interest rate risk, strategic risk and reputation risk. In addition, a working committee and two working units namely Special Assets Management Committee, Stress Testing Unit and Operational Risk Unit are established under the Risk Management Committee. The major responsibilities of the Risk Management Committee include:

- Ensure a comprehensive and integrated management approach is adopted within the Bank with respect to the definition, identification and management of major risks;
- Ensure the Bank's risk profile is in line with the risk appetite and strategies set under the direction of the Executive Committee and the Risk Committee;
- Ensure the risk management framework is properly established and maintained and is adequate considering the scale and complexity of the Bank's business operation;
- Approve or review new or major changes in risk policies and processes to ensure they adequately accommodate the updated market conditions and economic trends, as well as due compliance of any relevant laws and regulations;
- Approve or review various risk limits, parameters and thresholds, as well as risk assessment tools to ensure pertinent risks are addressed/mitigated;

# UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the year ended December 31, 2016

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

## 7 CORPORATE GOVERNANCE (continued)

### (j) Risk Management Committee (continued)

- Act as a central forum to review, discuss and resolve matters across different risk areas;
- Approve or review major risk assessment/monitoring reports;
- Approve credit programs with legal and compliance considerations;
- Approve or review the results of the stress-testing programme and any necessary remedial actions as reported by the Stress Testing Unit;
- Approve the Annual Business Continuity Report;
- Approve or review operational risk issues including operational risk management tools, results of monitoring of key operational risk control and other critical operational risk management related matters as reported by the Operational Risk Unit and respective operational management functions;
- Review material issues relating to impairment allowances as reported by the Special Asset Management Committee.

The Risk Management Committee is chaired by the Deputy Chief Executive overseeing Risk Management, and the other members are the Bank's President and Executive Director, the Head of Risk Management, the Head of Legal and Compliance, the Head of Operational Risk and the Head of Market Risk.

### (k) Credit Committee

The Credit Committee acts as a functional committee to assist both the Executive Committee and the Risk Committee on loan quality maintenance, authority delegation, credit related policy-making and maintenance, credit approval and credit risk management issues. The major responsibilities of the Credit Committee include:

- Oversee overall credit quality of the Bank;
- Ensure that the Bank's credit risk profile is in line with the risk appetite and strategies set under the direction of the Risk Management Committee, the Executive Committee and the Risk Committee;
- Approve or review new or major changes in credit related policies and processes to ensure that they adequately accommodate the updated market conditions, economic trends as well as due compliance of any relevant laws and regulations;
- Approve or review various credit related risk limits, parameters and thresholds, as well as credit programs, products, risk assessment tools to ensure pertinent risks are addressed/mitigated;
- Approve new and changes in delegation of approval authorities;
- Review and approve credit actions or applications.

The Credit Committee is chaired by the Deputy Chief Executive overseeing Risk Management, and the other members are the Head of Risk Management, the Head of Credit, the Deputy Head of Risk Management and designated individual credit approver(s).

# UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the year ended December 31, 2016

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

## 7 CORPORATE GOVERNANCE (continued)

### (l) New Product Committee

The New Product Committee is established to provide a central forum to conduct the review and approval of new products and services as defined in the New Product Approval Policy. This committee is charged with the responsibility for:

- Reviewing and approve the requests regarding the engagement in New Products as well as modified products that fall into the definitions as stated in the New Product Approval Policy;
- Ensuring that the major risk dimensions of New Products are properly identified and analysed by the product owner in accordance with the New Product Approval Policy and relevant law, regulations and supervisory guidance, and effective control measures are properly proposed to address the risks;
- Reviewing and approving the New Product Approval Policy;
- Reviewing and approving investment and insurance products and third party product providers;
- Facilitating the regular reporting of respective risk areas to the Risk Committee.

According to the terms of reference of the New Product Committee, the Deputy Chief Executive shall be appointed as the Chairman of the Committee. Other members of the Committee shall be comprised of Head of Risk Management Division, Head of Credit Division, Head of Finance Division, Head of Legal and Compliance Division, Head of Operations Division and Head of Information Systems Division.

### (m) Internal Control, Compliance and Operations Committee

The Internal Control, Compliance and Operations Committee is the functional committee under the Executive Committee and the Risk Committee to assist both the Executive Committee and the Risk Committee to identify and assess the risk of compliance, internal control function and adequacy of operations of the Bank. This committee is charged with the responsibility for:

- Providing advice and proposal to the Management regarding major compliance and internal control issues;
- Identifying and evaluating the Bank's overall compliance risks or significant internal control defects so as to monitor and control the identified risks and defects;
- Reviewing and approving the annual compliance plan, annual reports concerning the implementation of the plans, main rules and regulations that affect the Bank, and significant non-compliance matters and/or suspicious transactions or activities;
- Reviewing the adequacy and efficiency of the internal control system and ensuring fit and proper rectification measures;
- Approving membership and Terms of Reference for the AML Committee and Investment and Insurance Working Unit;

# UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the year ended December 31, 2016

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

## 7 CORPORATE GOVERNANCE (continued)

### (m) Internal Control, Compliance and Operations Committee (continued)

- Approving Annual Plan for Investment and Insurance Quality of Assurance of Consumer Banking and Investment Products Risk Rating Model submitted from the AML Committee or the Investment and Insurance Working Unit;
- Define responsible parties to set up operational policies, procedures and guidelines pertaining to all business activities of the Bank to ensure on-going operational efficiency, cost-effectiveness and adequate controls, as well as compliance with all applicable regulatory and operational risk management requirements and standards;
- Review delegation of operational authorities to staff of different levels so as to ensure responsible staff will discharge daily duties and responsibilities in a legitimate and adequately controlled manner;
- Reviewing and approving standard service charges and fees in relation to payments, products and services offered by the Bank to ensure fairness and market competitiveness;
- Formulating and approving management policy and guidelines to ensure the effective operation and sufficient monitoring of outsourced activities to ensure due compliance with all relevant regulatory and corporate guidelines and standards;
- Approving the account opening at the third party financial institutions and the highest trading limit of all the Bank's channels;
- Facilitating regular reporting of important matters monitored and discussed to the Risk Committee.

According to the terms of reference of the Internal Control, Compliance and Operations Committee, the Deputy Chief Executive in charge of Compliance and Operations shall be appointed as the Chairman of the Committee. Other members of the Committee shall be comprised of Head of Corporate Banking Divisions, Head of Institutional Banking Division, Head of Treasury Division, Head of Consumer Banking Division, Head of Commercial Banking Division, Head of Private Banking Division, Head of Cross-Border Financial Services Division, Head of Operations Division, Head of Information Systems Division, Head of Finance Division, Head of Risk Management Division, Head of Legal and Compliance Division, Head of Credit Card and Consumer Finance Division, and Head of Marketing Division.

# UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the year ended December 31, 2016

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

## 8 RISK MANAGEMENT

### (a) Operational risk management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The Board recognises operational risk as a distinct risk category that should be managed with full attention and should be kept up with the best practice of the industry.

The Group has formulated and implemented the Operational Risk Management Policy which provides a bank-wide classification of operational risks and sets out the requirements on identification, assessment, reporting, monitoring and mitigation.

To ensure operational risks being under proper monitoring and supervision, an effective internal control system has been enforced by means of computer systems and rigorous procedures. The Group has maintained sound risk management systems, well defined procedures and established controls to monitor transactions and positions, documentation of books and records, regulatory compliance reviews, prudent underwriting and reconciliation standards, periodic reviews by internal audit, examiners and external auditors, and continuous maintenance of high employee risk awareness and ethical standards. Business line management is responsible for managing operational risks specific to their business units on a day-to-day basis.

The Group has regularly reviewed and enhanced the Business Continuity Plan of all critical banking services. It has also maintained data processing back-up sites and facilities to support the business operations in the event of any disastrous events. To ensure practicality of the plan, drill on contingency plans on certain critical business functions has been duly performed annually and the result was satisfactory.

Operational Risk Department drives the development of operational risk management process; and coordinates the execution of operational risk management activities, in particular conducting self-assessment exercises and the setting up of key risk indicators. In addition, the Risk Committee assists the Board in managing all types of risk, including operational risk and the Risk Management Committee was designated by the Board to oversee the operational risk of the Group.

The internal control environment is assessed and reviewed by the Internal Audit Division on an on-going basis. The results of their monitoring activities are directly reported to the senior management of the Group and the Board of Directors. They are independent to provide (negative or positive) assurance on the effectiveness of the first and second levels of control on the internal control system of all process owners. Their periodic reviews cover a comprehensive evaluation of all the Group's business processes and support functions.

Compliance awareness is enhanced through training, regular compliance circulars and issuance of compliance policies and procedures. All officers are required to actively engage in the continuous monitoring process. A Compliance Officer is designated to oversee the overall regulatory compliance matters.

# UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

For the year ended December 31, 2016

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

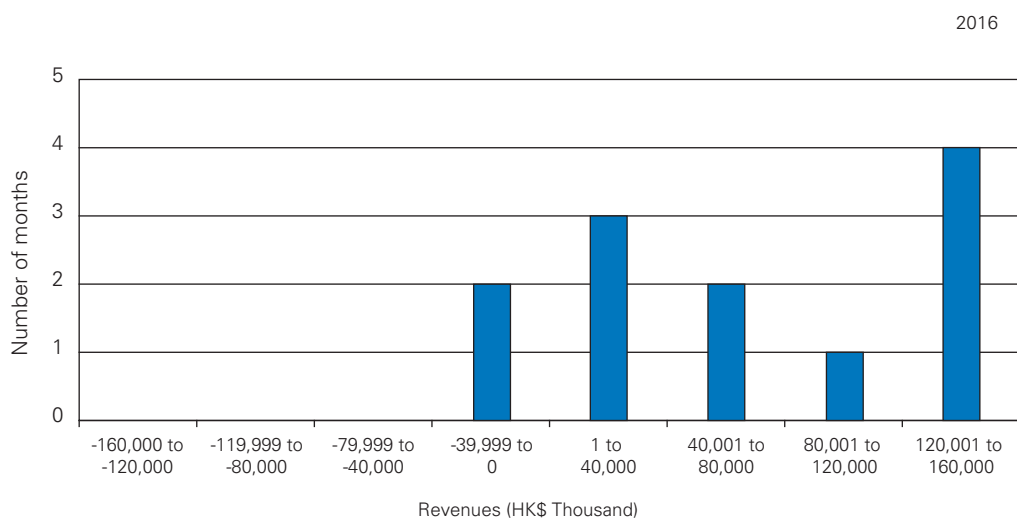
## 8 RISK MANAGEMENT (continued)

### (b) Market risk management

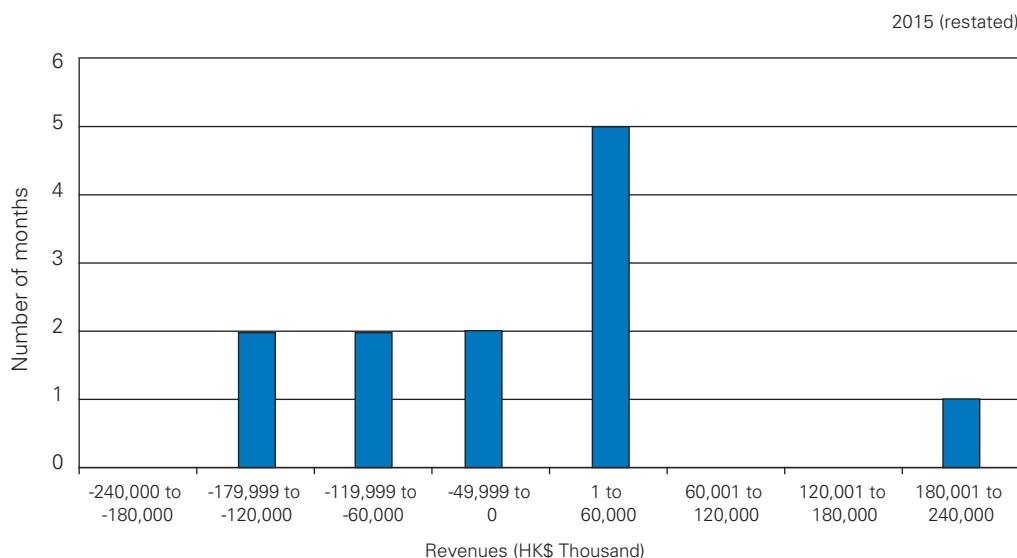
The Group's market risk management is detailed in Note 8(c) to the consolidated financial statements.

The Group's foreign exchange risk exposure arises from its foreign exchange trading activities. For the year ended December 31, 2016, the average monthly revenue of the foreign exchange trading activities was \$64,722 (2015: negative \$13,624) and the standard deviation of this monthly revenue was \$62,798 (2015: \$108,598). An analysis of the frequency distribution of the monthly foreign exchange trading revenue is presented by the following charts. The comparative figures have been updated to conform with the current year's presentation.

**Frequency distribution of monthly FX trading income**



**Frequency distribution of monthly FX trading income**





# SERVICE NETWORK

As of March 31, 2017

## COMMERCIAL BANKING OFFICES

		Telephone
<b>Central</b>	3/F, CCB Tower	2903 8366
<b>Kowloon Bay</b>	26/F, CCB Centre	2903 8366
<b>Tsimshatsui</b>	25/F, Tower 6, The Gateway, 9 Canton Road	2903 8366

## SME CENTERS

		Telephone
<b>Kowloon Bay</b>	G/F, CCB Centre	3718 3422
<b>Mongkok</b>	Room 1017-18, 10/F, Park-in Commercial Centre, 56 Dundas Street	3918 6766
<b>Sheung Shui</b>	Units 1103A – 06, 11/F, Landmark North, 39 Lung Sum Avenue	3918 6722
<b>Sheung Wan</b>	Unit 910, 9/F, Wing On Centre, 111 Connaught Road Central	3918 6778
<b>Wanchai</b>	Unit C, 20/F, China Overseas Building, 139 Hennessy Road	3918 6708
<b>Kwai Fong</b>	Unit 3106, Level 31, Tower 1, Metroplaza	3918 6368

## PRIVATE BANKING

		Telephone
<b>Central</b>	10/F, CCB Tower, 3 Connaught Road Central	3718 3779

## CONSUMER BRANCHES

		Telephone
<b>Aberdeen</b>	Shop 7, G/F, Site 4, Aberdeen Centre	3918 6836
<b>Causeway Bay Jardine's Bazaar</b>	51 Jardine's Bazaar	3718 3520
<b>Causeway Bay Plaza</b>	G/F, Causeway Bay Plaza 1	3718 7680
<b>Central</b>	6 Des Voeux Road Central	3918 6666
<b>Central CCB Tower</b>	3/F CCB Tower	3918 6800
<b>Central Des Voeux Road</b>	99 Des Voeux Road Central	3718 7690
<b>Cheung Sha Wan</b>	Unit G02, G/F Cheung Sha Wan Plaza, 833 Cheung Sha Wan Road	3718 3600
<b>Happy Valley</b>	37 Sing Woo Road	3918 6600
<b>Hunghom Ma Tau Wai Road</b>	G/F, 100 Ma Tau Wai Road	3718 3580
<b>Hunghom Whampoa</b>	Shop A3, G/F, Yuen Wah Building, Whampoa Estates	3718 3180
<b>Jordan</b>	316 Nathan Road	3718 3999
<b>Kowloon Bay Amoy Gardens</b>	Shop 181, G/F, Phase IIA, Amoy Gardens	3718 7366
<b>Kowloon Bay CCB Centre</b>	G/F, CCB Centre	3718 7900
<b>Kwai Chung</b>	Shop A23, G/F, Kwai Chung Plaza	3918 6575
<b>Kwun Tong Hip Wo Street</b>	191 Hip Wo Street	3718 7333
<b>Kwun Tong Hoi Yuen Road</b>	56 Hoi Yuen Road	3718 7082
<b>Ma On Shan</b>	Shop 297, Level 2, Ma On Shan Plaza	3718 3560
<b>Mei Foo</b>	Shop N46, G/F, Mei Foo Sun Chuen, Stage 6	3918 6630
<b>Mongkok Allied Plaza</b>	G/F, Allied Plaza, 760 Nathan Road	3918 6620
<b>Mongkok Nathan Road</b>	788 Nathan Road	3718 7128
<b>North Point</b>	382 King's Road	3718 3500

# SERVICE NETWORK

As of March 31, 2017

## CONSUMER BRANCHES (continued)

		Telephone
<b>Sai Wan</b>	Shop 1, G/F, 489 Queen's Road West	3718 3640
<b>Sai Ying Pun</b>	73 Des Voeux Road West	3718 3960
<b>Shatin Lucky Plaza</b>	Shop 194, Level 3, Shatin Lucky Plaza	3718 7650
<b>Shatin Plaza</b>	Shop 5, Level 1, Shatin Plaza	3718 3160
<b>Shau Kei Wan</b>	2 Po Man Street	3718 7000
<b>Sheung Shui</b>	67 San Fung Avenue	3718 3620
<b>Sheung Wan Des Voeux Road</b>	237 Des Voeux Road Central	3718 7040
<b>Tai Kok Tsui Olympian City</b>	Shop 109, 1/F, Olympian City 2	3718 3920
<b>Tai Po</b>	Shop 9B, G/F, 1 On Chee Road	3718 7022
<b>Tai Wai</b>	42 Tai Wai Road	3918 6599
<b>Taikoo Shing</b>	Shop 001, G/F, Cityplaza II	3718 7380
<b>Tseung Kwan O</b>	Shop 190, Level 1, Metro City 3	3718 3120
<b>Tsimshatsui Hankow Road</b>	17 Hankow Road	3718 3680
<b>Tsimshatsui Humphreys Avenue</b>	3 Humphreys Avenue	3718 7166
<b>Tsuen Wan</b>	282 Sha Tsui Road	3718 7199
<b>Tuen Mun</b>	Shop 9, G/F, Tuen Mun Town Plaza 2	3718 3118
<b>Wanchai Great Eagle Centre</b>	Shop 121, 1/F, Great Eagle Centre	3718 3900
<b>Wanchai Hennessy Road</b>	139 Hennessy Road	3718 7233
<b>Wanchai Johnston Road</b>	150 Johnston Road	3718 7300
<b>Yaumati</b>	556 Nathan Road	3718 7200
<b>Yuen Long</b>	68 Castle Peak Road	3718 3543

## WEALTH MANAGEMENT CENTER

		Telephone
<b>Sheung Shui</b>	G/F, 97 San Fung Avenue	3918 6790

## PERSONAL LOAN CENTERS

		Telephone
<b>Causeway Bay</b>	25/F, Causeway Bay Plaza 1, 489 Hennessy Road	3718 7928
<b>Kowloon Bay</b>	Shop 181, G/F, Phase IIA, Amoy Gardens	3718 7373
<b>Mongkok</b>	1/F, 788 Nathan Road	3718 7568
<b>Tsimshatsui</b>	Unit 1603, 16/F, Carnarvon Plaza, No.20 Carnarvon Road	3918 6388
<b>Tsuen Wan</b>	Room 945, 9/F, Nan Fung Centre	3718 3940