Bank of Shanghai (Hong Kong) Limited

Directors' Report and
Consolidated Financial Statements
for the year ended 31 December 2016

Contents **Page(s)**

Report of the directors

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

Principal place of business

Bank of Shanghai (Hong Kong) Limited ("the Company") is a restricted licence bank incorporated and domiciled in Hong Kong and had its registered office and principal place of business at 34th Floor, Champion Tower, 3 Garden Road, Central, Hong Kong.

Principal activities

The principal activities of the Company are to provide financial services to corporations and individuals. The principal activities and other particulars of the Company's subsidiaries are stated in Note 18 to the financial statements.

Financial statements

The operating results of the Company and its subsidiaries (together referred to as the "Group") for the year ended 31 December 2016 and the state of affairs of the Group and of the Company as of that date are shown on pages 8 to 76 of the financial statements.

Transfer to reserves

The profit attributable to shareholders of HK$125,496,000 (2015: HK$78,060,000) has been transferred to reserves. Other movements in reserves are shown in the consolidated statement of changes in equity on page 11.

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

Share capital

Details of share capital of the Company are provided in Note 25(b) to the financial statements. During the year, the Company issued 200,000,000 shares at HK$10 each to its holding company to strengthen its capital position.

Charitable donations

Charitable donations made by the Group during the financial year amounted to HK$27,000 (2015: HK$26,500).

Directors

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

Huang, Tao
Jin, Yu
Ma, Charles Chi Man
Tsien, James Steed
Zhang, Weiguo

Directors of subsidiaries

The names of directors who had served on the board of the Company's subsidiaries during the year and up to the date of this report were as follows:

Cai, Wei Song
Chan, Ho Sun Sunny
Chen, Che
Cheng, Mun Wah Heidi *
Du Jian
Han, Chia Lin
Huang, Tao
Lau, Chi Wah Alex *
Li, Li
Li, Yong
Ma, Charles Chi Man
Wu, Jun
Zhang, Xuhong

* No longer directors of the subsidiaries of the Company as at the date of this report.

Directors' interests in shares

There being no provision in the Company's articles of association in connection with the retirement of directors, all existing directors continue in office for the following year.

At no time during the year was the Company, or any of its holding companies, or fellow subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Directors' interests in transactions, arrangements or contracts

No transaction, arrangement or contract of significance to which the Company, or any of its holding companies, subsidiaries or fellow subsidiaries was a party, and in which a director of the Company or an entity connected with a director had a material interest, subsisted at the end of the year or at any time during the year.

Management contracts

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

Indemnity of directors

A permitted indemnity provision (as defined in section 469 of the Hong Kong Companies Ordinance) for the benefit of the directors of the Company is currently in force and was in force throughout this year.

Statement of compliance

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

Auditors

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

On behalf of the board

Charles Ma

Ma, Charles Chi Man

Director

Hong Kong,

21 APR 2017

KPMG

Independent auditor's report to the members of Bank of Shanghai (Hong Kong) Limited

(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of Bank of Shanghai (Hong Kong) Limited and its subsidiaries ("the Group") set out on pages 8 to 76, which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

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

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

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

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

Independent auditor's report to the members of Bank of Shanghai (Hong Kong) Limited (continued)

(Incorporated in Hong Kong with limited liability)

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

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

Responsibilities of the directors for the consolidated financial statements

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

Independent auditor's report to the members of Bank of Shanghai (Hong Kong) Limited (continued)

(Incorporated in Hong Kong with limited liability)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG

Independent auditor's report to the members of Bank of Shanghai (Hong Kong) Limited (continued)

(Incorporated in Hong Kong with limited liability)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

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

KPMG

Certified Public Accountants

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

2 1 APR 2017

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016

(Expressed in Hong Kong dollars)

	Note	*2016* $'000	*2015* $'000
Interest income	6	504,533	370,252
Interest expense	6	(201,689)	(170,985)
Net interest income		302,844	199,267
Fee and commission income	7	63,224	96,757
Fee and commission expense	7	(966)	(4,614)
Net fee and commission income		62,258	92,143
Net trading loss	8	(54,435)	(70,820)
Other operating income		11	328
Total operating income		310,678	220,918
Operating expenses	9	(142,056)	(111,250)
Operating profit before impairment losses		168,622	109,668
Loan impairment charges	10	(14,557)	(17,872)
Net profit on sale of available-for-sale financial assets		816	-
Profit before taxation		154,881	91,796
Taxation	12(a)	(29,385)	(13,736)
Profit for the year		125,496	78,060
Other comprehensive income for the year, net of tax			
Item that may be reclassified subsequently to profit or loss			
Net movement in available-for-sale fair value reserve	13	(25,508)	(876)
Total comprehensive income for the year		99,988	77,184

The notes on pages 13 to 76 form part of these financial statements.

Consolidated statement of financial position as at 31 December 2016

(Expressed in Hong Kong dollars)

	Note	*2016* $'000	*2015* $'000
Assets			
Cash and balances with banks and central bank	14	168,859	60,405
Placements with banks	15	6,688,686	7,086,084
Derivative financial assets	27(b)	2,863	9,690
Loans and advances to customers	16	12,776,048	7,954,493
Available-for-sale financial assets	17	1,215,629	204,293
Property and equipments	19	24,891	22,229
Intangible assets	20	6,276	6,368
Deferred tax assets	23(b)	13,055	5,500
Other assets	21	161,384	113,201
TOTAL ASSETS		21,057,691	15,462,263
Liabilities			
Deposits from customers	22	10,199,152	7,853,990
Deposits from banks		4,544,487	2,200,372
Derivative financial liabilities	27(b)	52,887	9,514
Certificates of deposit issued		1,935,066	3,114,197
Current tax payable	23(a)	13,989	754
Deferred tax liabilities	23(b)	206	308
Other liabilities	24	102,213	173,425
Total liabilities		16,848,000	13,352,560

Consolidated statement of financial position as at 31 December 2016 (continued)

(Expressed in Hong Kong dollars)

	Note	*2016* $'000	*2015* $'000
Capital and reserves			
Share capital	25(b)	4,000,000	2,000,000
Retained profits		149,506	57,546
Other reserves		60,185	52,157
Total equity		4,209,691	2,109,703
TOTAL EQUITY AND LIABILITIES		21,057,691	15,462,263

Approved and authorised for issue by the board of directors on 21 APR 2017

Charles Ma

Ma, Charles Chi Man) Directors

Tsien, James Steed)

The notes on pages 13 to 76 form part of these financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2016

(Expressed in Hong Kong dollars)

	Note	*Share capital* $'000	*Retained profits* $'000	*Available-for-sale fair value reserve* $'000	*Regulatory reserve* $'000	*Total* $'000
Balance at 1 January 2015		2,000,000	5,990	(988)	27,517	2,032,519
Changes in equity for 2015:						
Profit for the year		-	78,060	-	-	78,060
Other comprehensive income	13	-	-	(876)	-	(876)
Total comprehensive income		-	78,060	(876)	-	77,184
Transfer to regulatory reserve		-	(26,504)	-	26,504	-
Balance at 31 December 2015 and 1 January 2016		2,000,000	57,546	(1,864)	54,021	2,109,703
Changes in equity for 2016:						
Profit for the year		-	125,496	-	-	125,496
Other comprehensive income	13	-	-	(25,508)	-	(25,508)
Total comprehensive income		-	125,496	(25,508)	-	99,988
Issuance of new ordinary shares	25(b)	2,000,000	-	-	-	2,000,000
Transfer to regulatory reserve		-	(33,536)	-	33,536	-
Balance at 31 December 2016		4,000,000	149,506	(27,372)	87,557	4,209,691

The notes on pages 13 to 76 form part of these financial statements.

Consolidated statement of cash flows for the year ended 31 December 2016

(Expressed in Hong Kong dollars)

	Note	*2016* $'000	*2015* $'000
Net cash (outflow)/inflow from operating activities	30(a)	(17,357)	2,509,413
Investing activities			
Proceeds from sales and redemption of available-for-sale financial assets		1,944,208	-
Purchases of property and equipments and intangible assets		(14,312)	(19,769)
Purchase of available-for-sale financial assets		(2,978,947)	-
Interest received from available-for-sale financial assets		10,561	3,910
Net cash outflow from investing activities		(1,038,490)	(15,859)
Financing activity			
Proceeds from the issuance of new ordinary shares	25(b)	2,000,000	-
Net cash inflow from financing activity		2,000,000	-
Increase in cash and cash equivalents		944,153	2,493,554
Cash and cash equivalents at 1 January		5,287,312	2,793,758
Cash and cash equivalents at 31 December	30(b)	6,231,465	5,287,312

The notes on pages 13 to 76 form part of these financial statements.

Notes to the consolidated financial statements

(Expressed in Hong Kong dollars)

1 General information and significant accounting policies

(a) General information

The principal activities of the Group are to provide financial services to corporations and individuals.

The Company is a restricted licence bank incorporated and domiciled in Hong Kong and had its registered office and principal place of business at 34th Floor, Champion Tower, 3 Garden Road, Central, Hong Kong.

Principal activities and other particulars of the Company's subsidiaries are set out in Note 18.

(b) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") with collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period. Note 2 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 for the current and prior accounting periods reflected in these financial statements.

A summary of the significant accounting policies adopted by the Group and the Company is delineated below.

1 General information and significant accounting policies (continued)

(c) Basis of preparation

The consolidated financial statements for the year ended 31 December 2016 comprise the Company and its subsidiaries (together the "Group").

The measurement basis used in the preparation of the financial statements is the historical cost basis except that financial instruments classified as trading, designated at fair value through profit or loss, or available-for-sale are stated at their fair value as explained in the accounting policies set out in Note 1(e).

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

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

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

(d) Basis of consolidation

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

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

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

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses, unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

1 General information and significant accounting policies (continued)

(e) Financial instruments

(i) Initial recognition

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

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

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

(ii) Classification

Fair value through profit or loss

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

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

1 General information and significant accounting policies (continued)

(e) Financial instruments (continued)

(ii) Classification (continued)

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 (a) those that the Group intends to sell immediately or in the near term, which will be classified as held for trading; (b) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or (c) those where the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available-for-sale. Loans and receivables mainly comprise loans and advances to customers and placements with banks.

Loans and receivables are carried at amortised cost using the effective interest method, less impairment losses, if any (see Note 1(j)).

Available-for-sale financial assets

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

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

Investments in equity securities that do not have a quoted market price in an active market and which fair value cannot be measured reliably, and derivatives that are linked to and must be settled by delivery of such unquoted equity securities are carried at cost less impairment losses, if any (see Note 1(j)).

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

Other financial liabilities

Financial liabilities, other than trading liabilities, are measured at amortised cost using the effective interest method.

1 General information and significant accounting policies (continued)

(e) Financial instruments (continued)

(iii) Fair value measurement principles

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

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

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

(iv) Derecognition

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

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

(v) Offsetting

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

(vi) Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. The embedded derivatives are separated from the host contract and accounted for as a derivative when (a) the economic characteristics and risks of the embedded derivative are not closely related to the host contract; and (b) 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 in accordance with Note 1(e)(ii) above.

1 General information and significant accounting policies (continued)

(f) Property and equipments

Property and equipments are stated in the statement of financial position at cost less accumulated depreciation and impairment losses (see Note 1(j)).

Gains or losses arising from the retirement or disposal of an item of property and equipments are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost or valuation of items of property and equipments, less their estimated residual value, if any, using the straight-line method over the estimated useful lives as follows:

– Leasehold improvements	Shorter of the lease term or their estimated useful lives to the Group
– Furniture, computer and other equipments	2 - 5 years
– Motor vehicles	4 years

Where parts of an item of property and equipments have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(g) Intangible assets

Intangible assets included software and club membership. Intangible assets are stated in the statement of financial position at cost less accumulated amortisation and impairment losses (see Note 1(j)).

Amortisation of intangible assets with finite useful lives is charged to the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follow:

– Software	1 - 5 years

Both the period and method of amortisation are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to definite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

1 General information and significant accounting policies (continued)

(h) Leases and hire purchase contracts

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

(i) Classification

Leases which transfer substantially all the risks and rewards of ownership to the lessee are classified as finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the lessee are classified as operating leases.

(ii) Finance leases

Where the Group is a lessor under finance leases, an amount representing the net investment in the lease is included in the statement of financial position as “Loans and advances to customers”. Hire purchase contracts having the characteristics of finance leases are accounted for in the same manner as finance leases. Impairment losses are accounted for in accordance with the accounting policy as set out in Note 1(j).

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased assets, or, if lower, the present values of the minimum lease payments of such assets, are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant leases or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in Note 1(f). Impairment losses are accounted for in accordance with the accounting policy as set out in Note 1(j). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are written off as an expense of the accounting period in which they are incurred.

(iii) Operating leases

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

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

1 General information and significant accounting policies (continued)

(i) Repossessed assets

In the recovery of impaired loans and advances, the Group may take possession of assets held as collaterals through court proceedings or voluntary delivery of possession by the borrowers. Where it is intended to achieve an orderly realisation of the impaired assets and the Group is no longer seeking repayment from the borrowers, repossessed assets are reported in “Other assets”. The Group does not hold the repossessed assets for its own use.

Repossessed assets are recorded at the lower of the amount of the related loans and advances and fair value less costs to sell at the date of repossession, and the related loans and advances together with the related impairment allowances are derecognised from the consolidated statement of financial position. They are not depreciated or amortised.

(j) Impairment of assets

(i) Financial assets

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

– delinquency in contractual payments of principal or interest;

– cash flow difficulties experienced by the borrower;

– breach of loans covenants or conditions;

– initiation of bankruptcy proceedings;

– deterioration in the value of collaterals; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

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

1 General information and significant accounting policies (continued)

(j) Impairment of assets (continued)

(i) Financial assets (continued)

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

Loans and receivables

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

The total allowance for credit losses consists of two components: individually assessed impairment allowances and collectively assessed impairment allowances.

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

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

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those of the Group. Historical loss experience is adjusted on the basis of current observable data on economic and credit environment to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

1 General information and significant accounting policies (continued)

(j) Impairment of assets (continued)

(i) Financial assets (continued)

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

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

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

Available-for-sale financial assets

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

For unquoted available-for-sale equity securities that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the equity securities and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material.

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

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

1 General information and significant accounting policies (continued)

(j) Impairment of assets (continued)

(ii) Non-financial assets

Internal and external sources of information are reviewed at each reporting date to identify indications that the fixed and intangible assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

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

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

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

1 General information and significant accounting policies (continued)

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with banks and central bank, and short-term, highly liquid inter-bank placements and investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and balances with banks and central bank and placements with banks.

(l) Employee benefits

It represents short-term employee benefits and contributions to defined contribution retirement plans.

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(m) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in 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, separately.

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

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits. Deferred income tax is determined using tax rates and law that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from asset impairment provisions, depreciation of fixed assets, revaluation of certain financial assets and tax losses carried forward. However, the deferred tax is not recognised if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

1 General information and significant accounting policies (continued)

(m) Income tax (continued)

Deferred tax liabilities are provided in full on all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

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

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

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(n) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

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

Where the Group issues a financial guarantee to customers, the fair value of the guarantee (being the guarantee fees received) is initially recognised as deferred income within other liabilities.

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

1 General information and significant accounting policies (continued)

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

(ii) Other provisions and contingent liabilities

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

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

(o) Revenue recognition

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

(i) Interest income

Interest income for all interest-bearing financial instruments is recognised in the profit or loss on a time proportion basis using the effective interest method.

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

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

1 General information and significant accounting policies (continued)

(o) Revenue recognition (continued)

(ii) Fee and commission income

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

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

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

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

(iv) Dividend income

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

(p) Translation of foreign currencies

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

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

Exchange differences relating to derivative financial instruments and monetary items are presented in profit or loss as net trading gain or loss. Differences arising on translation of available-for-sale equity instruments are recognised in other comprehensive income as reserves.

1 General information and significant accounting policies (continued)

(q) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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

2 Changes in accounting policies

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

– *Annual Improvements to HKFRSs 2012-2014 Cycle*

– *Amendments to HKAS1, Presentation of financial statements "Disclosure initiative"*

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see Note 32).

3 Accounting estimates and assumptions

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Impairment allowance

Loans and advances to customers

Loan portfolios are reviewed periodically to assess whether impairment losses exist. The Group makes judgements as to whether there is any objective evidence that a loan portfolio is impaired, i.e. whether there is a decrease in estimated future cash flows. Objective evidence for impairment is described in Note 1(j). If management has determined, based on their judgement, that objective evidence of impairment exists, expected future cash flows are estimated based on historical loss experience for assets with credit risk characteristics similar to those of the Group. Historical loss experience is adjusted on the basis of the current observable data. Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss experience.

4 Company-level statement of financial position

	Note	*2016* $'000	*2015* $'000
Assets			
Cash and balances with banks and central bank		85,672	30,790
Placements with banks		6,688,686	7,086,084
Derivative financial assets		2,863	9,690
Loans and advances to customers		12,776,048	7,954,493
Available-for-sale financial assets		1,215,629	204,293
Investment in subsidiaries	18	90,000	90,000
Property and equipments		20,062	20,661
Intangible assets		5,964	6,072
Deferred tax assets		13,055	5,500
Other assets		177,542	102,493
TOTAL ASSETS		21,075,521	15,510,076
Liabilities			
Deposits from customers		10,201,930	7,914,903
Deposits from banks		4,544,487	2,200,372
Derivative financial liabilities		52,887	9,514
Certificates of deposit issued		1,935,066	3,114,197
Current tax payable		13,856	601
Other liabilities		99,431	163,440
Total liabilities		16,847,657	13,403,027
Share capital and reserves	25(a)		
Share capital		4,000,000	2,000,000
Retained profits		167,679	54,892
Other reserves		60,185	52,157
Total equity		4,227,864	2,107,049
TOTAL EQUITY AND LIABILITIES		21,075,521	15,510,076

Approved and authorised for issue by the board of directors on 21 APR 2017

Charles Ma

Ma, Charles Chi Man) Directors

Tsien, James Steed)

5 Financial risk management

The Group's activities expose it to a variety of financial and operational risks and those activities involve analysis, evaluation, acceptance and management of some degree of risk or combination of risks. The most important types of financial risks are credit risk, market risk and liquidity risk. Market risk includes currency risk, interest rate and price risk.

Taking risk is core to the financial business, and the financial and operational risks are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

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

Risk management functions are carried out by the specialised committees and the functional departments under the oversight of the Board of Directors. The Board provides guiding principles and directives for overall risk management including necessary policies covering the important risks as described below.

The Group has adopted a "Three Lines of Defense" risk management structure. The first line of defense comprises the Bank's business units, which are responsible for the management of the risks that they incur in the course of their activities. The Risk Management Department and Compliance Department provide independent oversight over the risk takers as the second line of defense. Reporting directly to the Audit Committee, the Group's Internal Audit Department serves as the third line of defense.

The Board, through Audit Committee, assesses the effectiveness of the Bank's risk management and internal control systems which cover all material controls, including financial, operational and compliance controls. The Bank has established an Audit Committee with specific written Terms of Reference which deal clearly with its authority and duties. The Terms of Reference of the Audit Committee have included the duties set out in the Corporate Governance Policy, with appropriate modifications where necessary. The Internal Audit Department assists the Audit Committee in its oversight of the Bank's overall risk management and internal control systems by conducting periodic reviews to assess the adequacy of the Bank's risk management framework, control, and governance processes as designed by the first and second lines of defense.

Pursuant to a risk based approach, the Bank's Internal Audit Department prepares an annual audit plan to determine the extent, nature and frequency of audit assignments every year. The Internal Audit Department conducts independent reviews of control mechanism over various operations and activities according to the plan. The senior management of the Bank and regulator may also engage Internal Audit Department to conduct ad-hoc and specific reviews from time to time. Significant audit findings and the implementation status of audit recommendations are reported to the Audit Committee twice each year.

5 Financial risk management (continued)

(a) Credit risk

Credit risk is the potential losses caused by obligor's inability to fulfil their contractual debt obligations. It arises from lending, treasury, derivatives and other activities undertaken by the Group. Credit exposures arise principally in loans and advances and debt securities in the Group's asset portfolio. There is also credit risk in off-balance sheet financial arrangements such as loan commitments.

The Group has established core procedures to foster its credit discipline in accordance with its credit policies.

The Group's approach to credit risk management focuses on monitoring and managing credit portfolios. Regular portfolio analysis is conducted to track the asset quality and determine credit underwriting strategies on an ongoing basis. The Group's exposures to individuals, counterparties and products are subject to various risk control limits which are reviewed and approved from time to time. The senior management of the Group evaluates and approves new product proposals, credit criteria for new account relationship, and sets appropriate limits. As a rule, credit quality takes precedence over opportunistic business development.

Facility requests are processed in the prescribed format, and those conforming to defined credit criteria are approved within the delegated credit approval authorities in compliance with established policies, standards and procedures. The Group's credit risk is being mitigated by taking security in secured lending transactions. Credit exceptions to established underwriting criteria must be approved by an officer with sufficient exception approval authority. Exceptions are documented, tracked and submitted to senior management for review on a regular basis.

All credit exposures are subject to stringent collection, classification and charge-off policies. In addition, the Group performs loan loss analyses, taking into consideration the economic factors and loss identification periods, to determine the appropriate level of impairment allowances.

5 Financial risk management (continued)

(a) Credit risk (continued)

(i) Maximum exposure

The table below shows the maximum exposure to credit risk at the reporting date without taking into consideration any collaterals held or other credit enhancements. For on-balance sheet assets, the exposures shown below are based on the carrying amount of each financial asset in the consolidated statement of financial position after deducting any impairment allowance. For loan commitments and other credit related commitments that are irrevocable over the life of the respective facilities or revocable in the extent of significant adverse change, the maximum exposure to credit risk is disclosed as the full amount of the committed facilities sought on these balances.

	2016 $'000	*2015* $'000
Cash and balances with banks and central bank	168,859	60,405
Placements with banks	6,688,686	7,086,084
Derivative financial assets	2,863	9,690
Loans and advances to customers	12,776,048	7,954,493
Available-for-sale financial assets	1,215,629	204,293
Other assets	161,384	113,201
Financial guarantees and other credit related contingent liabilities	158,039	263,313
Loan commitments and other credit related commitments	1,319,303	1,987,171
	22,490,811	17,678,650

5 Financial risk management (continued)

(a) Credit risk (continued)

(i) Maximum exposure (continued)

Credit risk mitigation, collaterals and other credit enhancement

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 collaterals, security or other credit enhancement provided. The table below describes the nature of collaterals held and their financial effect by class of financial asset:

Balances and placements with banks and central bank	:	These exposures are generally considered to be low risk due to the nature of the counterparties. Collaterals is generally not sought on these balances.
Derivative financial assets	:	Master netting agreements are typically used to enable the effects of derivative financial assets and liabilities with the same counterparty to be offset in case of default.
Available-for-sale financial assets	:	No collaterals is sought directly from the issuer. The fair value of these assets has reflected the credit risk element.
Loans and advances to customers	:	These exposures are secured, partially secured or unsecured depending on the type of customers and the products offered to them. Collaterals accepted by the Group includes residential properties, commercial real estates, share listed on a recognised stock exchange, standby letter of credit issued by banks accepted by the Group, bank deposits, etc.
Contingent liabilities and commitments	:	The components and the nature of contingent liabilities and commitments are disclosed in Note 28. For commitments that are unconditionally cancellable, the Group would assess whether the credit facilities should be withdrawn whenever the Group is aware of the deterioration of borrower's credit quality. Accordingly, these commitments do not expose the Group to significant credit risk. For commitments that are not unconditionally cancellable, including letter of credit issued and other credit facilities, they are secured, partially secured or unsecured depending on the type of customers and the products offered to them.

5 Financial risk management (continued)

(a) Credit risk (continued)

(ii) Credit quality of loans and advances

As at 31 December 2016 and 2015, all placements with banks were neither past due nor impaired. Note 16(e) provides information on credit quality of the loans and advances to customers.

(iii) Credit quality of available-for-sale financial assets

As at 31 December 2016, all available-for-sale financial assets were neither past due nor impaired. The following table presents an analysis of available-for-sale debt securities investments by rating agency designation at the reporting date, based on Standard and Poor's Rating Services, Moody's Investors Services or Fitch Ratings, 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 lowest rating.

	2016	*2015*
	$'000	$'000
AA+ to A-	568,342	204,293
BBB+ to BBB-	611,803	-
Unrated	35,484	-
	1,215,629	204,293

(iv) Enforceable netting arrangements or similar agreements

For the financial assets and liabilities subject to enforceable netting arrangements or similar agreements, 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 arrangement 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.

These agreements include derivative master agreements (including the International Swaps and Derivatives Association Master Agreement), etc. The collaterals received and placed under these agreements are generally conducted under terms that are in accordance with normal market practices.

5 Financial risk management (continued)

(a) Credit risk (continued)

(iv) Enforceable netting arrangements or similar agreements (continued)

The tables below present details of financial instruments subject to enforceable netting arrangements and similar agreements.

As at 31 December 2016

	Gross amounts of recognised financial assets	*Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position*	*Net amounts of financial assets presented in the consolidated statement of financial position*	*Related amounts not set off in the consolidated statement of financial position*		
				Financial instruments	*Cash collaterals received*	*Net amount*
	$'000	$'000	$'000	$'000	$'000	$'000
Derivative financial assets	2,863	-	2,863	(2,859)	-	4

As at 31 December 2016

	Gross amounts of recognised financial liabilities	*Gross amounts of recognised financial assets set off in the consolidated statement of financial position*	*Net amounts of financial liabilities presented in the consolidated statement of financial position*	*Related amounts not set off in the consolidated statement of financial position*		
				Financial instruments	*Cash collaterals pledged*	*Net amount*
	$'000	$'000	$'000	$'000	$'000	$'000
Derivative financial liabilities	52,887	-	52,887	(2,859)	(44,202)	5,826

5 Financial risk management (continued)

(a) Credit risk (continued)

(iv) Enforceable netting arrangements or similar agreements (continued)

As at 31 December 2015

	Gross amounts of recognised financial assets	*Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position*	*Net amounts of financial assets presented in the consolidated statement of financial position*	*Related amounts not set off in the consolidated statement of financial position*		
				Financial instruments	*Cash collaterals received*	*Net amount*
	$'000	$'000	$'000	$'000	$'000	$'000
Derivative financial assets	9,690	-	9,690	(867)	-	8,823

As at 31 December 2015

	Gross amounts of recognised financial liabilities	*Gross amounts of recognised financial assets set off in the consolidated statement of financial position*	*Net amounts of financial liabilities presented in the consolidated statement of financial position*	*Related amounts not set off in the consolidated statement of financial position*		
				Financial instruments	*Cash collaterals pledged*	*Net amount*
	$'000	$'000	$'000	$'000	$'000	$'000
Derivative financial liabilities	867	-	867	(867)	-	-

5 Financial risk management (continued)

(b) Market risk

Market risk is the risk of loss on assets, liabilities and commitments arising from the net effect of changes in market rates, such as foreign exchange rates and interest rates.

The Group entered into foreign exchange, interest rate and money market transactions, solely for the purpose of hedging, funding or deployment of surplus liquidity. Financial instruments entered into in respect of the above objectives mainly include forward foreign exchange contracts and money market transactions.

(i) Currency risk

The Group took on exposure due to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board set limits on the level of certain foreign exchange exposures, which were managed by Treasury Department and monitored by Risk Management Department. The Group employed forward foreign currency exchange contracts, if applicable, to maintain its overall foreign currency exposure within such currency limit. The table below summarises the Group's exposures to foreign currency exchange rate risks that are recorded in the statement of financial position.

The following table indicates the currency concentration of the assets and liabilities at carrying amounts in Hong Kong dollars equivalent, categorised by original currency.

At 31 December 2016

	HKD $'000	*USD* $'000	*EUR* $'000	*RMB* $'000	*Others* $'000	*Total* $'000
Assets						
Cash and balances with banks and central bank	105,474	47,135	442	15,654	154	168,859
Placements with banks	3,100,000	2,442,730	432,212	713,744	-	6,688,686
Derivative financial assets	-	4	2,859	-	-	2,863
Loans and advances to customers	3,273,023	8,879,981	96,228	526,816	-	12,776,048
Available-for-sale financial assets	199,664	874,000	-	141,965	-	1,215,629
Property and equipments	24,891	-	-	-	-	24,891
Intangible assets	6,276	-	-	-	-	6,276
Deferred tax assets	13,055	-	-	-	-	13,055
Other assets	35,243	109,579	1,812	14,750	-	161,384
Spot assets	6,757,626	12,353,429	533,553	1,412,929	154	21,057,691
Liabilities						
Deposits from customers	2,559,831	6,279,748	8,721	1,350,852	-	10,199,152
Deposits from banks	1,305,000	2,473,750	432,212	333,525	-	4,544,487
Derivative financial liabilities	-	52,418	415	54	-	52,887
Certificates of deposit issued	-	1,935,066	-	-	-	1,935,066
Current tax payable	13,989	-	-	-	-	13,989
Deferred tax liabilities	206	-	-	-	-	206
Other liabilities	34,729	47,689	961	18,834	-	102,213
Spot liabilities	3,913,755	10,788,671	442,309	1,703,265	-	16,848,000
Net long/(short) position	2,843,871	1,564,758	91,244	(290,336)	154	4,209,691

5 Financial risk management (continued)

(b) Market risk (continued)

(i) Currency risk (continued)

At 31 December 2015

	HKD $'000	*USD* $'000	*EUR* $'000	*RMB* $'000	*Others* $'000	*Total* $'000
Assets						
Cash and balances with banks and central bank	30,761	25,504	15	3,958	167	60,405
Placements with banks	1,198,000	3,857,144	-	2,030,940	-	7,086,084
Derivative financial assets	-	9,649	-	-	41	9,690
Loans and advances to customers	1,891,782	5,053,131	41,041	968,539	-	7,954,493
Available-for-sale financial assets	99,917	-	-	104,376	-	204,293
Property and equipments	22,229	-	-	-	-	22,229
Intangible assets	6,368	-	-	-	-	6,368
Deferred tax assets	5,500	-	-	-	-	5,500
Other assets	30,131	46,625	12,496	23,921	28	113,201
Spot assets	3,284,688	8,992,053	53,552	3,131,734	236	15,462,263
Liabilities						
Deposits from customers	2,607,701	3,520,137	15,076	1,711,076	-	7,853,990
Deposits from banks	55,000	2,074,587	-	70,785	-	2,200,372
Derivative financial liabilities	-	9,514	-	-	-	9,514
Certificates of deposit issued	-	3,114,197	-	-	-	3,114,197
Current tax payable	678	-	-	76	-	754
Deferred tax liabilities	308	-	-	-	-	308
Other liabilities	97,761	62,960	1	12,703	-	173,425
Spot liabilities	2,761,448	8,781,395	15,077	1,794,640	-	13,352,560
Net long position	523,240	210,658	38,475	1,337,094	236	2,109,703

(ii) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

The Group took on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow interest rate risk. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board set limits on the level of mismatch of interest rate repricing that may be undertaken, which were managed by Treasury Department and monitored by Risk Management Department daily.

5 Financial risk management (continued)

(b) Market risk (continued)

(ii) Interest rate risk (continued)

As at 31 December 2016, if market interest rates were 1% higher while other variables maintained constant, profit before taxation for the year would have been $41.9 million higher (2015: $24.8 million higher). However, if market interest rates were 1% lower while other variables held constant, profit before taxation for the year would have been $44.0 million lower (2015: $27.8 million lower).

The table below summarises the Group's exposure to interest rate risk. It includes the Group's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

At 31 December 2016

	Within 1 month $'000	*Over 1 month but within 3 months* $'000	*Over 3 months but within 1 year* $'000	*Over 1 year but within 5 years* $'000	*Over 5 years* $'000	*Non-interest bearing* $'000	*Total* $'000
Assets							
Cash and balances with banks and central bank	126,385	-	-	-	-	42,474	168,859
Placements with banks	3,416,761	2,645,845	193,868	432,212	-	-	6,688,686
Derivate financial assets	-	-	-	-	-	2,863	2,863
Loans and advances to customers	5,754,854	4,954,148	2,107,636	-	-	(40,590)	12,776,048
Available-for-sale financial assets	70,665	108,087	232,257	530,940	273,680	-	1,215,629
Property and equipments	-	-	-	-	-	24,891	24,891
Intangible assets	-	-	-	-	-	6,276	6,276
Deferred tax assets	-	-	-	-	-	13,055	13,055
Other assets	-	-	-	-	-	161,384	161,384
Total assets	9,368,665	7,708,080	2,533,761	963,152	273,680	210,353	21,057,691
Liabilities							
Deposits from customers	3,081,862	3,428,584	3,688,706	-	-	-	10,199,152
Deposits from banks	560,000	2,888,562	663,713	432,212	-	-	4,544,487
Derivative financial liabilities	-	-	-	-	-	52,887	52,887
Certificates of deposit issued	620,372	775,371	539,323	-	-	-	1,935,066
Current tax payable	-	-	-	-	-	13,989	13,989
Deferred tax liabilities	-	-	-	-	-	206	206
Other liabilities	-	-	-	45	-	102,168	102,213
Total liabilities	4,262,234	7,092,517	4,891,742	432,257	-	169,250	16,848,000
Net repricing gap	5,106,431	615,563	(2,357,981)	530,895	273,680	41,103	4,209,691

5 Financial risk management (continued)

(b) Market risk (continued)

(ii) Interest rate risk (continued)

At 31 December 2015

	Within 1 month $'000	*Over 1 month but within 3 months* $'000	*Over 3 months but within 1 year* $'000	*Over 1 year but within 5 years* $'000	*Non-interest bearing* $'000	*Total* $'000
Assets						
Cash and balances with banks and central bank	60,405	-	-	-	-	60,405
Placements with banks	3,795,631	1,431,276	1,859,177	-	-	7,086,084
Derivate financial assets	-	-	-	-	9,690	9,690
Loans and advances to customers	2,908,309	3,684,701	1,245,946	141,570	(26,033)	7,954,493
Available-for-sale financial assets	-	-	99,917	104,376	-	204,293
Property and equipments	-	-	-	-	22,229	22,229
Intangible assets	-	-	-	-	6,368	6,368
Deferred tax assets	-	-	-	-	5,500	5,500
Other assets	-	-	-	-	113,201	113,201
Total assets	6,764,345	5,115,977	3,205,040	245,946	130,955	15,462,263
Liabilities						
Deposits from customers	4,339,792	1,993,844	1,503,801	-	16,553	7,853,990
Deposits from banks	138,730	465,015	1,596,627	-	-	2,200,372
Derivative financial liabilities	-	-	-	-	9,514	9,514
Certificates of deposit issued	496,003	565,694	2,052,500	-	-	3,114,197
Current tax payable	-	-	-	-	754	754
Deferred tax liabilities	-	-	-	-	308	308
Other liabilities	-	-	-	67	173,358	173,425
Total liabilities	4,974,525	3,024,553	5,152,928	67	200,487	13,352,560
Net repricing gap	1,789,820	2,091,424	(1,947,888)	245,879	(69,532)	2,109,703

The table below summarises the effective interest rates for interest-bearing financial instruments at the reporting date:

	2016 %	*2015* %
Assets		
Cash and balances with banks and central bank	0.31	0.16
Placements with banks	1.73	1.80
Loans and advances to customers	4.02	3.77
Available-for-sale financial assets	3.29	1.79
Liabilities		
Deposits from customers	1.77	1.56
Deposits from banks	1.35	1.13
Certificates of deposit issued	1.57	1.63
Other liabilities	6.92	6.86

5 Financial risk management (continued)

(c) Liquidity risk

Liquidity risk is the risk that the Group may not be able to fund its increase in assets or meet its financial obligations as they fall due. This may be caused by market disruption or liquidity squeeze whereby the Group may only unwind specific exposures at significantly discounted values. The Group adopts a prudent risk appetite in setting liquidity risk tolerance. Risk appetite is set in the form of liquidity risk limit and metrics.

The Asset and Liability Committee ("ALCO") is a management committee delegated by the Board to oversee the liquidity risk of the Group. ALCO is responsible for reviewing and approving liquidity risk management strategies and, with the delegation to the Market Risk Division, monitoring the Group's liquidity position.

Monitoring and reporting took the form of cash flow measurement and projections for the next day, week and month respectively, as these were key periods for liquidity management. Sources of liquidity are reviewed to maintain a diversification of provider, product and term.

Liquidity stress testing is regularly conducted to project the Group's cash flow condition under stress scenarios and evaluate the sufficiency of liquidity. The stress test results are regularly reported to the ALCO.

Treasury Department is responsible for the day-to-day liquidity management, includes:

- day-to-day funding management by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or provision of funds to be borrowed by customers;

- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;

- managing the concentration and profile of debt maturities; and

- monitoring unmatched medium-term assets, the level and type of undrawn lending commitments and the impact of contingent liabilities.

Market Risk Division and the Finance Department produce relevant liquidity reports for internal monitoring and regulatory reporting purpose.

5 Financial risk management (continued)

(c) Liquidity risk (continued)

(i) Maturity analysis

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

At 31 December 2016

	Repayable on demand $'000	*Within 1 month* $'000	*Over 1 month but within 3 months* $'000	*Over 3 months but within 1 year* $'000	*Over 1 year but within 5 years* $'000	*Over 5 years* $'000	*Undated* $'000	*Total* $'000
Assets								
Cash and balances with banks and central bank	167,126	1,523	-	-	-	-	210	168,859
Placements with banks	-	3,416,761	2,645,846	193,867	432,212	-	-	6,688,686
Derivative financial assets	-	-	-	-	-	-	2,863	2,863
Loans and advances to customers	-	1,474,771	2,260,272	3,559,806	5,511,549	10,240	(40,590)	12,776,048
Available-for-sale financial assets	-	-	-	232,257	631,196	352,176	-	1,215,629
Property and equipments	-	-	-	-	-	-	24,891	24,891
Intangible assets	-	-	-	-	-	-	6,276	6,276
Deferred tax assets	-	-	-	-	-	-	13,055	13,055
Other assets	-	23,644	19,229	24,912	38,374	-	55,225	161,384
Total assets	167,126	4,916,699	4,925,347	4,010,842	6,613,331	362,416	61,930	21,057,691
Liabilities								
Deposits from customers	-	3,081,862	3,471,009	3,646,281	-	-	-	10,199,152
Deposits from banks	-	560,000	2,888,562	663,713	432,212	-	-	4,544,487
Derivative financial liabilities	-	-	-	-	-	-	52,887	52,887
Certificates of deposit issued	-	620,372	232,631	1,082,063	-	-	-	1,935,066
Current tax payable	-	-	-	13,989	-	-	-	13,989
Deferred tax liabilities	-	-	-	-	-	-	206	206
Other liabilities	1	18,329	33,856	39,703	2,226	-	8,098	102,213
Total liabilities	1	4,280,563	6,626,058	5,445,749	434,438	-	61,191	16,848,000
Net liquidity gap	167,125	636,136	(1,700,711)	(1,434,907)	6,178,893	362,416	739	4,209,691

5 Financial risk management (continued)

(c) Liquidity risk (continued)

(i) Maturity analysis (continued)

At 31 December 2015

	Repayable on demand $'000	*Within 1 month* $'000	*Over 1 month but within 3 months* $'000	*Over 3 months but within 1 year* $'000	*Over 1 year but within 5 years* $'000	*Over 5 years* $'000	*Undated* $'000	*Total* $'000
Assets								
Cash and balances with banks and central bank	60,405	-	-	-	-	-	-	60,405
Placements with banks	-	3,795,631	1,431,276	1,859,177	-	-	-	7,086,084
Derivative financial assets	-	-	-	-	-	-	9,690	9,690
Loans and advances to customers	994	558,682	1,153,339	2,237,440	4,030,071	-	(26,033)	7,954,493
Available-for-sale financial assets	-	-	-	99,917	104,376	-	-	204,293
Property and equipments	-	-	-	-	-	-	22,229	22,229
Intangible assets	-	-	-	-	-	-	6,368	6,368
Deferred tax assets	-	-	-	-	-	-	5,500	5,500
Other assets	6,216	9,175	31,067	32,121	24,655	-	9,967	113,201
Total assets	67,615	4,363,488	2,615,682	4,228,655	4,159,102	-	27,721	15,462,263
Liabilities								
Deposits from customers	-	4,723,516	1,994,321	1,136,153	-	-	-	7,853,990
Deposits from banks	-	138,730	465,015	1,596,627	-	-	-	2,200,372
Derivative financial liabilities	-	-	-	-	-	-	9,514	9,514
Certificates of deposit issued	-	496,003	565,694	2,052,500	-	-	-	3,114,197
Current tax payable	-	-	-	754	-	-	-	754
Deferred tax liabilities	-	-	-	-	-	-	308	308
Other liabilities	-	93,684	24,708	37,724	-	-	17,309	173,425
Total liabilities	-	5,451,933	3,049,738	4,823,758	-	-	27,131	13,352,560
Net liquidity gap	67,615	(1,088,445)	(434,056)	(595,103)	4,159,102	-	590	2,109,703

5 Financial risk management (continued)

(c) Liquidity risk (continued)

(ii) Undiscounted cash flows by contractual maturities

The table below presents the cash flows payable by the Group under non-derivative financial liabilities and derivative financial instruments by remaining contractual maturities at the reporting date, and also the cash flows payable in respect of other off-balance sheet items by the earliest date they could be called. The amounts disclosed in the table were the contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating based on rates prevailing at the reporting date), whereas the Group manages the inherent liquidity risk based on expected undiscounted cash flows.

At 31 December 2016

	Within 1 month $'000	*Over 1 month but within 3 months* $'000	*Over 3 months but within 1 year* $'000	*Over 1 year* $'000	*Total* $'000
Non-derivative financial liabilities					
Deposits from customers	3,095,492	3,495,750	3,712,037	-	10,303,279
Deposits from banks	560,354	2,897,018	680,115	434,842	4,572,329
Certificates of deposit issued	623,047	233,554	1,093,810	-	1,950,411
Other liabilities	4,904	14,985	17,406	1,278	38,573
	4,283,797	6,641,307	5,503,368	436,120	16,864,592
Derivative cash flow settled on a gross basis					
Total inflow	918,777	-	574,086	-	1,492,863
Total outflow	(933,674)	-	(588,636)	-	(1,522,310)
	(14,897)	-	(14,550)	-	(29,447)
Other off-balance sheet items					
Loan commitments and other credit related commitments	1,319,303	-	-	-	1,319,303
Financial guarantees and other credit related contingent liabilities	158,039	-	-	-	158,039
	1,477,342	-	-	-	1,477,342

5 Financial risk management (continued)

(c) Liquidity risk (continued)

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

At 31 December 2015

	Within 1 month $'000	*Over 1 month but within 3 months* $'000	*Over 3 months but within 1 year* $'000	*Total* $'000
Non-derivative financial liabilities				
Deposits from customers	4,736,731	2,001,734	1,151,134	7,889,599
Deposits from banks	139,414	469,715	1,615,818	2,224,947
Certificates of deposit issued	504,906	575,963	2,078,317	3,159,186
Other liabilities	73,590	9,099	13,953	96,642
	5,454,641	3,056,511	4,859,222	13,370,374
Derivative cash flow settled on a gross basis				
Total inflow	378,364	130,927	371,701	880,992
Total outflow	(378,483)	(130,824)	(371,508)	(880,815)
	(119)	103	193	177
Other off-balance sheet items				
Loan commitments and other credit related commitments	1,987,171	-	-	1,987,171
Financial guarantees and other credit related contingent liabilities	263,313	-	-	263,313
	2,250,484	-	-	2,250,484

5 Financial risk management (continued)

(d) Capital management

Being an authorised institution incorporated in Hong Kong, the Group is regulated by the Hong Kong Monetary Authority ("HKMA") which sets and monitors capital requirements for the Group.

The HKMA has issued the Banking (Capital) Rules, which require the Group to maintain adequate regulatory capital to support credit risk, market risk and operational risk.

In addition to meeting the regulatory requirements, the Group's primary objective in managing its capital is to ensure the Group's ability to continue as a going concern so that it can continue to provide returns and benefits to shareholders and other stakeholders. To achieve the targeted return, products and services are priced to commensurate with the level of risk and funds are acquired at a reasonable cost.

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

The Group monitors its capital structure with due consideration of the capital adequacy ratio as calculated in accordance with the Banking (Capital) Rules. The Group has adopted the Standardised (Credit Risk) Approach in calculating credit risk for non-securitisation exposures.

Throughout the years of 2016 and 2015, the Group fully complied with the capital requirements imposed by the HKMA.

5 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 fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: fair value measured using quoted market prices (unadjusted) in active markets for identical assets and liabilities.

- Level 2: fair value measured using valuation techniques based on observable inputs, either directly or indirectly. 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 value 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 difference between the instruments.

Where available, the most suitable measure for fair value is the quoted market price. In 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.

The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the reporting date. For other derivative financial instruments, the Group uses estimated discounted cash flows to determine their fair value and the discount rate used is a discount rate at the end of reporting period applicable for an instrument with similar terms and conditions.

5 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 as at 31 December 2016, by the level in the fair value hierarchy into which the fair value treatment is categorised:

	2016			
	Level 1 $'000	*Level 2* $'000	*Level 3* $'000	*Total* $'000
Recurring fair value measurements				
Assets				
Derivative financial assets	-	2,863	-	2,863
Available-for-sale financial assets	99,408	1,116,221	-	1,215,629
Liabilities				
Derivative financial liabilities	-	52,887	-	52,887

	2015			
	Level 1 $'000	*Level 2* $'000	*Level 3* $'000	*Total* $'000
Recurring fair value measurements				
Assets				
Derivative financial assets	-	9,690	-	9,690
Available-for-sale financial assets	99,917	104,376	-	204,293
Liabilities				
Derivative financial liabilities	-	9,514	-	9,514

During the years of 2016 and 2015, there were no transfers of financial instruments between Level 1 and Level 2. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

5 Financial risk management (continued)

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

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

Valuation of financial instruments with significant unobservable inputs

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

	Derivative financial assets	
	2016	*2015*
	$'000	$'000
At 1 January	-	254
Purchases/initiation	-	-
Sales	-	-
Settlements	-	-
Transfer in	-	-
Transfer out	-	-
Changes in fair value recognised in the profit or loss:		
– Net trading loss	-	(254)
At 31 December	-	-
Total gains or losses for the year included in the profit or loss for assets held at the end of the reporting period recorded in:		
– Net trading loss	-	(254)

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

Financial assets and liabilities that are presented not at their fair value on the Group's consolidated statement of financial position and the Company's statement of financial position mainly represent cash and balances with banks and central bank, placements with banks, and loans and advances to customers. These financial assets are measured at amortised cost less impairment. Financial liabilities not presented at their fair value on the Group's consolidated statement of financial position and the Company's statement of financial position mainly represent deposits from banks, deposits from customers and certificates of deposit issued. These financial liabilities are measured at amortised cost.

The Group assessed that the differences between fair values and carrying amounts of those financial assets and liabilities not presented on the Group's and the Company's statement of financial position at their fair values are minimal as most of the Group's and the Company's financial assets and liabilities are either short-term or priced at floating rates.

5 Financial risk management (continued)

(f) Transfers of financial assets

The Group enters into transactions in the normal course of business which transfers recognised financial assets directly to third party. All these transfers resulted in full derecognition of the financial assets concerned as the Group transferred its contractual right to receive cash flows from these financial assets, or retained the rights but assumed an obligation to pass on the cash flows from these financial assets, and transferred substantially all the risks and rewards from financial assets. The risks included credit, interest rate, currency, prepayment and other price risks.

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

6 Net interest income

	2016	*2015*
	$'000	$'000
Interest income		
Interest income arising from financial assets that are not measured at fair value through profit or loss		
– Balances and placements with banks	77,120	159,786
– Loans and advances to customers	409,207	206,589
– Unlisted available-for-sale financial assets	5,773	76
– Listed available-for-sale financial assets	12,433	3,801
	504,533	370,252
Interest expense		
Interest expense arising from financial liabilities that are not measured at fair value through profit or loss		
– Deposits from banks	(25,532)	(25,450)
– Deposits from customers	(134,216)	(103,893)
– Certificates of deposit issued	(41,934)	(41,637)
– Others	(7)	(5)
	(201,689)	(170,985)
Net interest income	302,844	199,267

There was no interest income accrued on impaired financial assets and on unwinding of discount on loan impairment losses for the years ended 31 December 2016 and 2015.

7 Net fee and commission income

	2016	*2015*
	$'000	$'000
Fee and commission income		
– Credit facilities	37,962	49,296
– Trade services	1,107	1,285
– IPO sponsorship	9,279	10,910
– Underwriting	2,495	-
– Corporate advisory	6,235	26,799
– Others	6,146	8,467
	63,224	96,757
Fee and commission expense	(966)	(4,614)
Net fee and commission income	62,258	92,143

All the fee and commission income of $63,224,000 (2015: $96,757,000) and fee and commission expense of $966,000 (2015: $4,614,000) for the year ended 31 December 2016 arose from financial assets and financial liabilities that were not measured at fair value through profit or loss.

Net fee and commission income arose from trust or other fiduciary activities in which the Group held or invested on behalf of its customers for the years ended 31 December 2016 was $1,165,000 (2015: Nil).

8 Net trading loss

	2016	*2015*
	$'000	$'000
Foreign exchange loss	(54,435)	(70,566)
Other derivatives	-	(254)
	(54,435)	(70,820)

The foreign exchange loss in 2016 included the translation loss of $59 million (2015: $84 million) on those Renminbi ("RMB") assets funded by the Company's capital denominated in RMB (which is recorded on these financial statements at historical exchange rate) due to the depreciation of RMB against HKD in 2016. Excluding this translation loss, foreign exchange trading gain from normal activities was $4 million (2015: $13 million).

9 Operating expenses

	2016	*2015*
	$'000	$'000
Staff costs		
– Salaries and other benefits	80,122	64,941
– Pension and provident fund costs	5,392	4,004
	85,514	68,945
Premises and equipment expenses excluding depreciation		
– Rental of premises	21,596	13,523
– Maintenance and office facility expenses	2,870	3,450
– Others	1,687	976
	26,153	17,949
Auditor's remuneration	655	775
Depreciation of property and equipments	9,139	7,946
Amortisation of intangible assets	2,602	2,088
Legal and professional fees	4,623	3,877
IT and system expenses	6,292	4,658
Other operating expenses	7,078	5,012
	30,389	24,356
	142,056	111,250

10 Loan impairment charges

	2016	*2015*
	$'000	$'000
Loan impairment charges (Note 16(b))	14,557	17,872
Representing:		
New provision (Note 16(b))	14,806	17,872
Release (Note 16(b))	(249)	-
	14,557	17,872

11 Directors' emoluments

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

	2016	*2015*
	$'000	$'000
Fees	150	77
Other emoluments	4,672	4,547
Contribution to provident fund	223	209
	5,045	4,833

12 Taxation

(a) Taxation in the consolidated statement of profit or loss and other comprehensive income represents:

	2016	*2015*
	$'000	$'000
Current tax		
Hong Kong Profits Tax		
– Provision for the year	31,504	15,022
– Over-provision in prior year	(37)	-
	31,467	15,022
Taxation outside Hong Kong		
– Withholding tax in the People's Republic of China	166	4,307
Deferred tax		
Origination and reversal of temporary differences	(2,248)	(5,593)
	29,385	13,736

The provision of Hong Kong Profits Tax for 2016 was calculated at 16.5% (2015: 16.5%) of the estimated assessable profits for the year.

12 Taxation (continued)

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

	2016 $'000	*2015* $'000
Profit before taxation	154,881	91,796
Notional tax on profit before taxation, calculated at the tax rate of 16.5%	25,555	15,146
Tax effect of income/expense not subject to taxation	(15)	(5,168)
Tax effect of unused current year tax loss not recognised	3,457	-
Utilisation of tax loss previously not recognised	-	(549)
Over-provision in prior year	(37)	-
Withholding tax in the People's Republic of China	166	4,307
Others	259	-
Actual tax expense	29,385	13,736

13 Other comprehensive income

(a) Tax effects relating to each component of other comprehensive income

	2016			*2015*		
	Before tax amount $'000	*Tax expense* $'000	*Net-of-tax amount* $'000	*Before tax amount* $'000	*Tax expense* $'000	*Net-of-tax amount* $'000
Available-for-sale financial assets: net movement in available-for-sale fair value reserve	(30,917)	5,409	(25,508)	(876)	-	(876)
Other profit or loss and other comprehensive income	(30,917)	5,409	(25,508)	(876)	-	(876)

13 Other comprehensive income (continued)

(b) Components of other comprehensive income

	2016 $'000	*2015* $'000
Available-for-sale financial assets:		
Changes in fair value recognised during the year	(30,101)	(876)
Reclassification adjustments for amounts transferred to profit or loss upon disposal	(816)	-
Net deferred tax credited to available-for-sale fair value reserve	5,409	-
Net movement in available-for-sale fair value reserve during the year recognised in other comprehensive income	(25,508)	(876)

14 Cash and balances with banks and central bank

	2016 $'000	*2015* $'000
Balances with banks	138,527	57,105
Balance with central bank	30,332	3,300
	168,859	60,405

15 Placements with banks

	2016 $'000	*2015* $'000
Placements with banks		
- maturing within one month	3,416,761	3,795,631
- maturing between one month and twelve months	2,839,713	3,290,453
- maturing over one year	432,212	-
	6,688,686	7,086,084

16 Loans and advances to customers

(a) Loans and advances to customers

	2016 $'000	*2015* $'000
Gross loans and advances to customers	12,816,638	7,980,526
Less: loan impairment allowances		
– individually assessed	-	(249)
– collectively assessed	(40,590)	(25,784)
	12,776,048	7,954,493

(b) Loan impairment allowances against loans and advances to customers

	Individually assessed $'000	*Collectively assessed* $'000	*Total* $'000
At 1 January 2015	-	(8,161)	(8,161)
Charges	(249)	(17,623)	(17,872)
At 31 December 2015 and 1 January 2016	(249)	(25,784)	(26,033)
Charges	-	(14,806)	(14,806)
Release	249	-	249
At 31 December 2016	-	(40,590)	(40,590)

16 Loans and advances to customers (continued)

(c) Gross loans and advances to customers by industry sector

	2016 $'000	*% of gross advances covered by collaterals*	*2015* $'000	*% of gross advances covered by collaterals*
Gross loans and advances to customers for use in Hong Kong				
Industrial, commercial and financial sectors				
- property development	996,196	94.7	804,155	68.3
- property investment	63,649	100.0	22,788	100.0
- financial concerns	1,668,908	64.4	466,293	8.4
- stockbrokers	442,206	-	275,243	-
- wholesale and retail trade	248,177	59.5	463,338	36.1
- manufacturing	826,357	3.2	881,504	6.1
- transport and transport equipment	210,602	2.9	241,855	2.2
- recreational activities	-	-	52,978	-
- others	1,123,755	74.0	320,456	39.5
	5,579,850	55.4	3,528,610	27.3
Individuals	155,485	1.3	240,600	0.7
Total gross loans and advances for use in Hong Kong	5,735,335	54.0	3,769,210	25.6
Trade finance	467,916	5.5	483,753	3.0
Gross loans and advances for use outside Hong Kong	6,613,387	31.6	3,727,563	21.7
Gross loans and advances to customers	12,816,638	40.7	7,980,526	22.4

16 Loans and advances to customers (continued)

(d) Segmental analysis of loans and advances to customers by geographical area

Loans and advances to customers by geographical area are classified according to the location of the counterparties after taking into account the transfer of risk. In general, risk transfer applies when a loan is guaranteed by a party located in an area that is different from that of the counterparty.

	Gross loans and advances to customers $'000	*Individually impaired loans and advances* $'000	*Overdue loans and advances* $'000	*Individually assessed allowances* $'000	*Collectively assessed allowances* $'000
At 31 December 2016					
- Hong Kong	4,878,374	-	-	-	(17,562)
- Rest of Asia-Pacific	7,938,264	-	-	-	(23,028)
	12,816,638	-	-	-	(40,590)
At 31 December 2015					
- Hong Kong	3,643,397	994	994	(249)	(12,891)
- Rest of Asia-Pacific	4,337,129	-	-	-	(12,893)
	7,980,526	994	994	(249)	(25,784)

(e) Gross loans and advances to customers by credit quality

	2016 $'000	*2015* $'000
Pass	12,816,638	7,979,532
Substandard	-	994
	12,816,638	7,980,526

The above table shows the grading according to the loan classification system as defined by the HKMA.

17 Available-for-sale financial assets

	2016 $'000	*2015* $'000
Exchange fund bills	99,408	99,917
Debt securities	1,116,221	104,376
	1,215,629	204,293
Issued by:		
– Sovereigns	99,408	99,917
– Public sector entities	122,509	-
– Banks	447,183	104,376
– Corporates	546,529	-
	1,215,629	204,293
Analysed by listing status:		
– Listed in Hong Kong	533,550	-
– Listed outside Hong Kong	430,906	104,376
– Unlisted	251,173	99,917
	1,215,629	204,293

As at 31 December 2016 and 2015, there were no available-for-sale debt securities individually determined to be impaired.

18 Investment in subsidiaries

	2016 $'000	*2015* $'000
Unlisted shares, at cost		
At 1 January	90,000	10,000
Additions	-	80,000
At 31 December	90,000	90,000

18 Investment in subsidiaries (continued)

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

Name of Companies	*Place of incorporation and place of business*	Particulars of *issued shares held*	Proportion of ownership *interest* *Group's effective interest*	*Held by the Company*	*Held by a subsidiary*	*Principal activities*
BOSC International Company Limited ("BOSCI")	Hong Kong	9,000,000 shares of HK$10 each	100%	100%	-	Corporate finance
BOSC International Securities Limited (Incorporated on 11 October 2016)	Hong Kong	10,000,000 shares of HK$1 each	100%	-	100%	Securities brokerage
BOSC International Asset Management Limited (Incorporated on 5 October 2016)	Hong Kong	5,000,000 shares of HK$1 each	100%	-	100%	Asset management
BOSC International Capital Limited (Incorporated on 5 October 2016)	Hong Kong	10,000,000 shares of HK$1 each	100%	-	100%	Corporate finance
BOSC International Investment Limited (Incorporated on 5 October 2016)	Hong Kong	1,000,000 shares of HK$1 each	100%	-	100%	Investment trading

The proportion of voting rights in these subsidiaries did not differ from the proportion of ordinary shares held. There was no non-controlling interest in these subsidiaries.

On 6 April 2017, BOSCI issued 69,000,000 shares at HK$10 each to the Company for supporting its business expansion. After the issuance, the Company's total investment in BOSCI increased to HK$780 million.

19 Property and equipments

Details of movement of property and equipments are as follows:

	Leasehold improvements $'000	*Furniture, computer and other equipments* $'000	*Motor vehicles* $'000	*Total* $'000
Cost:				
At 1 January 2015	9,316	12,151	1,007	22,474
Additions	14,478	2,101	-	16,579
At 31 December 2015	23,794	14,252	1,007	39,053
At 1 January 2016	23,794	14,252	1,007	39,053
Additions	6,834	4,967	-	11,801
Write-off	(9,328)	-	-	(9,328)
At 31 December 2016	21,300	19,219	1,007	41,526
Accumulated depreciation:				
At 1 January 2015	(4,109)	(4,370)	(399)	(8,878)
Charge for the year	(4,474)	(3,220)	(252)	(7,946)
At 31 December 2015	(8,583)	(7,590)	(651)	(16,824)
At 1 January 2016	(8,583)	(7,590)	(651)	(16,824)
Charge for the year	(4,396)	(4,492)	(251)	(9,139)
Write-off	9,328	-	-	9,328
At 31 December 2016	(3,651)	(12,082)	(902)	(16,635)
Net book value:				
At 31 December 2016	17,649	7,137	105	24,891
At 31 December 2015	15,211	6,662	356	22,229

The Group had leased equipment under finance lease expiring in 5 years. None of these leases contained contingent rentals.

20 Intangible assets

	2016	*2015*
	$'000	$'000
Software	5,926	6,218
Club membership	350	150
	6,276	6,368

Details of movement of intangible assets are as follows:

	2016	*2015*
	$'000	$'000
Cost:		
At 1 January	11,248	9,002
Additions	2,510	2,246
At 31 December	13,758	11,248
Accumulated amortisation:		
At 1 January	(4,880)	(2,792)
Charge for the year	(2,602)	(2,088)
At 31 December	(7,482)	(4,880)
Net book value:		
At 31 December	6,276	6,368

During 2016 and 2015, there was no impairment on intangible assets.

21 Other assets

	2016	*2015*
	$'000	$'000
Interest receivables	97,884	63,812
Collaterals placed (Note)	44,202	-
Fees receivable	4,354	20,261
Customer liability under acceptances	541	4,823
Prepaid expenses	4,050	6,767
Others	10,353	17,538
	161,384	113,201

Note: Mainly relates to cash collaterals placed in respect of derivative financial liabilities.

22 Deposits from customers

	2016	*2015*
	$'000	$'000
Deposits from customers		
– Time, call and notice deposits	10,199,152	7,853,990

23 Income tax in the consolidated statement of financial position

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

	2016	*2015*
	$'000	$'000
Provision for Hong Kong Profits Tax for the year	31,504	15,022
Balance of provision of Profits Tax relating to prior year	133	-
Provisional Profits Tax paid	(17,648)	(14,344)
	13,989	678
Provision of withholding tax in the People's Republic of China	-	76
	13,989	754
Representing:		
Current tax payable	13,989	754

23 Income tax in the consolidated statement of financial position (continued)

(b) Deferred tax assets and liabilities recognised:

	Depreciation allowances in excess of the related depreciation $'000	*Amortisation of intangible assets* $'000	*Loan impairment allowance* $'000	*Others* $'000	*Revaluation of available-for-sale debt securities* $'000	*Total* $'000
At 1 January 2015	747	1,000	(1,346)	-	-	401
Charged/(credited) to consolidated statement of profit or loss and other comprehensive income	(921)	51	(2,908)	(1,815)	-	(5,593)
At 31 December 2015	(174)	1,051	(4,254)	(1,815)	-	(5,192)
At 1 January 2016	(174)	1,051	(4,254)	(1,815)	-	(5,192)
Charged/(credited) to consolidated statement of profit or loss and other comprehensive income	798	(75)	(2,443)	(528)	-	(2,248)
Credited to available-for-sale fair value reserve	-	-	-	-	(5,409)	(5,409)
At 31 December 2016	624	976	(6,697)	(2,343)	(5,409)	(12,849)

	2016 $'000	*2015* $'000
Net deferred tax assets	(13,055)	(5,500)
Net deferred tax liabilities	206	308
	(12,849)	(5,192)

The Group has not recognised deferred tax asset in respect of tax losses of HK$20 million (2015: Nil). The tax losses do not expire under tax legislation.

24 Other liabilities

	2016 $'000	*2015* $'000
Interest payables	69,530	59,473
Acceptances outstanding	541	4,823
Accounts payable	256	664
Accrued expenses	3,627	4,539
Provision for short-term employee benefits	14,000	17,784
Obligations under finance leases	41	61
Others	14,218	86,081
	102,213	173,425

25 Capital and reserves

(a) Movement in components of equity

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

	Note	*Share capital* $'000	*Retained profits* $'000	*Available-for-sale fair value reserve* $'000	*Regulatory reserve* $'000	*Total* $'000
Balance at 1 January 2015		2,000,000	9,386	(988)	27,517	2,035,915
Changes in equity for 2015:						
Profit for the year		-	72,010	-	-	72,010
Other comprehensive income		-	-	(876)	-	(876)
Total comprehensive income		-	72,010	(876)	-	71,134
Transfer to regulatory reserve		-	(26,504)	-	26,504	-
Balance at 31 December 2015 and 1 January 2016		2,000,000	54,892	(1,864)	54,021	2,107,049
Changes in equity for 2016:						
Profit for the year		-	146,323	-	-	146,323
Other comprehensive income		-	-	(25,508)	-	(25,508)
Total comprehensive income		-	146,323	(25,508)	-	120,815
Issuance of new ordinary shares	25(b)	2,000,000	-	-	-	2,000,000
Transfer to regulatory reserve		-	(33,536)	-	33,536	-
Balance at 31 December 2016		4,000,000	167,679	(27,372)	87,557	4,227,864

25 Capital and reserves (continued)

(b) Share capital

	2016 No. of shares '000	*2016* $'000	*2015* No. of shares '000	*2015* $'000
Ordinary shares, issued and fully paid:				
At 1 January	160,439	2,000,000	160,439	2,000,000
Issuance of new shares	200,000	2,000,000	-	-
At 31 December	360,439	4,000,000	160,439	2,000,000

During the year, the Company has issued 200,000,000 shares at HK$10 each to its holding company to strengthen its capital position.

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

(c) Dividends

	2016 $'000	*2015* $'000
Dividend approved or paid during the year	-	-

(d) Nature and purpose of reserves

(i) Available-for-sale fair value reserve

This 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.

(ii) Retained profits/accumulated losses

The Group is required to maintain minimum capital adequacy ratio set by the HKMA. The minimum capital requirements could therefore potentially restrict the amount of retained profits available for distribution to the shareholders.

25 Capital and reserves (continued)

(iii) Regulatory reserve

The regulatory reserve is maintained in accordance with Hong Kong Banking regulations. At 31 December 2016, a regulatory reserve of $87,557,000 (2015: $54,021,000) was maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes. Movement in this reserve was made directly through retained profits after consultation with the HKMA. The regulatory reserve is non-distributable.

26 Material related party transactions

During the year, the Group entered into transactions with related parties in the normal course of business including accepting and placement of inter-bank deposits, conducting correspondent banking and foreign exchange transactions. All these related party 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:

	Immediate holding company	
	2016	*2015*
	$'000	$'000
Consolidated statement of profit or loss and other comprehensive income:		
Interest income	1,432	2,223
Interest expense	(9,035)	(5,038)
Net fee and commission income	1,169	-
Consolidated statement of financial position:		
Amounts due from:		
– Cash and balances with banks and central bank	1	6
– Placements with banks	750,000	99,978
– Derivative financial assets	-	8,845
– Other assets	1,751	630
Amounts due to:		
– Deposits from banks	2,439,539	286,732
– Derivative financial liabilities	-	862
– Other liabilities	11,495	65,204
Derivative contracts:		
– Foreign currency exchange derivative contract amount	-	332,869

26 Material related party transactions (continued)

(b) Directors and key management personnel

During the year, the Group did not provide any credit facilities nor accept any deposits from the directors and key management personnel of the Group and its holding companies as well as their close family members and companies controlled or significantly influenced by them.

Remunerations, for key management personnel, including amounts paid to the Group's directors as disclosed in Note 11, are as follows:

	2016 $'000	*2015* $'000
Salaries and other benefits	9,837	8,622
Contribution to provident fund	885	791
Variable bonuses	5,540	5,485

27 Derivative financial instruments

Derivatives entered into by the Group include foreign exchange forward and swap contracts. The Group used these derivatives in its own assets and liabilities management and also sold these products to customers as normal banking activities. For these transactions entered into with customers, they were actively managed through offsetting deals with external parties to ensure the Group's net exposures were within acceptable level of risk. No significant proprietary positions were maintained by the Group at 31 December 2016 and 2015.

(a) Notional amounts of derivatives

Derivatives refer to financial contracts, the value of which links to the value of one or more underlying assets or indices. The notional amount of these instruments represents the volume of outstanding transactions and not the amount at risk.

At 31 December 2016

	Held for trading $'000	*Total* $'000
Exchange rate contracts		
– Spot and forward	277,040	277,040
– Swap	1,215,824	1,215,824
	1,492,864	1,492,864

27 Derivative financial instruments (continued)

At 31 December 2015

	Held for trading $'000	*Total* $'000
Exchange rate contracts		
- Spot and forward	659,962	659,962
- Swap	221,031	221,031
	880,993	880,993

All these derivatives were with residual maturity of one year or less.

(b) Fair values and credit risk-weighted amounts of derivatives

Credit risk-weighted amount refers to the amount as computed in accordance with the Banking (Capital) Rules and depends on the status of the counterparty and the residual maturity of the transaction. The risk-weight factor for derivatives outstanding at 31 December 2016 ranged from 20% to 100% (2015: 20% to 50%).

Derivative financial instruments are presented in net when there is a 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 31 December 2016, no derivative financial instruments have fulfilled the above criteria, therefore no derivative financial instruments were offset on the consolidated statement of financial position (2015: Nil).

At 31 December 2016

	Derivative financial assets $'000	*Derivative financial liabilities* $'000	*Credit risk-weighted amounts* $'000
Exchange rate contracts			
- Spot and forward	4	9,278	546
- Swap	2,859	43,609	4,550
	2,863	52,887	5,096

27 Derivative financial instruments (continued)

At 31 December 2015

	Derivative financial assets $'000	*Derivative financial liabilities* $'000	*Credit risk-weighted amounts* $'000
Exchange rate contracts			
- Spot and forward	9,649	9,510	8,124
- Swap	41	4	16
	9,690	9,514	8,140

28 Contingent liabilities and commitments

(a) Contingent liabilities and commitment to extend credit

	2016 $'000	*2015* $'000
Contract amounts		
- Direct credit substitutes	136,609	90,990
- Trade-related contingencies	21,430	1,478
- Transaction-related contingencies	-	170,845
- Other commitments		
- which are unconditionally cancellable	865,508	1,260,536
- with an original maturity under one year	310,188	463,691
- with an original maturity over one year	143,607	262,944
	1,477,342	2,250,484
Credit risk-weighted amounts	135,470	255,591

Contingent liabilities and commitments are credit related instruments. The risk involved in these credit-related instruments is essentially the same as the credit risk involved in extending loan facilities to customers. The contractual amounts represent the amounts at risk should the contract be fully drawn and the customer would be in default. As the facilities may expire without being drawn, the contract amounts do not represent expected future cash flows.

The risk-weight factor for the computation of credit risk-weighted amounts range from 0% to 100%.

28 Contingent liabilities and commitments (continued)

(b) Lease commitments

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

	2016 $'000	*2015* $'000
Within 1 year	19,479	21,012
After 1 year but within 5 years	16,232	35,711
	35,711	56,723

The Group leases properties under operating leases. These leases run for an initial period of 3 years, with an option to renew the lease subject to renegotiation of the terms of the lease. None of the leases contains contingent rentals.

29 Loans to directors and entities connected with directors

Loans of directors of the Company and entities connected with directors, disclosed pursuant to section 383(1)(d) of the Hong Kong Companies Ordnance and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2016 $'000	*2015* $'000
Aggregate amount in respect of principal and interest as at 31 December	-	-
The maximum aggregate amount outstanding in respect of principal and interest during the year	-	-

30 Notes to consolidated statement of cash flows

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

	2016 $'000	*2015* $'000
Profit before taxation	154,881	91,796
Adjustments for:		
Interest income	(504,533)	(370,252)
Interest expense	201,689	170,985
Depreciation of property and equipments	9,139	7,946
Amortisation of intangible assets	2,602	2,088
Loan impairment charges	14,557	17,872
Net profit on sale of available-for-sale financial assets	(816)	-
Interest received	458,849	361,983
Interest paid	(186,541)	(150,791)
Operating profit before changes in working capital	149,827	131,627
Change in balances and placements with banks with original maturity beyond three months	1,233,097	569,538
Change in gross loans and advances to customers	(4,836,112)	(4,412,648)
Change in other assets	(18,391)	(19,293)
Change in deposits from customers	2,345,163	3,545,691
Change in deposits from banks	2,344,115	(78,250)
Change in certificates of deposit issued	(1,183,869)	2,696,033
Change in other liabilities	(76,987)	94,681
Elimination of exchange differences and other non-cash items	44,198	4,040
Cash generated from operating activities	1,041	2,531,419
Hong Kong Profits Tax paid	(18,156)	(14,344)
PRC withholding tax paid	(242)	(7,662)
Net cash (outflow)/inflow from operating activities	(17,357)	2,509,413

30 Notes to consolidated statement of cash flows (continued)

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

	2016 $'000	*2015* $'000
Cash and balances with banks and central bank	168,859	60,405
Placements with banks with original maturity within three months	6,062,606	5,226,907
	6,231,465	5,287,312

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

	2016 $'000	*2015* $'000
Cash and balances with banks and central bank (Note 14)	168,859	60,405
Placements with banks (Note 15)	6,688,686	7,086,084
Amounts recognised in the consolidated statement of financial position	6,857,545	7,146,489
Less: Placements with banks with original maturity beyond three months	(626,080)	(1,859,177)
Cash and cash equivalents in the consolidated statement of cash flows	6,231,465	5,287,312

31 Immediate and ultimate holding company

As at 31 December 2016, the Company's immediate and ultimate holding company was Bank of Shanghai Co., Limited, which is incorporated in the People's Republic of China. Bank of Shanghai Co., Limited produces financial statements available for public access.

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

Up to the date of issue of the financial statements, the HKICPA has issued a few amendments and new standards which were not yet effective for the year ended 31 December 2016 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendment to HKAS 7, *Statement of cash flows "Disclosure initiative"*	1 January 2017
Amendments to HKAS 12, *Income taxes, Recognition of deferred tax assets for unrealised losses*	1 January 2017
HKFRS 9, *Financial instruments*	1 January 2018
HKFRS 15, *Revenue from contracts with customers*	1 January 2018
Amendments to HKFRS 2, *Share-based payment: Classification and measurement of share-based payment transactions*	1 January 2018
HKFRS 16, *Leases*	1 January 2019

The Group is in the process of making assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have significant impact on the Group's results of operation and financial position except for HKFRS 9, *Financial Instruments* and HKFRS 16, *Leases*.

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, *Financial Instruments: Recognition and Measurement*, which includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

The classification and measurement of financial assets will depend on the entity's business model for their management and the contractual cash flow characteristics and result in financial assets being classified and measured at amortised cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"). The Group's preliminary assessment is that most of the current loans and receivable financial assets at amortised cost will continue to be accounted for at amortised cost under HKFRS 9; while the current available-for-sale financial assets are expected to be classified as FVOCI under HKFRS 9 as these financial assets are held to maintain liquidity for the Group and maybe sold from time to time should the need arise.

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

The classification of financial liabilities is essentially remain unchanged, except that, for certain liabilities measured at fair value, changes in fair value relating to the change in the entity's own credit risk are to be included in the other comprehensive income (without reclassification to the profit or loss). The Group currently does not have any financial liabilities measured at fair value and therefore this new requirement may not have any impact on the Group's adoption of HKFRS 9.

For impairment, HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" model which applies to financial assets measured at amortised cost, FVOCI, certain loan commitments and financial guarantee contracts. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure expected credit losses as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there is significant increase in credit risk since initial recognition. This new impairment model may result in an earlier recognition of credit losses on the Group's financial assets. The Group is currently refining its impairment loss estimation methodology to quantify its impact on the Group's financial statements.

For hedge accounting, the Group currently does not apply hedge accounting and therefore the adoption of HKFRS 9 is not expected to have any impact to the Group on this area.

The Group plans to adopt HKFRS 9 when it becomes effective in 2018 without restating comparative information.

HKFRS 16, *Leases* results in lessee accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under HKAS 17 "Leases". Lessees will recognise a "right of use" asset and a corresponding financial liability on the statement of financial position. The asset will be amortised over the length of the lease and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as in HKAS 17.

The Group is currently assessing the impact of HKFRS 16 and it is not practicable to quantify the effect as at the date of the publication of these financial statements.

Unaudited supplementary financial information

(Expressed in Hong Kong dollars)

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

1 Overdue and rescheduled assets

(a) Loans and advances overdue for more than three months

(i) Gross amount of overdue loans and advances

	2016		*2015*	
	$'000	*% of gross loans and advances to customers*	$'000	*% of gross loans and advances to customers*
Gross loans and advances which have been overdue for:				
– more than three months but not more than six months	-	-	994	0.01

(ii) Value of collaterals held and impairment allowances against overdue loans and advances

	2016	*2015*
	$'000	$'000
Overdue loans and advances	-	994
Current market value of collaterals	-	-
Individually assessed impairment allowances	-	249

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

1 Overdue and rescheduled assets (continued)

(b) Rescheduled loans and advances

Rescheduled loans and advances are those loans and 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 inferior to the original payment terms. The rescheduled loans and advances are stated net of any loans and advances that have subsequently become overdue for over three months and reported as overdue loans and advances as above.

There were no overdue loan as at 31 December 2016, the overdue loans as at 31 December 2015 stated in Note 1(a) above amounting to HK$994,000 was rescheduled as at 31 December 2015. As at 31 December 2015, there was no collaterals held, but with personal and corporate guarantee on the overdue loan. There were no rescheduled placements with banks as at 31 December 2016 and 2015.

(c) Other overdue and rescheduled assets

At 31 December 2016 and 2015, there were no other overdue and rescheduled assets.

2 Liquidity ratio

	2016	*2015*
	%	%
Average liquidity ratio for the year	54	63

The average liquidity ratio for the year was calculated as the simple average of each calendar month's average liquidity ratio, which was computed on a single company basis as required by the HKMA for its regulatory purposes, and was in accordance with the Fourth Schedule to the Hong Kong Banking Ordinance.

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

3 Capital adequacy ratio and capital management

(a) Capital ratios

The capital ratios calculated in accordance with the Banking (Capital) Rules are as follows:

	2016 %	*2015* %
Common Equity Tier 1 ("CET1") capital ratio	30.0	19.4
Tier 1 capital ratio	30.0	19.4
Total capital ratio	30.9	20.1

Capital adequacy ratios were compiled in accordance with the Capital Rules issued by the HKMA. The basis of consolidation for regulatory purposes is different from the basis of consolidation for accounting purposes. As specified in a notice from the HKMA in accordance with Section 3C of the Capital Rules, the Group is only required to calculate capital adequacy ratio on an unconsolidated basis. Subsidiaries not included in consolidation for regulatory purposes are companies that are authorised and supervised by a regulator and are subject to supervisory arrangements regarding the maintenance of adequate capital to support business activities comparable to those prescribed for authorized institutions under the Capital Rules and the Banking Ordinance. Details of subsidiaries that are not included in consolidation for regulatory purposes are as follows:

Name of companies	*Principal activities*	*Total assets as at 31 December 2016* $'000	*Total equity as at 31 December 2016* $'000
BOSC International Company Limited	Corporate finance	98,899	71,828
BOSC International Securities Limited (Incorporated on 11 October 2016)	Securities brokerage	10,000	10,000
BOSC International Asset Management Limited (Incorporated on 5 October 2016)	Asset management	5,000	5,000

Unaudited supplementary financial information (continued)
(Expressed in Hong Kong dollars)

3 Capital adequacy ratio and capital management (continued)

(a) Capital ratios (continued)

Name of companies	*Principal activities*	*Total assets as at 31 December 2016* $'000	*Total equity as at 31 December 2016* $'000
BOSC International Capital Limited (Incorporated on 5 October 2016)	Corporate finance	10,000	10,000
BOSC International Investment Limited (Incorporated on 5 October 2016)	Investment trading	1,000	1,000

Name of company	*Principal activities*	*Total assets as at 31 December 2015* $'000	*Total equity as at 31 December 2015* $'000
BOSC International Company Limited	Corporate finance	104,294	92,655

In calculating the risk-weighted amount, the Group adopted the Standardised (Credit Risk) Approach for credit risk and the Standardised (Market Risk) Approach for market risk. For operational risk, the capital requirement was determined by using the Basic Indicator Approach.

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

3 Capital adequacy ratio and capital management (continued)

(b) Capital structure

The capital base after all required deductions for calculation of capital adequacy ratio purpose are shown below:

	2016 $'000	*2015* $'000
CET1 capital		
Shareholder's equity	4,227,864	2,107,496
Regulatory deductions from CET1 capital		
– Deferred tax assets in excess of deferred tax liabilities	(13,981)	(4,687)
– Intangible assets	(5,038)	(5,070)
– Regulatory reserve	(87,557)	(54,021)
Total CET1 capital	4,121,288	2,043,718
Additional Tier 1 ("AT1") capital		
Total AT1 capital before regulatory deductions	-	-
Regulatory deductions from AT1 capital	-	-
Total AT1 capital	-	-
Total Tier 1 ("T1") capital	4,121,288	2,043,718
Tier 2 ("T2") capital		
T2 capital before regulatory deductions		
– Collective provisions	40,590	25,784
– Regulatory reserve	87,557	54,021
Regulatory deductions from T2 capital	-	-
Total T2 capital	128,147	79,805
Total capital	4,249,435	2,123,523

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

3 Capital adequacy ratio and capital management (continued)

(c) Capital buffers

With effect from 1 January 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
Higher loss absorbency ratio	-
Countercyclical capital buffer ("CCyB") ratio	0.253
Total	0.878

(d) Additional capital disclosures

The following items are included in the "Regulatory Disclosure" section in our website at www.bankofshanghai.com.hk:

- A detailed breakdown of the Group's CET1 capital, AT1 capital, T2 capital and regulatory deductions, using the standard template as specified by the HKMA.

- A full reconciliation between the Group's CET1 capital, AT1 capital, T2 capital and regulatory deductions and the Group's statement of financial position in the financial statements.

- A description of the main features and the full terms and conditions of the Group's capital instruments.

- A 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.

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

3 Capital adequacy ratio and capital management (continued)

(e) Credit risk

(i) Capital requirement

The capital requirement on each class of exposures calculated under the Standardised (Credit Risk) Approach at the reporting date are summarised as follows:

	2016 $'000	*2015* $'000
Class of exposures		
Public sector entity	2,496	-
Bank	270,245	236,488
Securities firm	4,001	-
Corporate	658,231	488,295
Retail	1,240	504
Past due exposures	-	119
Other exposures which are not past due exposures	38,902	41,734
Total capital requirement for on-balance sheet exposures	975,115	767,140
Trade-related contingencies	130	2,510
Other commitments	10,707	17,937
Exchange rate contracts	408	651
Equity contracts	-	-
Credit valuation adjustment	309	352
Total capital requirement for off-balance sheet exposures	11,554	21,450
	986,669	788,590

The capital requirement is made by multiplying the Group's risk-weighted amounts derived from the relevant calculation approach by 8 per cent. The Group's capital as at 31 December 2016 was $4,249,435,000 (2015: $2,123,523,000), which well exceeded the aforesaid capital requirement.

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

3 Capital adequacy ratio and capital management (continued)

(e) Credit risk (continued)

(ii) Analysis of credit risk exposures and risk-weighted amounts

The Group used the credit ratings from the following external credit assessment institutions ("ECAIs") for all classes of credit exposures mentioned below:

– Moody's Investors Services

– Standard and Poor's Rating Services

– Fitch Ratings

The process used to map ECAIs issue specific rating to the exposures recorded in the Group's banking book is consistent with those prescribed in the Banking (Capital) Rules.

An analysis of the credit risk of the Group by class of exposures at the reporting date is reported below:

At 31 December 2016

	[1]Total	*Exposures covered by recognised credit risk mitigation*		*Exposures after recognised credit risk mitigation*		*Risk-weighted amount*		
	Exposures $'000	*Collaterals* $'000	*Guarantees* $'000	*Rated* $'000	*Unrated* $'000	*Rated* $'000	*Unrated* $'000	*Total* $'000
Class of exposures								
On-balance sheet:								
– Sovereign	129,995	-	-	129,995	-	-	-	-
– Bank	7,302,766	-	-	9,873,962	2,148	3,376,986	1,074	3,378,060
– Corporate	13,094,977	2,329,562	2,573,344	1,981,509	6,210,562	2,017,323	6,210,562	8,227,885
– Retail	20,668	-	-	-	20,668	-	15,502	15,502
– Public sector company	122,583	-	-	100,290	22,293	20,058	11,146	31,204
– Securities firm	100,016	-	-	-	100,016	-	50,008	50,008
– Past due exposure	-	-	-	-	-	-	-	-
– Other exposures which are not past due exposures	323,225	3,552	-	-	319,673	-	486,275	486,275
	21,094,230	2,333,114	2,573,344	12,085,756	6,675,360	5,414,367	6,774,567	12,188,934
Off-balance sheet:								
– Off-balance sheet exposures other than OTC derivative transactions or credit derivative contracts	274,737	139,267	-	-	135,470	-	135,470	135,470
– OTC derivative transactions	17,748	-	-	17,748	-	5,096	-	5,096
	292,485	139,267	-	17,748	135,470	5,096	135,470	140,566
Total	21,386,715	2,472,381	2,573,344	12,103,504	6,810,830	5,419,463	6,910,037	12,329,500
Exposures deducted from capital base	-							

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

3 Capital adequacy ratio and capital management (continued)

(e) Credit risk (continued)

(ii) Analysis of credit risk exposures and risk-weighted amounts (continued)

At 31 December 2015

	[1]Total	Exposures covered by recognised credit risk mitigation		Exposures after recognised credit risk mitigation		Risk-weighted amount		
	Exposures	Collaterals	Guarantees	Rated	Unrated	Rated	Unrated	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Class of exposures								
On-balance sheet:								
– Sovereign	103,217	-	-	103,217	-	-	-	-
– Bank	7,243,448	-	-	7,517,382	1,047,271	2,675,372	280,725	2,956,097
– Corporate	7,769,450	516,563	1,321,205	7	5,931,675	4	6,103,686	6,103,690
– Retail	8,397	-	-	-	8,397	-	6,298	6,298
– Past due exposure	994	-	-	-	994	-	1,491	1,491
– Other exposures which are not past due exposures	388,436	-	-	-	388,436	-	521,676	521,676
	15,513,942	516,563	1,321,205	7,620,606	7,376,773	2,675,376	6,913,876	9,589,252
Off-balance sheet:								
– Off-balance sheet exposures other than OTC derivative transactions or credit derivative contracts	350,108	255,601	-	-	94,507	-	255,591	255,591
– OTC derivative transactions	16,330	-	-	16,330	-	8,140	-	8,140
	366,438	255,601	-	16,330	94,507	8,140	255,591	263,731
Total	15,880,380	772,164	1,321,205	7,636,936	7,471,280	2,683,516	7,169,467	9,852,983
Exposures deducted from capital base	-							

[1] Total exposures represent the principal amount or credit equivalent amount, as applicable, net of individually assessed impairment allowances. Among the total exposures reported above, there was no credit exposure risk-weighted at 1250% for the year ended 31 December 2016 and 2015.

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

3 Capital adequacy ratio and capital management (continued)

(f) Credit risk mitigation

As mentioned in Note 5(a) to the 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 collaterals and other credit enhancements. The principal types of collaterals taken by the Group are also those of the recognised credit risk mitigation as prescribed in the Banking (Capital) Rules.

For regulatory capital calculation, the Group adhered to the criteria as stipulated in the Banking (Capital) Rules when assessing the eligibility of the credit risk mitigation.

Recognised collaterals include both financial and physical collaterals. Financial collaterals include cash deposit whilst physical collaterals include real estate. The exposure amount after mitigation is determined by applying the standard supervisory haircut stipulated in the Banking (Capital) Rules as an adjustment discount to the current collaterals value.

Recognised guarantees are mainly guarantees from banks with a lower risk than the original obligor.

On-balance sheet and off-balance sheet recognised netting is not adopted by the Group.

(g) Counterparty credit risk-related exposures

Regarding the Group's counterparty credit risk arising from the OTC derivative transactions, under both the banking and trading book, the Group's credit risk management framework as set out in Note 5(a) to the financial statements applied. The Group managed and monitored the risk exposures by determining the current exposure amount of the transactions.

There were neither repo-style transactions nor credit derivative contracts entered by the Group at 31 December 2016 and 2015.

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

3 Capital adequacy ratio and capital management (continued)

(g) Counterparty credit risk-related exposures (continued)

(i) Analysis of counterparty credit risk exposure showing effect of credit risk mitigation

	2016 $'000	*2015* $'000
OTC derivative transactions:		
Gross total positive fair value	2,863	9,690
Credit equivalent amount	17,748	16,330
Value of recognised collaterals	-	-
Credit equivalent amount or net credit exposures net of recognised collaterals held	17,748	16,330
Risk-weighted amounts	5,096	8,140
Notional amounts of recognised credit derivative contracts that provide credit protection	-	-

(ii) Analysis of counterparty credit risk exposure by counterparty type

	2016		
	Contract amount $'000	*Credit equivalent amount* $'000	*Risk-weighted amount* $'000
Banks	1,488,908	17,748	5,096
Corporates	-	-	-
	1,488,908	17,748	5,096

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

3 Capital adequacy ratio and capital management (continued)

(g) Counterparty credit risk-related exposures (continued)

(ii) Analysis of counterparty credit risk exposure by counterparty type (continued)

	2015		
	Contract amount $'000	*Credit equivalent amount* $'000	*Risk-weighted amount* $'000
Banks	1,086,564	16,330	8,140
Corporates	-	-	-
	1,086,564	16,330	8,140

(h) Asset securitisation

There was no asset securitisation in which the Group was an originating institution or an investing institution as at 31 December 2016 and 2015.

(i) Market risk

	2016 $'000	*2015* $'000
Capital charge for market risk	80,016	37,021

(j) Operational risk

	2016 $'000	*2015* $'000
Capital charge for operational risk	31,979	17,711

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

4 Leverage ratio

The Company is required under section 24A(6) of the Banking (Disclosure) Rules to disclose its Leverage Ratio effective from 31 March 2015. The Leverage Ratio as at 31 December 2016 and 31 December 2015 was computed in accordance with the Leverage Ratio Framework document issued by the HKMA.

	2016	*2015*
	%	%
Leverage Ratio	19.3	12.8

	2016	*2015*
	$'000	$'000
T1 capital	4,121,288	2,043,718
Exposure measure	21,390,754	15,953,163

Details breakdown of the Company's exposure measure and a summary comparison table reconciling the asset on the Group's balance sheet with the leverage exposure measure using the standard templates as specified by the HKMA are available in the "Regulatory Disclosure" section at the Company's website www.bankofshanghai.com.hk.

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

5 Analysis of gross loans and advances to customers based on internal classification used by the Group

Gross loans and advances, individually impaired loans and advances, overdue loans and advances, individually assessed and collectively assessed loan impairment allowances, the amount of new impairment allowances charged to profit or loss, and the amount of impaired loans and advances written off during the year in respect of industry sectors representing not less than 10% of gross loans and advances to customers are analysed as follows:

	2016						
	Gross loans and advances $'000	*Overdue loans and advances* $'000	*Individually impaired loans and advances* $'000	*Individually assessed loan impairment allowances* $'000	*Collectively assessed loan impairment allowances* $'000	*New impairment allowances* $'000	*Loans and advances written off during the year* $'000
Financial concerns	2,628,595	-	-	-	(8,787)	5,389	-
Wholesale and retail trade	1,212,628	-	-	-	(4,186)	(1,758)	-
Property development	2,134,196	-	-	-	(5,771)	667	-
Manufacturing	2,055,683	-	-	-	(7,400)	2,744	-

	2015						
	Gross loans and advances $'000	*Overdue loans and advances* $'000	*Individually impaired loans and advances* $'000	*Individually assessed loan impairment allowances* $'000	*Collectively assessed loan impairment allowances* $'000	*New impairment allowances* $'000	*Loans and advances written off during the year* $'000
Financial concerns	993,720	-	-	-	(2,948)	666	-
Wholesale and retail trade	1,732,560	-	-	-	(5,944)	3,760	-
Property development	1,623,632	-	-	-	(5,104)	3,939	-
Manufacturing	1,453,614	994	994	(249)	(4,657)	4,105	-

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

6 International claims

International claims are exposures of counterparties 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:

			Non-bank private sector		
	Banks	*Official sector*	*Non-bank financial institution*	*Non-financial private sector*	*Total*
As at 31 December 2016:					
Developed countries	1,508,705	-	67,001	32	1,575,738
Offshore centers	1,400,160	129,739	1,780,193	3,605,495	6,915,587
of which Hong Kong SAR	1,270,736	129,739	1,780,193	3,485,153	6,665,821
Developing Asia and Pacific	4,353,152	-	660,143	7,595,038	12,608,333
of which China	4,352,736	-	660,143	7,370,624	12,383,503
	7,262,017	129,739	2,507,337	11,200,565	21,099,658

			Non-bank private sector		
	Banks	*Official sector*	*Non-bank financial institution*	*Non-financial private sector*	*Total*
As at 31 December 2015:					
Developed countries	3,216,207	-	-	28	3,216,235
Offshore centers	1,208,065	103,217	388,939	3,389,047	5,089,268
of which Hong Kong SAR	1,208,000	103,217	388,939	3,389,047	5,089,203
Developing Asia and Pacific	2,833,952	-	107,348	4,261,651	7,202,951
of which China	2,833,952	-	107,348	4,261,651	7,202,951
	7,258,224	103,217	496,287	7,650,726	15,508,454

The geographical analysis has taken into account of transfer of risk.

7 Segmental information

The operating results, assets and liabilities of the Group were attributable to its business in Hong Kong.

Senior management allocated resources and assessed the performance of the business as a whole and thus there was only one reportable segment. Therefore, no additional reportable segment and geographical information were presented.

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

8 Non-bank Mainland exposures

The analysis of non-bank Mainland China exposures is based on the categories of non-bank counterparties and the types of direct exposures defined by the HKMA under the Disclosure Rules with reference to the HKMA return in respect of non-bank Mainland China exposures.

	On-balance sheet exposure $'000	*Off-balance sheet exposure* $'000	*Total exposures* $'000
At 31 December 2016			
1. Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	1,933,186	-	1,933,186
2. Local governments, local government-owned entities and their subsidiaries and JVs	401,532	-	401,532
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	3,140,738	21,713	3,162,451
4. Other entities of central government not reported in item 1 above	278,358	310,188	588,546
5. Other entities of local governments not reported in item 2 above	201,937	-	201,937
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	3,296,876	279,932	3,576,808
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	3,105,163	-	3,105,163
	12,357,790	611,833	12,969,623
Total assets after provision	21,079,131		
On-balance sheet exposures as percentage of total assets	58.63%		

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

8 Non-bank Mainland exposures (continued)

At 31 December 2015	*On-balance sheet exposure* $'000	*Off-balance sheet exposure* $'000	*Total exposures* $'000
1. Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	202,715	65,000	267,715
2. Local governments, local government-owned entities and their subsidiaries and JVs	469,549	7,835	477,384
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	2,072,007	86,071	2,158,078
4. Other entities of central government not reported in item 1 above	240,196	-	240,196
5. Other entities of local governments not reported in item 2 above	273,437	87,750	361,187
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	1,348,317	266,116	1,614,433
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	3,088,577	274,393	3,362,970
	7,694,798	787,165	8,481,963
Total assets after provision	15,509,155		
On-balance sheet exposures as percentage of total assets	49.61%		

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

9 Currency concentrations

The Group had the following net foreign currency exposures which exceeded 10% of the net foreign currency exposure in all currencies:

	USD $'000 HK$ equivalent	*RMB* $'000 HK$ equivalent	*EUR* $'000 HK$ equivalent	*Other foreign currencies* $'000 HK$ equivalent	*Total foreign currencies* $'000 HK$ equivalent
At 31 December 2016					
Spot assets	12,359,877	1,412,929	533,553	154	14,306,513
Spot liabilities	(10,795,118)	(3,503,265)	(442,309)	-	(14,740,692)
Forward purchases	357,129	1,090,131	-	-	1,447,260
Forward sales	(1,114,806)	-	(87,992)	-	(1,202,798)
Net long/(short) non-structural position	807,082	(1,000,205)	3,252	154	(189,717)
At 31 December 2015					
Spot assets	8,993,366	3,131,734	53,594	195	12,178,889
Spot liabilities	(8,782,707)	(3,594,640)	(15,077)	-	(12,392,424)
Forward purchases	550,350	327,045	-	-	877,395
Forward sales	(332,926)	(326,900)	(3,977)	-	(663,803)
Net long/(short) non-structural position	428,083	(462,761)	34,540	195	57

As at 31 December 2016 and 2015, there was no net structural position.

10 Interest rate exposures in banking book

In accordance with the prudential return “Interest Rate Risk Exposures” issued by the HKMA, the Group calculated, on a quarterly basis, the impact on earnings over the next 12 months under a scenario that interest rate would rise 200 basis points.

	2016 $'000	*2015* $'000
HKD	44,000	1,000
USD	38,000	27,000
RMB	9,000	6,000

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

11 Corporate governance

The Group fully complied with the requirements set out in the Supervisory Policy Manual module CG-1, namely "Corporate Governance of Locally Incorporated Authorized Institutions" issued by the HKMA in August 2012.

(a) Board of Directors

The Board is ultimately responsible for the operation and financial soundness of the Group. In meeting its overall responsibilities to stakeholders, the Board is to:

- ensure that the Group's management is competent by appointing a chief executive (including an alternate chief executive) with integrity, technical competence and experience in the banking business which enables him to administer the Group's affairs effectively and prudently.
- oversee the appointment of other senior executives and ensure that they are fit and proper to manage and supervise the Group's key businesses and functions.
- approve and monitor the Group's business objectives, strategies and financial plan by:
  - approving annual budgets and reviewing performance against these budgets; and
- ensure that the Group's operation is conducted prudently and within the framework of law regulations and the Bank's policies by, among other things:
  - approving and periodically reviewing the risk management governance and policies of the Group to ensure that they are adequate and consistent with the Group's operating environment, and that adequate capital is maintained against the risks;
  - ensuring that senior management is implementing the strategies approved by the Board and developing suitable policies and procedures for managing the various types of risk; and
  - regularly reviewing the Group's financial indicators against performance and the established risk targets.
- ensure that the Group conducts its affairs with a high degree of integrity by, among other things, developing appropriate policies and codes of conduct that safeguard against improper or unlawful activities.

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

11 Corporate governance (continued)

(b) Key committees functions and composition

The Board has ultimate and overall responsibility for the corporate governance of the Group. To assist its performance of the role, the following committees are established:

Audit Committee exercises oversight over objectivity, credibility and integrity of the financial reporting and other mandatory professional reporting requirements, and the work of the internal and external auditors. It is chaired by a non-executive director and its members consist of a non-executive directors and an independent non-executive director.

Remuneration and Nomination Committee exercises oversight on the Group's remuneration system and its operation, makes recommendation to the Board on the Group's remuneration structure, annual salary adjustment and performance bonus, and determines the remuneration package of key management personnel. For nomination function, it includes identifying individuals suitably qualified to become board members and recommend to the selection of individuals nominated for directorships; making recommendation to the board on appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief executive; and performing annual review on the Board's structure, size and composition. It is chaired by an independent non-executive director and its member consist of a non-executive director.

Risk and Compliance Committee assists the Board in monitoring the Group's risk profile and the Group's compliance with internal policies and statutory regulations. It is chaired by a non-executive director and its members consist of another non-executive director and the executive director.

Executive Committee assists the Board in conducting and managing the day-to-day business and affairs of the Group. It is chaired by the Chief Executive Officer and its members consist of Head of Operations and Technology, Head of Corporate and Institutional Banking, Chief Risk Officer, Head of Treasury and Head of Finance.

Credit Committee is responsible for credit management. It is chaired by the Chief Risk Officer and its members consist of the Chief Executive Officer, Head of Corporate and Institutional Banking and Vice President of Credit Risk Department.

ALCO is responsible for monitoring liquidity risk and asset and liability management. It is chaired by the Head of Treasury and its members consist of the Chief Executive Officer, Head of Operations & Technology, Chief Risk Officer, Head of Finance and Heads of Corporate and Institutional Banking.

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

11 Corporate governance (continued)

(b) Key committees functions and composition (continued)

Operation and Technology Committee is responsible for formulating operations policies and procedures to ensure on-going operational efficiency, cost effectiveness and proper controls; reviewing standard service charges and fees; monitoring operational risk issues; formulating system and information technology ("IT") policies and practices; ensuring adequate IT control environment; and evaluating cost and effectiveness of IT systems employed by the Group. It is chaired by Head of Operations and Technology and its members consist of the Chief Executive Officer, Chief Risk Officer, Head of Finance, Head of Corporate and Institutional Banking, Head of Compliance, Head of Information Technology, Head of Treasury and Heads of Corporate Banking.

(c) Compliance with "Guideline on a Sound Remuneration System"

The Group fully complied with the requirements set out in the Supervisory Policy Manual module CG-5, namely "Guideline on a Sound Remuneration System V.2" issued by the HKMA in March 2015.

The Remuneration and Nomination Committee is established with specific terms of reference and its membership consists of an independent non-executive director and a non-executive director. The Remuneration and Nomination Committee meets at least once a year to review and make recommendations to the Board of Directors (the "Board") of the Company on the overall remuneration policy and structure, specific remuneration packages and compensation arrangement relating to the appointment of Senior Management and Key Personnel, and on the formulation of the remuneration policy applicable to all employees of the Company. All remuneration actions and decisions made by the Remuneration and Nomination Committee are reported to the Board for ratification.

The Board and the Remuneration and Nomination Committee provide oversight of the overall remuneration administration of the Company to ensure consistency with its culture, strategy, risk tolerance and control environment. The Remuneration and Nomination Committee reviews the remuneration policy and system periodically or whenever necessary to ensure the Company's effective human resources management.

For the purpose of this disclosure, the Senior Management and Key Personnel mentioned in this section are defined according to the "Guideline on a Sound Remuneration System" issued by the HKMA. Senior Management comprises Chief Executive Officer and Deputy Chief Executive Officers, who are responsible for the oversight of the Companywide strategy and activities or those of the major business lines. Key Personnel including Chief Risk Officer, Head of Finance and Head of Treasury, are senior executives whose duties or activities in the course of their employment involve the assumption of material risk or the taking on material exposures on behalf of the Company.

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

11 Corporate governance (continued)

(c) Compliance with "Guideline on a Sound Remuneration System" (continued)

Design and Structure of the Remuneration Process

The remuneration system of the Company is designed to motivate employee behaviour that supports the Company's overall business goals and objectives, long-term financial soundness and effective risk management. It aims to create long-term value for the Company and to align the remuneration of employees with the Company's profitability and time horizon of risks.

The remuneration package comprises fixed salary and variable remuneration. The objective is to ensure the package is competitive in the market so as to attract, retain and motivate the right talents. The proportion of variable remuneration shall vary according to the staff's roles and responsibilities, as well as performance.

Fixed remuneration refers to base salary, fixed allowances and year-end guaranteed pay (if applicable). Variable remuneration, mainly cash bonus payment, is awarded based on the overall performance of the Company, the relevant business unit and the individual staff member, taking into consideration of the full range of current and potential short-term and longer-term risks connected with the activities of staff which may affect the performance of the Company.

Performance Management and Consideration of Relevant Risks in the Remuneration Process

Performance of individual staff member is assessed against a number of pre-defined and measurable performance goals. The goals are determined according to the job responsibilities and areas of contribution covering both financial and non-financial factors. Financial factors include quantitative measures such as profit, revenue, business turnover or volume. Non-financial factors include criteria such as strict adherence to the code of conduct, internal control policies, compliance requirement and risk management standard. The non-financial factors constitute a significant part of an employee's overall performance measurement. The size and allocation of variable remuneration take into account the full range of current and potential risks associated with the functions and activities conducted by the relevant employee.

The overall and balanced quality of staff performance is therefore measured and determined not only by financial achievements but also non-financial indicators which form an integral part of the performance management system.

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

11 Corporate governance (continued)

(c) Compliance with "Guideline on a Sound Remuneration System" (continued)

Remuneration Awarded to Senior Management and Key Personnel

	2016	*2015*
Number of Senior Management	3	3

	2016 $'000	*2015* $'000
Fixed remuneration (see Note below)		
– Cash	6,268	5,979
Variable remuneration		
– Cash	4,000	4,000

	2016	*2015*
Number of Key Personnel	3	3

	2016 $'000	*2015* $'000
Fixed remuneration (see Note below)		
– Cash	4,303	3,434
Variable remuneration		
– Cash	1,540	1,485

Note: The fixed remuneration included employer's contribution to provident fund.

No Senior Management and Key Personnel was awarded sign-on bonus in 2015 and 2016. No Senior Management and Key Personnel was awarded guaranteed bonus, deferred variable remuneration or severance payment in 2015 and 2016.