SHANGHAI COMMERCIAL BANK



65TH Anniversary

2015
ANNUAL REPORT

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CORPORATE PROFILE

Established in November 1950, Shanghai Commercial Bank (the 'Bank') is one of the renowned local Chinese banks in Hong Kong and has a niche market position in the corporate and trade finance sectors.

The Bank has always been pursuing the motto of its founder, Mr. Kwang-pu Chen, to 'Serve the Community'. The Bank's slogan of 'For Personalized Service' and 'All in a Family' denotes the Bank's devotion to providing personalized services to its clients and promoting a harmonious relationship among its staff members.

The Bank offers a comprehensive range of retail and corporate banking services and products including deposits, securities trading, credit cards, wealth management services and corporate and personal loans.

In addition to over 40 branches in Hong Kong, the Bank has a global network of overseas branches in San Francisco, Los Angeles, New York and London. In Mainland China, the Bank has established a branch presence in Shenzhen and Shanghai.

FIVE-YEAR FINANCIAL SUMMARY

	2015	2014	2013	2012	2011
FOR THE YEAR (IN HK$ MILLION)					
Net interest income	**2,481**	2,518	2,206	1,925	1,982
Other operating income	**1,147**	980	1,144	1,061	1,057
Operating expenses	**1,277**	1,182	1,143	992	884
Operating profit	**2,346**	2,302	2,182	2,034	2,174
Profit before other comprehensive income attributable to equity holders	**1,899**	1,896	1,785	1,648	1,798
Dividend	**940**	940	880	820	860
AT YEAR END (IN HK$ MILLION)					
Shareholders' funds	**22,572**	21,679	20,438	19,251	18,022
Total assets	**159,613**	152,469	143,071	137,187	126,978
Total deposits	**129,205**	121,393	113,641	110,682	103,097
Total loans and advances	**64,376**	67,457	62,371	53,977	55,480
FINANCIAL RATIOS (IN PERCENTAGE%)					
Capital adequacy ratio*	**19.9**	19.0	19.6	18.0	18.3
Average liquidity maintenance ratio/liquidity ratio**	**53.1**	46.0	55.3	60.7	46.9
Loan to deposit ratio	**49.8**	55.6	54.9	48.8	53.8
Dividend payout ratio	**49.5**	49.6	49.3	49.7	47.8
Return on average assets	**1.2**	1.3	1.3	1.2	1.5

* The capital adequacy ratios were calculated based on the Banking (Capital) Rules effective during the reporting periods.

** Average liquidity maintenance ratio for 2015 was calculated in accordance with the Banking (Liquidity) Rules effective from 1st January 2015. (The liquidity ratios for Year 2011 to Year 2014 were calculated in accordance with the repealed Section 102 of the Hong Kong Banking Ordinance.)

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Sixty-fifth Annual General Meeting of the Members of the Bank will be held at its Registered Office, 35/F., Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong on Wednesday, 20th April 2016 at 9:00 a.m. to transact the following business:

(1) To receive and consider the audited financial statements and the Reports of the Directors and of the Auditor for the year ended 31st December 2015;
(2) To declare Dividend in respect of the year 2015;
(3) To elect Directors;
(4) To approve the payment of Directors' fees for the year ended 31st December 2015;
(5) To re-appoint Auditor and to authorise the Directors to fix their remuneration.

A Member entitled to attend and vote at the Meeting is entitled to appoint a proxy to attend and vote instead of him. A proxy need not also be a Member.

The Register of Members of the Bank will be closed from Wednesday, 13th April 2016 to Wednesday, 20th April 2016, both days inclusive.

By Order of the Board
May Yuen-ling Kwok
Corporate Secretary

Hong Kong, 22nd January 2016

BOARD OF DIRECTORS



Front row from left to right

Mr. John Van Antwerp Rindlaub, Mr. Richard Jason Lloyd Yorke, Mr. Lincoln Chu Kuen Yung, Mr. Hung-ching Yung, Mr. Stephen Ching Yen Lee, Madam Dai Lanfang

Back row from left to right

Mr. Edward Kawah Chu, Mr. Johnson Mou Daid Cha, Dr. Richard Lee, Mr. David Sek-chi Kwok, Mr. Chen Yih Pin, Mr. Gordon Che Keung Kwong, Mr. Sunny Yiu Tong Cheung



Mr. E. Michael Fung



Mr. Jin Yu



Mr. Fan Yifei

 # Lincoln Chu Kuen Yung, *JP, FHKIB*
Chairman & Non-executive Director

^ David Sek-chi Kwok, *FHKIB, FCIB*
Managing Director & Chief Executive

 # Hung-ching Yung, *JP*

*** Dr. Richard Lee**

*** Johnson Mou Daid Cha**
(Dr. Lam Chat Yu, Alternate)

 # Stephen Ching Yen Lee

^ Edward Kawah Chu (resigned on 1st July 2015)

 # Chen Yih Pin
(John Con-sing Yung, Alternate)

*** Gordon Che Keung Kwong, *FCA***

 # Ning Li Ming (resigned on 15th September 2015)
(Ye Jun, Alternate) (resigned on 15th September 2015)

 # Richard Jason Lloyd Yorke
(Chang Hwa Ping, Alternate) (appointed on 26th March 2015)

 # Fan Yifei (resigned on 20th January 2016)
(Li Jian Guo, Alternate) (resigned on 20th January 2016)

 # John Van Antwerp Rindlaub
(Ignatius Wooi-kean Choong, Alternate)

*** Sunny Yiu Tong Cheung** (resigned on 1st January 2016)

 # Dai Lanfang (appointed on 15th September 2015)
(Ye Jun, Alternate) (appointed on 15th September 2015)

*** E. Michael Fung** (appointed on 30th December 2015)

 # Jin Yu (appointed on 20th January 2016)

^ Executive Directors
* Independent Non-executive Directors
# Non-executive Directors

MANAGEMENT

EXECUTIVES

Chief Executive	David Sek-chi Kwok
Deputy Chief Executive	Nai-pan Tang
Alternate Chief Executive	Burton Chi-shan Cheng
Executive Vice Presidents	Danny Kong-keung Tsang Edmund Kin-sang Lai Annie Yuen-lin Ma Ricky Chi-wai Chan Mong-ting Chong Michael Yiu-wing Fung Francis Yue-cheong Wong Wendy Li-chien Weng Blanche Oi-hung Chan Jerome Chee-keong Goh
Senior Vice Presidents	Annie Wai-yu Cheung Stephen Wing-hing Lai Jenny Chui-yeung Chau Johnny Chung-pun Choy

OVERSEAS BRANCHES

Los Angeles Branch	
Executive Vice President & Manager	Ching-hsing Kao
New York Branch	
Senior Vice President & Manager	Timothy Kam-tim Chan
San Francisco Branch	
Senior Vice President & Manager	Philip She-hoi Lee
London Branch	
Manager	Frederick Yan Chu

MAINLAND BRANCHES

Shenzhen Branch	
Manager	Vincent Chi-wing Man
Shanghai Branch	
Manager	Lydia Li-ying Chen

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

MR. LINCOLN CHU KUEN YUNG, JP, FHKIB

Aged 70. Chairman and Non-executive Director. Mr. Yung was appointed a Director of the Bank since September 1998 and was elected Chairman in December 2007. He has been a Director of The Shanghai Commercial & Savings Bank, Ltd. since March 1991, where he served as Managing Director from 1994 to 2004. He is currently the Chairman of Paofoong Insurance Company (Hong Kong) Limited, the Deputy Managing Director of Nanyang Holdings Limited, an Independent Non-executive Director of Tai Ping Carpets International Limited and the President of HK Wuxi Trade Association Limited. Mr. Yung has extensive experience in the textile industry, banking and investment. He was a member of the Basic Law Consultative Committee (from 1985 to 1990) and has been involved in various government committees. He is a Fellow of The Hong Kong Institute of Bankers and appointed an Adjunct Professor of The Hong Kong Polytechnic University (School of Accounting and Finance).

MR. DAVID SEK-CHI KWOK, FHKIB, FCIB

Aged 62. Managing Director and Chief Executive of the Bank. Joined the Bank in October 1971. Appointed a Director in October 2001. General Manager since July 2004, and Managing Director and Chief Executive since October 2007.

MR. HUNG-CHING YUNG, JP

Aged 93. Appointed a Director of the Bank in March 1973. Managing Director of Nanyang Holdings Limited. Chairman of The Shanghai Commercial & Savings Bank, Ltd. A Director of Paofoong Insurance Company (Hong Kong) Limited and The Wing On Enterprises, Limited.

DR. RICHARD LEE

Aged 78. Appointed a Director of the Bank in April 2001. Honorary Chairman of TAL Apparel Limited and a Director of Jardine Matheson Holdings Limited, Hongkong Land Holdings Limited and Mandarin Oriental International Limited.

MR. JOHNSON MOU DAID CHA

Aged 64. Appointed a Director of the Bank in September 2001. Director of Mingly Corporation, HKR International Limited, Hanison Construction Holdings Limited and China International Capital Corporation Limited. Completed full terms as council, finance committee and investment sub-committee member of The Chinese University of Hong Kong in April 2015.

MR. STEPHEN CHING YEN LEE

Aged 69. Appointed a Director of the Bank in June 2004. Managing Director of The Shanghai Commercial & Savings Bank, Ltd., Great Malaysia Textile Investments Pte Ltd. Chairman of Singapore Airlines Limited and NTUC Income Insurance Co-Operative Limited. Director of CapitaLand Limited and China National Petroleum Corporation.

MR. CHEN YIH PIN

Aged 76. Appointed a Director of the Bank in April 2006 and had served as an Alternate Director of the Bank from June 2004 to April 2006. Managing Director of The Shanghai Commercial & Savings Bank, Ltd.

MR. GORDON CHE KEUNG KWONG, FCA

Aged 66. Appointed a Director of the Bank in August 2008. Chairman of the Audit Committee of the Bank since January 2009. A fellow member of the Institute of Chartered Accountants in England and Wales, and the Hong Kong Institute of Certified Public Accountants. An Independent Non-executive Director of a number of locally listed companies, including Chow Tai Fook Jewellery Group Limited, NWS Holdings Limited, Henderson Land Development Company Limited, and China COSCO Holdings Company Limited.

MR. RICHARD JASON LLOYD YORKE

Aged 48. Appointed a Director of the Bank in June 2011. Executive Vice President & Group Head International, Wells Fargo Bank, N.A. A Director of Wells Fargo International Banking Corporation and Wells Fargo Bank International, Ireland.

MR. JOHN VAN ANTWERP RINDLAUB

Aged 71. Appointed a Director of the Bank in May 2014 and had served as an Alternate Director of the Bank from April 2012 to May 2014. Executive Vice President and Asia Regional President, Wells Fargo Bank, N.A. Director of Wells Fargo International Banking Corporation and Cardinal International Leasing, LLC.

MADAM DAI LANFANG

Aged 61. Appointed a Director of the Bank in September 2015. Chairwoman of Shanghai United International Investment Limited and Sino-US United MetLife Insurance Company Limited.

MR. E. MICHAEL FUNG

Aged 59. Appointed a Director of the Bank in December 2015. Chairman and Principal of SouthBay Investment Advisors Limited. Member of the Financial Services Development Council, Hong Kong.

MR. JIN YU

Aged 51. Appointed a Director of the Bank in January 2016. Chairman of Bank of Shanghai. Director of Shanghai United International Investment Limited.

MR. IGNATIUS WOOI-KEAN CHOONG

Aged 54. Served as an Alternate Director of the Bank since January 1997. Appointed an Alternate Director to Mr. John Van Antwerp Rindlaub in May 2014. Director, Wells Fargo Bank, N.A.

DR. LAM CHAT YU

Aged 64. Appointed an Alternate Director to Mr. Johnson Mou Daid Cha in May 2002. He has more than 30 years of experience in asset management and technology investment in Silicon Valley, California and Asia. He is a Director of Mingly Corporation.

MR. YE JUN

Aged 43. Served as an Alternate Director of the Bank since July 2009. Appointed an Alternate Director to Madam Dai Lanfang in September 2015. Director of Bank of Shanghai, Shanghai United International Investment Limited and Sino-US United MetLife Insurance Company Limited.

MR. JOHN CON-SING YUNG

Aged 47. Appointed an Alternate Director to Mr. Chen Yih Pin in March 2013. Director, Executive Vice President and Chief Information Officer of The Shanghai Commercial & Savings Bank, Ltd. Director of Nanyang Holdings Limited.

MR. CHANG HWA PING

Aged 53. Appointed an Alternate Director to Mr. Richard Jason Lloyd Yorke in March 2015. Head of Greater China, Global Financial Institutes, Wells Fargo Bank, N.A., Hong Kong Branch.

SENIOR MANAGEMENT

MR. DAVID SEK-CHI KWOK

(Biographical details are set out on page 8)

MR. NAI-PAN TANG

Aged 54. Deputy Chief Executive, Chief Risk Officer of the Bank. Joined the Bank in September 2015.

MR. BURTON CHI-SHAN CHENG

Aged 54. Alternate Chief Executive, Chief of Information Technology & Operations of the Bank. Rejoined the Bank in August 1996.

MR. DANNY KONG-KEUNG TSANG

Aged 57. Executive Vice President, Chief of Legal & Compliance of the Bank. Joined the Bank in May 2008.

MR. EDMUND KIN-SANG LAI

Aged 55. Executive Vice President, Chief of Treasury of the Bank. Joined the Bank in December 2014.

MS. ANNIE YUEN-LIN MA

Aged 49. Executive Vice President, Chief of Consumer Banking of the Bank. Joined the Bank in February 2015.

MR. RICKY CHI-WAI CHAN

Aged 44. Executive Vice President, Chief of Product Development of the Bank. Joined the Bank in February 2014.

MR. MONG-TING CHONG

Aged 53. Executive Vice President, Chief of China Business. Joined the Bank in October 2015.

MR. MICHAEL YIU-WING FUNG

Aged 58. Executive Vice President, Chief Auditor of the Bank. Joined the Bank in September 1982.

MR. FRANCIS YUE-CHEONG WONG

Aged 49. Executive Vice President, Chief of Corporate Development of the Bank. Joined the Bank in November 2009.

MS. WENDY LI-CHIEN WENG

Aged 46. Executive Vice President, Chief Financial Controller of the Bank. Joined the Bank in May 2012.

MS. BLANCHE OI-HUNG CHAN

Aged 51. Executive Vice President, Chief of Human Resources of the Bank. Joined the Bank in June 2013.

MR. JEROME CHEE-KEONG GOH

Aged 43. Executive Vice President, Chief of Property Development of the Bank. Joined the Bank in November 2013.

Shanghai Commercial Bank Tower Topping Out Ceremony
上海商業銀行大廈平頂典禮

The Shanghai Commercial Bank Tower ('SCBT') topping out ceremony was held on 28 April 2015 to celebrate the structural completion of the Tower. The Board of Directors officiated at the ceremony.

The 28-storey SCBT was designed by the acclaimed architectural company, Rocco Design Architects Limited, and has achieved the BEAM Plus Provisional Gold Rating. SCBT is scheduled for moving-in in the second half of 2016.

上海商業銀行大廈於 2015 年 4 月 28 日舉行平頂典禮，一眾董事局成員蒞臨主持，慶祝上蓋結構順利竣工。

樓高 28 層的上海商業銀行大廈，由享負盛名的許李嚴建築事務所設計，並榮獲綠建環評暫定金級認證標準。新大廈預計於 2016 年下半年入伙。




上海商業銀行大廈平頂典禮
SHANGHAI
MERCIAL BANK TOWER
TOP
OUT CEREMONY
8 4 2015



The 16th Tripartite Partnership Conference
第十六屆滬港台‘上海銀行’業務研討會

創智未來　創新協同　創優共進

In November 2015, the 16th Tripartite Partnership Conference was held in Shanghai. The Conference, which began in 2000, helps drive closer collaboration among the Bank of Shanghai in Mainland China, The Shanghai Commercial and Savings Bank in Taiwan and our Bank in exploring various opportunities to strengthen business growth by leveraging the tri-bank platforms.

2015 年 11 月，第十六屆滬港台‘上海銀行’業務研討會於上海舉辦。業務研討會自 2000 年起舉辦以來，進一步加強本銀行與中國內地的上海銀行及台灣的上海商業儲蓄銀行之合作關係，憑藉三家銀行策略夥伴平台，共同拓展推動業務增長的機遇。







三地上銀 一心為您

Collaboration Workshops
業務交流會

Workshops were held in 2015 for the frontline and supporting personnel of Bank of Shanghai, The Shanghai Commercial and Savings Bank and our Bank to share ideas and knowledge in driving business growth and enhancing collaboration.

來自本銀行、上海銀行及上海商業儲蓄銀行之前線及中後台專才，於 2015 年舉辦的多個業務交流會上，彼此就帶動業務增長及合作交流意見和分享知識。





Supporting Units Workshop held in Hong Kong. 在香港舉辦的中後台業務交流會。



Corporate Banking Workshop held in Chengdu, China.
在中國成都舉辦的公司金融業務交流會。

Product and Service Offerings
產品及服務

In 2015, the Bank continued the launch of retail products and commercial banking tailored to meet the needs of its customers and will continue to enhance its product and service portfolio in 2016.

With its network in major financial cities overseas, the Bank's overseas branches continue to provide comprehensive and personalized banking services including investment property financing, mortgages, immigrant investor services and many more to both individual and corporate customers domiciled in or outside the countries.

為配合客戶的需要，本銀行於 2015 年推出多項多元化的新產品及貼身商業銀行方案，並繼續於 2016 年進一步豐富產品及優化服務類別。

憑藉本銀行在海外主要金融城市建立策略性網路，銀行海外分行均為區域內及區域外之個人及企業客戶提供全面及貼身銀行服務，包括投資物業融資、房貸、投資移民計劃等。



Our New York Branch supported the Virgin Hotel construction project in Manhattan, New York.
本銀行紐約分行支持位於紐約曼克頓之維珍酒店興建計劃。











Digital Banking Services Enhancement
提升數碼化銀行服務

To bring greater transaction convenience and efficiency to customers, the Bank further expanded its digitized banking and online trading services in 2015. The new features included online securities account opening services, electronic bill presentment and payment services, e-Cheque services, SCB e-Wallet of Smart Mobile Pay services and many more. In addition, the Bank introduced Alipay® Express Payment™ services with the first-to-market payment method to settle online purchases directly via bank deposit accounts, as well as launching a new website with an enhanced interface and a Facebook Fanpage connecting with a much wider audience.

The Bank also partnered with IBM employing its behavioral analytics solution to enhance its digital banking strategy to facilitate an O2O (online-to-offline) model for fast business growth and to gain a more accurate understanding of its retail and SME customers, as well as to create smarter, personalized digital banking services and marketing campaigns.

為提供客戶更快捷方便的交易服務，本銀行於 2015 年進一步擴展數碼化銀行及網上交易服務。多項全新數碼化服務包括網上開立證券戶口、電子賬單及繳費服務、電子支票服務，以及智快流動支付服務內的 SCB 電子錢包等。另外，本銀行推出之支付寶® 銀行賬戶快捷支付™ 服務更在市場上開創先河，率先讓客戶直接於個人存款賬戶繳付網上購物賬項。銀行全新網頁及首個官方 Facebook Fanpage 亦已登場，有助擴闊銀行客戶群。

本銀行同時夥拍國際商業機器中國香港有限公司（'IBM'），並採用 IBM 行為分析方案增強數碼銀行策略，建立高效的 O2O（上線到離線）模式，以促進其業務增長及更深入瞭解個人銀行和中小企業客戶，從而設計出更切合客戶需要、貼身數碼化銀行服務和推廣活動。











Credit Card Highest Average Card Volume Award
信用卡最高卡均交易量獎

'Credit Card Highest Average Card Volume Silver Award' - UnionPay International

「信用卡最高卡均交易量銀獎」– 銀聯國際



SME Award
中小企業最佳拍檔獎

'2015 Best SME's Partner Award' (for the fifth consecutive year) - The Hong Kong General Chamber of Small & Medium Business

「2015 中小企業最佳拍檔獎」(連續 5 年) – 香港中小企業商會



Securities Services Award
傑出證券服務獎項

'Diversified and Outstanding Securities Services Award – Gold Award' - Wen Wei Pao

「多元化證券買賣服務獎 (金獎)」– 《文匯報》



Excellent Brand of Cross Border Banking Services Award
卓越跨境銀行服務品牌獎

'Hong Kong Leaders' Choice 2015 - Excellent Brand of Cross Border Banking Services Award' (for the second consecutive year) - Metro Finance and Metro Finance Digital

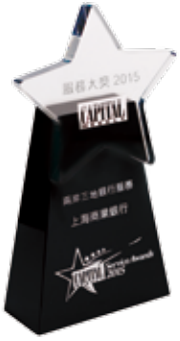
「香港企業領袖品牌 2015 – 卓越跨境銀行服務品牌獎」(連續兩年) – 新城財經台及新城數碼財經台



Cross-strait Banking Services Award
兩岸三地銀行服務大獎

'2015 Capital Weekly Service Award - Cross-strait Banking Services Award' (for the fourth consecutive year) - Capital Weekly

「2015 年《資本壹週》服務大獎 – 兩岸三地銀行服務獎」(連續 4 年) –《資本壹週》



2015 Hong Kong Life Top Producers Convention
2015 香港人壽傑出業務代表會議

Qualified achievers from the Bank attended the annual Hong Kong Life Top Producers Convention held in Osaka, Japan celebrating their outstanding performances and achievements. The Bank was also awarded the Top Honor Award for the year.

香港人壽業務上表現傑出的銀行代表，出席在日本大阪舉行的香港人壽傑出業務代表週年會議。本銀行更獲頒 2015 年度最高榮譽大獎。





HKIB Outstanding Financial Management Planner Awards 2015
香港銀行學會「2015 傑出財富管理師大獎」

The Bank's staff were presented with the Outstanding Financial Planners Awards by HKIB in 2015, demonstrating their excellent achievements in financial planning and their professionalism in wealth management products and services.

本銀行員工於 2015 年榮獲香港銀行學會頒發「傑出財富管理師大獎」，表揚員工的卓越財務計劃表現及對財富管理產品和服務之專業知識。



MESSAGE TO SHAREHOLDERS

2015 was a year of challenges, especially in the second half. The depreciation of the Renminbi, the collapse in oil prices, and the slowdown of the economy in China increased uncertainty and created significant volatility in global equity markets. This affected the local stock market, the retail service sectors and the property market, which all headed downwards.

Shanghai Commercial Bank had grown its business prudently and consistently within the corporate risk appetite, with priority in excelling our services to new and existing customers, upgrading our branding image while also enhancing yield and creating value to the stakeholders of the Bank. For the year 2015, the Bank reported a consolidated net profit after tax of HK$1,902 million, slightly more than that of the preceding year by HK$2 million. Total comprehensive income attributable to equity holders for the year at HK$1,833 million was 13.6% or HK$288 million lower than that of 2014 due to the decrease in valuation of our available-for-sale debt investment portfolio. On a year-on-year basis, total loans and advances decreased by 4.6% while total customer deposits increased by 6.4%. This led to a drop in loan-to-deposit ratio from 55.6% to 49.8% whereas net interest margin was also down by 17 basis points to 1.64%. Net interest income decreased by 1.4%, however net fee and commission income increased by 10.7%. Although the Bank had continued to maintain a strong capital adequacy ratio of 19.9% at year end and the liquidity maintenance ratio averaged 53.1% for the year, return on average total assets and average equity were reduced by 0.1% and 0.4% to 1.2% and 8.6% respectively. The cost-to-income ratio was 35.2%, as compared to 33.8% in 2014.

Benefitted by the stock market rally earlier in the year with relatively strong market turnover, the Bank had recorded a year-on-year net profit growth of 9.2% for the first half of 2015. However, the significant downturn of the stock market and the weak retail performance in the second half had led to the slowdown of both business volume and fees, coupled also with the considerable disappearance of China premium in interbank placements, negative customers' loan growth and increase in operating expenses which resulted in all the gains made earlier in the year being wiped out. Nevertheless, the good asset quality of the Bank's loan portfolio required nominal impairment

provisions, the increase in non-interest income on treasury activities and the solid performance of our overseas branches had adequately compensated for the deficit and contributed to the marginal overall profit growth of the Bank over that of 2014. The adverse mark-to-market valuation of our available-for-sale debt investment portfolio had however impacted on the comprehensive income of the Bank despite the holdings were of investment grades, short tenors and having better yields.

The Bank has continued the efforts in becoming the trusted bank of choice for our customers. We uphold the Bank's motto, "For Personalized Service", and adopt Needs-Based Approach in serving customers. We are enhancing the product range and introducing new service channels, both physical and virtual, for better transaction convenience and customer experience. We have successfully launched Alipay® Bank Account Express Payment™ Service, UnionPay Dual Currency Diamond Credit Card, Near Field Communication contactless payment and e-Cheques deposit service. We recognize the increasing trend of the individuals and corporates in Greater China pursuing opportunities and diversifications in overseas markets and have leveraged on the Bank's local and international capabilities in Hong Kong, United States, United Kingdom and Mainland China to foster the tribank alliance with Bank of Shanghai and our parent bank, The Shanghai Commercial & Savings Bank, Ltd., bringing together the knowledge, expertise and resources as one team to serve the customers and providing them with solutions for their personal and business needs.

We would continue to invest in manpower resources especially at the three branches in China. We have realigned the organization structure with the introduction of a new corporate ranking management framework to better reflect their titles. We are also streamlining and strengthening our middle and back office functions, including internal control, compliance, risk management for credit, anti-money laundering and cyber security, to reinforce our Three Lines of Defence.

In order to consolidate and streamline our support operations and backend functions, including our data centre, in April 2015, we acquired over 75,000 sq. ft. of office space at Kowloon Commerce

Centre, Kwai Chung. We have been revamping and renovating our branches to cater for innovative delivery channels for expanded scope of services and products while enhancing our corporate branding as well. Shanghai Commercial Bank Tower, the state-of-the-art building in Central with modern architecture and environmental friendly technologies housing our headquarters, has been completed and occupation is expected in the second half of 2016. The building design has attracted considerable compliments and has been awarded with the BEAM Plus Provisional Gold Rating.

In 2015, the Bank marked its 65th anniversary celebration. We dedicate to "Serving the Community" by training our team in providing the best services to our customers and actively fulfilling Corporate Social Responsibilities ('CSR'), with over one-third of our workforce participating in volunteer services, donating to various charitable and educational organizations and supporting and caring for the needy. For the second year in a row, the Bank is the title sponsor of 'Shanghai Commercial Pok Oi Cycle for Millions 2016', the biggest cycling event in Hong Kong to advocate family value as well as green and low carbon living style. The Bank supports a variety of scholarship and mentorship programmes covering the local universities and tertiary institutions in Hong Kong to encourage youngsters in pursuing higher education and to promote their interests in banking and finance. The Bank will continue to invest and drive CSR initiatives as part of the corporate culture.

During the year, Madam Ning Li Ming and Mr. Edward Kawah Chu, retired from the Board. Mr. Fan Yifei had to do so upon being appointed as the Deputy Governor of the People's Bank of China, while Mr. Sunny Yiu Tong Cheung relinquished his role of being an Independent Non-executive Director after rejoining Octopus Cards Limited as Chief Executive Officer. We offer our sincere thanks to them all for their invaluable guidance and contributions to the Bank during their tenure. Meanwhile, we are pleased to announce the following new additions: Madam Dai Lanfang, Chairperson of Shanghai United International Investment Ltd. and Mr. Jin Yu, Chairman of Bank of Shanghai, both joined as Non-executive directors and shareholder's representatives, and Mr. E. Michael Fung, an

outstanding and experienced investment banker renowned in the industry, as our new Independent Non-executive Director. All three members possess extensive knowledge in the banking and financial industry. We look forward to their wise counsel and advice.

Looking ahead in 2016, markets and the business environment will continue to be volatile. Special efforts will be made to closely monitor the risks and the uncertainties facing the Bank. China, which is the second largest economy in the world, is showing signs of slowing down. However, we are confident that in the long term it will continue to be among the world's leading economies. We, therefore, would continue to strengthen the manpower at the three branches in China, which could also conduct business in Renminbi. This should lay a solid foundation for our Bank's future development and growth. We are committed to provide better services to our customers and strong returns to our stakeholders.

We would like to express our sincere thanks to our loyal clients for their support, our shareholders for their trust and our employees for their hard work and commitment.

Lincoln Chu Kuen Yung
Chairman

David Sek-chi Kwok
Managing Director & Chief Executive

Hong Kong, 15th March 2016

REPORT OF THE DIRECTORS

The Directors have pleasure in submitting their report together with the audited consolidated financial statements for the year ended 31st December 2015.

Principal activities

Shanghai Commercial Bank Limited (the 'Bank') and its subsidiaries (together, the 'Group') are engaged in the provision of banking and related financial services.

Business review

A review of the business of the Group for the year ended 31st December 2015 and a discussion on the Group's future business development are set out in the sections headed 'Five-Year Financial Summary', '2015 at a Glance' and 'Message to Shareholders' of this Annual Report.

Details of the principal risks including credit risk, liquidity risk and market risk along with relevant assessment and uncertainties facing the Group can be found in Note 3 to the consolidated financial statements regarding Financial Risk Management and in the section headed 'Message to Shareholders' of this Annual Report.

As of 31st December 2015, the total headcount of the Group was 1,745. Staff are regarded by the Group as the most important and valuable asset and additional resources have been allocated in improving the quality and competency of the employees to support their career advancement. Other than the provision of competitive monetary rewards and training programmes in different aspects covering products and operations, sales and marketing, compliance and risk management, a series of recreational activities as well as corporate social responsibility engagement events have also been organized throughout the year.

The Board of Directors of the Bank receives regular updates on the business performance of the Group as well as market conditions and regulatory environment to ensure the operations are in compliance with the relevant laws and regulations and observing the rules and guidelines issued by the Hong Kong Monetary Authority ('HKMA') as well as other regulators.

The Board of Directors and the management are committed to enhancing corporate governance as well as the compliance and risk management framework to effectively implement the three lines of defence model to carry out the prudential measures and supervisory guidelines as required by HKMA on Anti-Money Laundering/Counter Terrorist Financing, cyber security, personal and mortgage financing, and etc.

Results and appropriations

The profits of the Group for the year ended 31st December 2015 are set out in the consolidated income statement on page 36 of this Annual Report.

The Directors recommend the payment of a final dividend of HK$47 (2014: HK$47) per ordinary share totalling HK$940,000,000 (2014: HK$940,000,000).

Share capital

The Bank did not issue any new share during the year. Details of the share capital of the Bank during the year are set out in Note 32 to the consolidated financial statements.

Equity-linked agreements

For the year ended 31st December 2015, the Bank had not entered into any equity-linked agreement.

Donations

During the year donations made by the Bank and its subsidiaries for charitable and other purposes amounted to HK$4,704,000 (2014: HK$4,594,000).

Directors

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

# Hung-ching Yung	
# Lincoln Chu Kuen Yung	
*** Dr. Richard Lee**	
*** Johnson Mou Daid Cha** (Dr. Lam Chat Yu, Alternate)	
^ David Sek-chi Kwok	
# Stephen Ching Yen Lee	
^ Edward Kawah Chu	(resigned on 1st July 2015)
# Chen Yih Pin (John Con-sing Yung, Alternate)	
*** Gordon Che Keung Kwong**	
# Ning Li Ming (Ye Jun, Alternate)	(resigned on 15th September 2015) (resigned on 15th September 2015)
# Richard Jason Lloyd Yorke (Chang Hwa Ping, Alternate)	(appointed on 26th March 2015)
# Fan Yifei (Li Jian Guo, Alternate)	(resigned on 20th January 2016) (resigned on 20th January 2016)
# John Van Antwerp Rindlaub (Ignatius Wooi-kean Choong, Alternate)	
*** Sunny Yiu Tong Cheung**	(resigned on 1st January 2016)
# Dai Lanfang (Ye Jun, Alternate)	(appointed on 15th September 2015) (appointed on 15th September 2015)
*** E. Michael Fung**	(appointed on 30th December 2015)
# Jin Yu	(appointed on 20th January 2016)

^ Executive Directors

* Independent Non-executive Directors

Non-executive Directors

In accordance with Article 104(A) of the Bank's Articles of Association, Mr. Lincoln Chu Kuen Yung, Dr. Richard Lee and Mr. Johnson Mou Daid Cha shall retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Furthermore, in accordance with Article 95 of the Bank's Articles of Association, Madam Dai Lanfang, Mr. E. Michael Fung and Mr. Jin Yu shall retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Mr. Edward Kawah Chu resigned on 1st July 2015 as an Executive Director of the Bank. Mr. Chu confirmed that he has no disagreement with the Board and nothing relating to the affairs of the Bank needed to be brought to the attention of the shareholders of the Bank.

Madam Ning Li Ming resigned on 15th September 2015 as a Non-executive Director of the Bank. Upon the resignation of Madam Ning, Mr. Ye Jun ceased to be her Alternate but was simultaneously appointed as the Alternate to Madam Dai Lanfang on 15th September 2015. Madam Ning confirmed that she has no disagreement with the Board and nothing relating to the affairs of the Bank needed to be brought to the attention of the shareholders of the Bank.

Mr. Sunny Yiu Tong Cheung resigned on 1st January 2016 as an Independent Non-executive Director of the Bank. Mr. Cheung confirmed that he has no disagreement with the Board and nothing relating to the affairs of the Bank needed to be brought to the attention of the shareholders of the Bank.

Mr. Fan Yifei resigned on 20th January 2016 as a Non-executive Director of the Bank. Upon the resignation of Mr. Fan, Mr. Li Jian Guo ceased to be his Alternate simultaneously. Mr. Fan confirmed that he has no disagreement with the Board and nothing relating to the affairs of the Bank needed to be brought to the attention of the shareholders of the Bank.

Directors of subsidiaries

The persons have served on the boards of the subsidiaries of the Bank during the year and up to the date of this report are set out below and those marked with an asterisk* are directors as at the date of this report:

Natural Person

Ricky Chi-wai Chan*, Timothy Kam-tim Chan*, Chan Pak Cheung*, Burton Chi-shan Cheng*, Cheng Ming Ho*, Cheng Shan-chung, Chiou Yi-jen*, Edward Kawah Chu, Fung Kwok-sing, Jerome Chee-keong Goh*, Ronan Ambrose Guilfoyle, Frank Shui Sang Jin, Jason Chin-keung Law*, Matthew Wai-hung Law*, Ricky Kai-tai Lee, Philip She-hoi Lee*, Li Yiu Ki*, Viene Oi-na Ko*, David Sek-chi Kwok*, Brenda Fen Lee*, Joysse Yuk-ling Mo*, Michael Murray Pierce, Riggs Kwok-ching Tam*, Tan Boon Yeow, Wendy Li-chien Weng*, Amanda Lai-yun Yiu*, Hung-ching Yung*, Lincoln Chu Kuen Yung*

Body Corporation

Right Honour Investments Limited*, Shanghai Commercial Bank Limited*

Directors' interests

At no time during the year was the Bank, its subsidiaries, its fellow subsidiaries or its holding companies was party to any arrangement to enable the Directors and Chief Executive of the Bank (including their spouse and children under 18 years of age) to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Bank or its associated corporation.

Directors' material interests in transactions, arrangements or contracts

No transactions, arrangements or contracts of significance in relation to the Group's business to which the Bank, its subsidiaries, its fellow subsidiaries or its holding companies was a party and in which a Director of the Bank had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Permitted indemnity

Pursuant to Article 183 of the Bank's Articles of Association, subject to the statutes, every Director shall be entitled to be indemnified out of the assets of the Bank against all losses and liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto. The Bank has also maintained insurance coverage for its Directors and officers.

Management contracts

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

Financial disclosures

The Bank has followed the disclosure requirements set out in the 'Banking (Disclosure) Rules' and the 'Guideline on the Application of the Banking (Disclosure) Rules' under the Supervisory Policy Manual issued by the HKMA. The Bank has complied with the capital requirements related to capital base and capital adequacy ratio stipulated by the HKMA.

Compliance with the Corporate Governance Code

The Directors of the Bank acknowledge their responsibility for preparing the consolidated financial statements that give a true and fair view of the state of affairs of the Bank and the Group in accordance with the statutory requirements and applicable accounting standards. According to Article 123 of the Bank's Articles of Association, the Bank adopts the guidelines set out in the Code of Best Practice contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the 'Code'). After taking into consideration the individual circumstances of the Bank, which is a private company, the Board of Directors of the Bank has adopted those provisions in the Code on Corporate Governance Practices that are relevant to the Bank.

Auditor

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

On behalf of the Board
Lincoln Chu Kuen Yung
Chairman

Hong Kong, 15th March 2016

Shanghai Commercial Bank Limited (the 'Bank') and its subsidiaries (together, the 'Group') are committed to promoting good corporate governance to safeguard the interests of the shareholders, depositors and other relevant stakeholders. This Corporate Governance Report is prepared with reference to the Corporate Governance Code and Corporate Governance Report (the 'Code') as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Ltd. The Board of Directors (the 'Board') of the Bank, after taking into consideration the particular circumstances of the Bank, as a private company, has adopted those provisions in the Code that are relevant to the Bank.

The Bank has also complied with Supervisory Policy Manual CG-1 on Corporate Governance of Locally Incorporated Authorized Institutions issued by the Hong Kong Monetary Authority ('HKMA').

Board of Directors

The Board is responsible for the operations and the financial soundness of the Bank and all Directors have acted bona fide in the interest of the Bank, and on an informed and prudent basis, in accordance with applicable laws, regulations and supervisory standards. The written Terms of Reference of the Board clearly state that such duties vest in the Board as per relevant sections in the Articles of Association of the Bank, and the Board should adhere to the standards set out in the Code, and to follow the guidelines as may from time to time be issued by the HKMA. The Board has established specialized committees of the Board and delegated specific powers of the Board to these committees for the supervision of major functional areas.

The Board comprises thirteen Directors, namely eight Non-executive Directors, one Executive Director and four Independent Non-executive Directors. Pursuant to the Articles of Association of the Bank, all new Directors appointed by the Board are subject to election by shareholders of the Bank at the next following annual general meeting after their appointments have become effective. Further, one-third of the Directors (excluding the Executive Director holding the office as Chief Executive) being longest in the office since their last election shall retire and are eligible for re-election for a term of not more than approximately three years at each annual general meeting of the Bank.

The Directors are accountable for ensuring that the operations and functions are discharged by the management in a prudent, professional and competent manner. The Board meets regularly to review and approve objectives, strategies, business plans and annual budgets and to review the actual performance against these plans and budgets, material investments in new projects, policies, procedures and controls to manage various types of business and operational risks. All Directors have unfettered access to board papers and related materials which are provided in a timely manner. The Company Secretary keeps the minutes of Board meetings.

The Bank has maintained insurance coverage for its Directors and officers.

Five physical board meetings were held in 2015. Attendance of individual Directors is listed below:

Non-executive Directors	Attendance
Mr. Lincoln Chu Kuen Yung – Chairman of the Board	5/5
Mr. Hung-ching Yung	5/5
Mr. Stephen Ching Yen Lee	5/5
Mr. Chen Yih Pin (Mr. John Con-sing Yung, Alternate)	4/5
	(Note 1)
Madam Ning Li Ming (Mr. Ye Jun, Alternate), resigned on 15th September 2015	1/3
	(Note 2)
Mr. Richard Jason Lloyd Yorke (Mr. Chang Hwa Ping, Alternate with effect from 26th March 2015)	2/5
Mr. Fan Yifei (Mr. Li Jian Guo, Alternate), resigned on 20th January 2016	4/5
	(Note 3)
Mr. John Van Antwerp Rindlaub (Mr. Ignatius Wooi-kean Choong, Alternate)	5/5
Madam Dai Lanfang (Mr. Ye Jun, Alternate), appointed on 15th September 2015	2/2
Mr. Jin Yu, appointed on 20th January 2016	N/A

Board of Directors (Continued)

Executive Directors	Attendance
Mr. David Sek-chi Kwok – Managing Director & Chief Executive	5/5
Mr. Edward Kawah Chu, resigned on 1st July 2015	2/2
Independent Non-executive Directors	
Dr. Richard Lee	4/5
Mr. Johnson Mou Daid Cha (Dr. Lam Chat Yu, Alternate)	5/5
Mr. Gordon Che Keung Kwong	5/5
Mr. Sunny Yiu Tong Cheung, resigned on 1st January 2016	4/5
Mr. E. Michael Fung, appointed on 30th December 2015	N/A

The Board has not adopted Code provision A.6.6 in relation to the Directors' disclosure of the number and nature of offices they held in public companies or organizations and other significant commitments, as well as the time involved as it is considered not applicable to the Bank for the time being but the matter would be evaluated whenever necessary.

Notes

1. *The alternate director to Mr. Chen Yih Pin attended two Board Meetings.*
2. *The alternate director to Madam Ning Li Ming attended one Board Meeting.*
3. *The alternate director to Mr. Fan Yifei attended four Board Meetings.*

Directors' induction and continuous professional development

A newly appointed Director receives an information package from the Company Secretary to provide him or her with the scope of duties and obligations to be observed by a Director. Further, to enable the Directors have proper understanding of the Bank's operation and business as well as their responsibilities under applicable laws and regulations, and briefings covering the corporate structure and profile, board composition, senior management profile and summary of regulatory and compliance updates will be provided as necessary. The Directors of the Bank had participated in professional training during the year and given to the Company Secretary a record of the training they received in 2015.

Executive Committee

The Bank has established an Executive Committee with specific written Terms of Reference which deals clearly with its authority and duties to operate as a general management committee under the direct authority of the Board to review the management and performance of the Bank. The Executive Committee consists of one Executive Director, and three Non-executive Directors who are all representatives from each of the three substantial shareholders.

A total of twelve monthly meetings were held in 2015. Attendance of individual Directors is listed below:

	Attendance
Mr. David Sek-chi Kwok – Chairman	12/12
Mr. Hung-ching Yung	12/12
Madam Ning Li Ming (Mr. Ye Jun, Alternate), resigned on 15th September 2015	3/8 *(Note 1)*
Mr. John Van Antwerp Rindlaub (Mr. Ignatius Wooi-kean Choong, Alternate)	12/12 *(Note 2)*
Madam Dai Lanfang (Mr. Ye Jun, Alternate), appointed on 15th September 2015	4/4
Mr. Edward Kawah Chu, resigned on 1st July 2015	6/6

Notes

1. *The alternate director to Madam Ning Li Ming attended two Executive Committee Meetings, one of which by means of telephone conference.*
2. *The alternate director to Mr. John Van Antwerp Rindlaub attended four Executive Committee Meetings, one of which by means of telephone conference.*

Audit Committee

The Bank has established an Audit Committee with specific written Terms of Reference which deals clearly with its delegated authority and duties to consider the nature and scope of audit reviews, as well as to review the Bank's financial statements, the findings of both internal and external auditors and the effectiveness of the internal control systems of the Bank. The Audit Committee consists of one Non-executive Director and two Independent Non-executive Directors, of which the Chairman possesses the appropriate accounting qualifications or related financial management expertise.

The Audit Committee met four times in 2015. Attendance of individual Directors is listed below:

	Attendance
Mr. Gordon Che Keung Kwong – Chairman	4/4
Mr. Lincoln Chu Kuen Yung	3/4
Dr. Richard Lee	4/4

Remuneration Committee

The Bank has established a Remuneration Committee with specific written Terms of Reference which deals clearly with its delegated authority and duties to oversee the implementation of a sound remuneration policy including the recommendations to the Board on the remuneration of the Directors and senior management of the Bank. In doing so, independent professional advice may be sought if considered necessary. No Director or any of his/her associates is involved in deciding his/her own remuneration. The Remuneration Committee consists of one Non-executive Director and two Independent Non-executive Directors.

The Remuneration Committee met twice in 2015. Attendance of individual Directors is listed below:

	Attendance
Mr. Hung-ching Yung – Chairman	2/2
Dr. Richard Lee	2/2
Mr. Johnson Mou Daid Cha (Dr. Lam Chat Yu, Alternate)	2/2

The Board has not adopted Code provision B.1.5 in relation to disclosure of details of any remuneration payable to members of the senior management by band in the Bank's annual reports as it is considered not appropriate to the Bank for the time being but the matter would be evaluated whenever necessary.

Nomination Committee

The Bank has established a Nomination Committee with specific written Terms of Reference which deals clearly with its delegated authority and duties to review the structure, size, composition of the Board, to identify, consider and select individuals qualified for recommendations to the Board for their appointments, re-appointment and succession planning as Directors and senior management in order to complement the Bank's business strategies. The Nomination Committee consists of one Non-executive Director and two Independent Non-executive Directors.

The Nomination Committee met three times in 2015. Attendance of individual Directors is listed below:

	Attendance
Mr. Lincoln Chu Kuen Yung – Chairman	3/3
Dr. Richard Lee	3/3
Mr. Johnson Mou Daid Cha (Dr. Lam Chat Yu, Alternate)	3/3

Risk Management Committee

The Bank has established a Risk Management Committee with specific written Terms of Reference which deals clearly with its delegated authority and duties to oversee the various aspects of risk management, to review and make recommendations to the Board on the risk management strategies as well as the risk tolerance and risk appetite of the Bank. The Risk Management Committee consists of one Non-executive Director and three Independent Non-executive Directors.

The Risk Management Committee met four times in 2015. Attendance of individual Directors is listed below:

	Attendance
Mr. Lincoln Chu Kuen Yung – Chairman	4/4
Mr. Johnson Mou Daid Cha (Dr. Lam Chat Yu, Alternate)	4/4
Mr. Gordon Che Keung Kwong	3/4
Mr. Sunny Yiu Tong Cheung, resigned on 1st January 2016	4/4
Mr. E. Michael Fung, appointed with effect from 22nd January 2016	N/A

Delegation by the Board

In addition to the Executive Committee, Audit Committee, Remuneration Committee, Nomination Committee and Risk Management Committee as described above, the Board has also established the following key specialized committees, each of which has specific written Terms of Reference in order to ensure that they discharge their functions properly and their meeting minutes are sent to all members of the Board for review.

Information on these committees is set out below:

(a) Asset and Liability Committee
The Asset and Liability Committee meets at least monthly to oversee the Bank's operations relating to interest rate risk, liquidity risk, foreign exchange risk and etc. and in particular to ensure that the Bank has adequate funds to meet its obligations. The members of the Asset and Liability Committee are Mr. David Sek-chi Kwok (Chairman), Mr. Nai-pan Tang, Mr. Burton Chi-shan Cheng, Mr. Danny Kong-keung Tsang, Mr. Edmund Kin-sang Lai, Ms. Annie Yuen-lin Ma, Mr. Ricky Chi-wai Chan, Mr. Mong-ting Chong, Mr. Francis Yue-cheong Wong, Ms. Wendy Li-chien Weng, Ms. Blanche Oi-hung Chan, Mr. Jerome Chee-keong Goh, and Mr. Steve Wai-fan Tong.

(b) Credit Committee
The Credit Committee meets at least monthly to ensure that the Bank's credit policies are adequate and lending activities are conducted in accordance with established policies and relevant laws and regulations. The Credit Committee is responsible for establishing credit policies, monitoring loan portfolio quality, ensuring compliance with statutory and internal lending limits, evaluating credit applications, making credit decisions and etc. The members of the Credit Committee are Mr. David Sek-chi Kwok (Chairman), Mr. Nai-pan Tang, Mr. Burton Chi-shan Cheng, Mr. Edmund Kin-sang Lai, Ms. Annie Yuen-lin Ma, Mr. Ricky Chi-wai Chan, Mr. Mong-ting Chong, Mr. Steve Wai-fan Tong, Mr. Daniel Kwok-chung Cheung and Mr. Sau-man Hui.

(c) Operational Risk Management Committee
The Operational Risk Management Committee meets at least bi-monthly to establish and to review operational risk management policies, processes and procedures for managing operational risk in all of the Bank's material products, activities, processes and systems. The Operational Risk Management Committee is also responsible for overseeing the identification, assessment, monitoring and control of operational risk exposures. The members of the Operational Risk Management Committee are Mr. David Sek-chi Kwok (Chairman), Mr. Nai-pan Tang, Mr. Burton Chi-shan Cheng, Mr. Danny Kong-keung Tsang, Mr. Edmund Kin-sang Lai, Ms. Annie Yuen-lin Ma, Mr. Ricky Chi-wai Chan, Mr. Mong-ting Chong, Mr. Michael Yiu-wing Fung, Mr. Francis Yue-cheong Wong, Ms. Blanche Oi-hung Chan, Mr. Jerome Chee-keong Goh, and Mr. Steve Wai-fan Tong.

Directors' Responsibility Statement

The Directors acknowledge their responsibility for preparing the financial statements of the Group in accordance with statutory requirements and applicable accounting standards. The Group's annual and interim results are reviewed by the Audit Committee and announced in a timely manner. As at 31st December 2015, the Directors were not aware of any material uncertainties relating to events which may cast significant doubt upon the Group's ability to continue as a going concern. Accordingly, the Group's financial statements have been prepared on a going concern basis.

Risk Management and Internal Controls

The Board is responsible for risk management and internal control systems and reviewing their effectiveness to achieve business objectives, safeguard shareholders' interests and the Group's assets.

Well-established organizational structure and comprehensive policies and procedures are in place to ensure effective checks and balances. Policies and procedures are designated for managing the risk of not achieving business objectives; for safeguarding assets against unauthorized use or disposition; for maintaining proper account records; and for ensuring the reliability of financial information used within the business or for publication. The procedures provide reasonable but not absolute assurance against material errors, losses or fraud. Procedures have also been designed to ensure compliance with applicable laws, rules and regulations.

The Group has set up specialized committees and specified departments that are responsible for identifying, assessing and managing key risks facing the Bank including credit risk, market risk, liquidity risk, operational risk, interest rate risk, strategic risk, legal and compliance risk and reputation risk through implementing appropriate policies and procedures. Periodic reports on risk exposure and risk management activities are submitted to the Executive Committee and Risk Management Committee through the Asset and Liability Committee and Operational Risk Management Committee, and ultimately to the Board for monitoring of the risk management and internal control systems. The Group's risk management strategies, risk tolerance and risk appetite are reviewed by the Risk Management Committee and approved by the Board.

The Board oversees the Group's risk management and internal control systems particularly financial, operational and compliance controls on an ongoing basis. During the year 2015, no major issue but areas for improvement have been identified and appropriate measures taken. The Audit Committee reviews the external auditor's reports in connection with the annual audit and recommendations on internal control. The Board has reviewed and considers the Bank has maintained effective risk management and internal control systems.

Whistleblowing Policy has been established for employees to raise their genuine concerns in good faith about malpractice, impropriety, misconduct or unethical activity that they are aware of which could compromise the interests of the customers, staff, shareholders, the public and/or the Group's image and reputation. The Group treats all information received confidentially and protects the identity and the interests of all whistle-blowers.

Internal Audit

The Internal Audit Function plays an important role in reinforcing the "Three lines of Defence" risk management structure of the Bank. As the third line of defence, the Internal Audit Function provides independent assurance to the Audit Committee and the Board as to whether the internal control system of the Group is adequate and effective. The Chief Auditor of the Bank who leads a team of professional expertise reports directly to the Audit Committee.

Pursuant to a risk-based approach, the Internal Audit Function sets its internal audit plan annually based on risk assessment methodology which assists in prioritizing audit resources and focusing on higher risk areas. The results of reviews are reported to the Audit Committee. The Internal Audit Function also verifies the implementation effectiveness of the recommendations on internal controls made by external auditors and regulatory bodies.

External Auditor

The Group's external auditor is PricewaterhouseCoopers. The Audit Committee is primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor. Also, the Audit Committee regularly reviews and monitors the independence and objectivity as well as the effectiveness of the audit process of the external auditor. In addition, the Board as recommended by the Audit Committee will propose that PricewaterhouseCoopers be re-appointed as auditor of the Group at the Bank's 2016 annual general meeting. Subject to shareholders' authorization, the remuneration and terms of engagement of the external auditor will be reviewed by the Audit Committee and for the approval of the Board.

For the year ended 31st December 2015, fees payable to the external auditor of the Group amounted to HK$12,136,000, of which HK$6,476,000 (2014: HK$7,129,000) was for general audit and HK$5,660,000 (2014: HK$5,508,000) was for non-statutory audit along with other services mainly covering tax service fees, computer system audit fees and professional fees for independent assessments on ad hoc projects.

Company Secretary

The Company Secretary ensures that Board procedures are being followed and is responsible for advising the Board on governance matters and facilitating the induction and professional development of Directors.

Directors' securities transactions

The Board of Directors has not adopted provision A.6.4 of the Code in relation to the setting up of written guidelines for Directors and relevant employees in respect of their dealings in the Bank's securities as the Bank's shares are not publicly listed.

Shareholders' Rights and Investor Relations

As the Bank is a private company comprising four shareholders, the Board considers it is not applicable for the time being to adopt Code provision E.1.4 in relation to the setting up of shareholders' communication policy but the matter would be evaluated whenever necessary. The Chairman of the Board is committed to maintaining a constant communication with the shareholders in order to ensure they have fair and timely access to the Bank's information. The Bank through its website (www.shacombank.com.hk) provides shareholders and stakeholders timely access and continuous disclosure of the Bank's announcements, regulatory disclosures, annual/interim reports and press releases. Press conference is held to disseminate half-yearly and annual financial results of the Bank to the media.

Hong Kong, 15th March 2016

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SHANGHAI COMMERCIAL BANK LIMITED

(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Shanghai Commercial Bank Limited (the 'Bank') and its subsidiaries (together, the 'Group') set out on pages 36 to 123, which comprise the consolidated statement of financial position as at 31st December 2015, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

Opinion

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 15th March 2016

CONSOLIDATED INCOME STATEMENT

(All amounts in HK dollar thousands unless otherwise stated)

	Note	Year ended 31st December 2015	2014
Interest income	6	3,686,787	3,667,258
Interest expense	6	(1,205,669)	(1,149,648)
Net interest income		2,481,118	2,517,610
Fee and commission income	7	802,184	725,787
Fee and commission expense	7	(40,531)	(37,632)
Net fee and commission income		761,653	688,155
Dividend income	8	51,646	41,713
Net trading income	9	138,929	111,797
Net losses from disposal of equipment		(96)	(757)
Net gains from disposal of available-for-sale investments		94,238	46,961
Other operating income	10	72,010	71,007
Net earned insurance premium	11	47,185	45,736
Net insurance claims incurred and movement in policyholders' liabilities	11	(18,821)	(24,942)
Operating expenses	12	(1,277,342)	(1,181,676)
Charge of impairment losses on loans and advances to customers	14	(4,820)	(13,297)
Operating profit		2,345,700	2,302,307
Share of net profits of joint ventures		35,141	40,944
Profit before income tax		2,380,841	2,343,251
Income tax expense	15	(478,506)	(443,212)
Profit for the year		1,902,335	1,900,039
Attributable to:			
Equity holders of the Bank		1,898,585	1,896,373
Non-controlling interests		3,750	3,666
		1,902,335	1,900,039

The notes on pages 43 to 123 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in HK dollar thousands unless otherwise stated)

	Note	Year ended 31st December 2015	2014
Profit for the year		**1,902,335**	1,900,039
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		**(97,451)**	(27,914)
Net gains/ (losses) on available-for-sale investments			
Fair value changes on available-for-sale investments taken to equity		**110,196**	348,842
Exchange differences on translation of available-for-sale investments		**(13,516)**	(279)
Fair value changes transferred to income statement on disposal of available-for-sale investments		**(94,238)**	(46,961)
Deferred income tax	31	**4**	(50,172)
Share of reserves of joint ventures	33	**30,141**	1,748
Other comprehensive (loss)/ income for the year		**(64,864)**	225,264
Total comprehensive income for the year		**1,837,471**	2,125,303
Attributable to:			
Equity holders of the Bank		**1,833,305**	2,121,454
Non-controlling interests		**4,166**	3,849
		1,837,471	2,125,303

The notes on pages 43 to 123 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(All amounts in HK dollar thousands unless otherwise stated)

	Note	As at 31st December 2015	2014
ASSETS			
Cash and balances with banks	17	**34,840,728**	29,103,861
Placements with and loans and advances to banks	18	**14,268,484**	23,720,240
Loans and advances to customers	19	**64,100,702**	67,168,827
Financial assets held for trading	20	**432,655**	420,760
Derivative financial instruments	21	**224,712**	102,243
Available-for-sale investments	22	**38,557,109**	25,273,309
Held-to-maturity investments	23	**2,508,464**	2,465,840
Investments in joint ventures	24B	**304,440**	259,628
Properties and equipment	25	**2,637,660**	2,657,913
Investment properties	26	**995,610**	5,178
Deferred income tax assets	31	**47,571**	44,120
Other assets	27	**695,147**	1,246,594
TOTAL ASSETS		**159,613,282**	152,468,513
LIABILITIES			
Deposits and balances from banks		**5,988,205**	7,318,807
Deposits from customers	28	**129,204,911**	121,393,482
Derivative financial instruments	21	**226,614**	82,527
Other liabilities	29	**1,072,347**	1,453,624
Provisions	30	**96,049**	95,132
Current income tax liabilities		**92,263**	92,199
Deferred income tax liabilities	31	**292,254**	289,174
TOTAL LIABILITIES		**136,972,643**	130,724,945
EQUITY			
CAPITAL AND RESERVES ATTRIBUTABLE TO THE EQUITY HOLDERS			
Share capital	32	**2,000,000**	2,000,000
Retained earnings		**11,003,984**	10,058,664
Reserves	33	**9,568,495**	9,620,510
		22,572,479	21,679,174
Non-controlling interests in equity		**68,160**	64,394
TOTAL EQUITY		**22,640,639**	21,743,568
TOTAL EQUITY AND LIABILITIES		**159,613,282**	152,468,513

Approved and authorised for issue by the Board of Directors on 15th March 2016.

Lincoln Chu Kuen Yung
Chairman

Hung-ching Yung
Director

Gordon Che Keung Kwong
Director

David Sek-chi Kwok
Managing Director & Chief Executive

The notes on pages 43 to 123 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts in HK dollar thousands unless otherwise stated)

	Note	Attributable to equity holders			Non-controlling interests	Total equity
		Share capital	Reserves	Retained earnings (including proposed dividends)		
As at 1st January 2014		2,000,000	9,192,221	9,245,499	64,262	20,501,982
Profit for the year		–	–	1,896,373	3,666	1,900,039
Other comprehensive income						
Fair value gains, net of tax:						
– available-for-sale investments	33	–	298,487	–	183	298,670
Currency translation differences	33	–	(24,985)	(3,208)	–	(28,193)
Share of reserve of joint ventures	33	–	1,748	–	–	1,748
Realised on disposal of available-for-sale investments	33	–	(46,961)	–	–	(46,961)
Total other comprehensive income/ (loss)		–	228,289	(3,208)	183	225,264
Acquisition of interests from non-controlling interests		–	–	–	(3,317)	(3,317)
Transfer from retained earnings	33	–	200,000	(200,000)	–	–
Payment of dividend relating to 2013		–	–	(880,000)	(400)	(880,400)
As at 31st December 2014		2,000,000	9,620,510	10,058,664	64,394	21,743,568

	Note	Attributable to equity holders			Non-controlling interests	Total equity
		Share capital	Reserves	Retained earnings (including proposed dividends)		
As at 1st January 2015		**2,000,000**	**9,620,510**	**10,058,664**	**64,394**	**21,743,568**
Profit for the year		–	–	1,898,585	3,750	1,902,335
Other comprehensive income						
Fair value gains, net of tax:						
– available-for-sale investments	33	–	109,784	–	416	110,200
Currency translation differences	33	–	(97,702)	(13,265)	–	(110,967)
Share of reserves of joint ventures	33	–	30,141	–	–	30,141
Realised on disposal of available-for-sale investments	33	–	(94,238)	–	–	(94,238)
Total other comprehensive income/ (loss)		–	(52,015)	(13,265)	416	(64,864)
Payment of dividend relating to 2014		–	–	(940,000)	(400)	(940,400)
As at 31st December 2015		**2,000,000**	**9,568,495**	**11,003,984**	**68,160**	**22,640,639**

	Year ended 31st December	
	2015	2014
Proposed dividend included in retained earnings	**940,000**	940,000

The notes on pages 43 to 123 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(All amounts in HK dollar thousands unless otherwise stated)

	Year ended 31st December	
	2015	2014
Cash flows from operating activities		
Profit before income tax	2,380,841	2,343,251
Share of net profits of joint ventures	(35,141)	(40,944)
Charge of impairment losses on loans and advances to customers	4,820	13,297
Depreciation expenses	75,837	53,915
Net losses from disposal of equipment	96	757
Net gains from disposal of available-for-sale investments	(94,238)	(46,961)
Amortisation of held-to-maturity and available-for-sale investments	33,213	44,392
Interest income on held-to-maturity and available-for-sale investments	(806,960)	(663,454)
Dividend income	(51,646)	(41,713)
Hong Kong profits tax paid	(280,274)	(244,977)
Overseas tax paid	(198,629)	(146,034)
Cash flows from operating activities before changes in operating assets and liabilities	1,027,919	1,271,529
Changes in operating assets and liabilities:		
– Net (increase)/decrease in cash and balances with banks with original maturity beyond three months	(745,173)	723,299
– Net decrease/(increase) in placements with and loans and advances to banks with original maturity beyond three months	9,718,613	(3,326,853)
– Net increase in financial assets held for trading	(11,895)	(51,878)
– Net decrease/(increase) in derivative financial instruments	21,618	(8,036)
– Net decrease/(increase) in loans and advances to customers	3,065,092	(5,087,909)
– Net decrease/(increase) in other assets	350,831	(228,937)
– Net (decrease)/increase in deposits and balances from banks	(1,330,602)	210,009
– Net increase in deposits from customers	7,811,429	7,752,289
– Net (decrease)/increase in other liabilities and provisions	(380,386)	173,222
Net cash flows from operating activities	19,527,446	1,426,735

	Note	Year ended 31st December 2015	2014
Cash flows from investing activities			
Acquisition of interests from non-controlling interests		–	(3,317)
Acquisition of subsidiaries		(722,560)	–
Interest received on held-to-maturity and available-for-sale investments		682,738	683,289
Dividends received on available-for-sale investments		50,351	41,049
Dividends received from joint ventures		20,470	17,520
Purchases of properties and equipment		(326,918)	(202,771)
Purchases of investment properties		–	(380)
Proceeds from sale of equipment		48	149
Purchases of available-for-sale investments		(22,243,448)	(7,079,743)
Purchases of held-to-maturity investments		(800,494)	(619,848)
Proceeds from sale and redemption of available-for-sale investments		8,547,015	7,276,259
Proceeds from redemption of held-to-maturity investments		748,017	629,122
Net cash flows from investing activities		(14,044,781)	741,329
Cash flows from financing activities			
Dividend paid to equity holders		(940,000)	(880,000)
Dividend paid to non-controlling interests		(400)	(400)
Net cash flows from financing activities		(940,400)	(880,400)
Net increase in cash and cash equivalents		4,542,265	1,287,664
Cash and cash equivalents at beginning of the year		29,404,515	27,847,084
Effect of exchange rate changes on cash and cash equivalents		716,286	269,767
Cash and cash equivalents at end of the year	34	34,663,066	29,404,515
Cash flows from operating activities and investing activities included:			
Interest received		3,654,623	3,576,624
Interest paid		(1,254,394)	(1,101,883)

The notes on pages 43 to 123 are an integral part of these consolidated financial statements.

1 GENERAL INFORMATION

Shanghai Commercial Bank Limited (the 'Bank') and its subsidiaries (together, the 'Group') are engaged in the provision of banking and related financial services in Hong Kong, United States, United Kingdom and the People's Republic of China.

The Bank is a financial institution incorporated in Hong Kong. The address of its registered office is 35/F., Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong.

The ultimate holding company is The Shanghai Commercial & Savings Bank, Ltd., which is incorporated in the Republic of China (Taiwan).

These consolidated financial statements are presented in thousands of units of Hong Kong Dollars (HK$'000), unless otherwise stated. These consolidated financial statements were approved for issue by the Board of Directors on 15th March 2016.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, except for the change in the method of providing depreciation on furniture, fittings and equipment as mentioned in Note 2.8.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ('HKFRSs') issued by the Hong Kong Institute of Certified Public Accountants ('HKICPA'). The consolidated financial statements of the Group have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale investments, financial assets designated at fair value, financial assets held for trading and derivative financial instruments at fair value.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

(a) The following standards, amendments and interpretations which became effective in 2015, are relevant to the Group:

Amendments to HKAS 19 'Defined benefit plans: Employee contributions'
Amendments to HKAS 19 'Defined benefit plans: Employee contributions' are effective for the accounting period beginning on or after 1st July 2014. The amendments introduce a relief that reduces the complexity and burden of accounting for certain contributions from employees or third parties. When contributions are eligible for the practical expedient, an entity is permitted to recognise them as a reduction of the service cost in the period in which the related service is rendered. The amendments do not have significant impact on the Group's financial statements as the financial impact of the defined benefit plan operated by the Group is not material.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

(a) The following standards, amendments and interpretations, which became effective in 2015, are relevant to the Group: (Continued)

Annual improvements to HKFRSs

Annual improvements to HKFRSs contain numerous amendments to HKFRSs which the HKICPA considers not urgent but necessary. They comprise amendments that result in accounting changes for presentation, recognition or measurement purpose as well as terminology or editorial amendments related to a variety of individual HKFRSs. The adoption of these improvements does not have a material impact on the Group's financial statements.

In addition, the requirements of Part 9, 'Accounts and Audit', of the new Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

(b) Amendments, new standards and interpretations issued but not yet effective for the year ended 31st December 2015

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

	Effective for accounting periods beginning on or after
Annual improvements to HKFRSs 2012-2014 cycle	1st January 2016
Amendments to HKAS 1 'Disclosure initiative'	1st January 2016
Amendments to HKFRS 11 'Accounting for acquisitions of interests in joint operations'	1st January 2016
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 'Investment entities: applying the consolidation exception'	1st January 2016
HKFRS 15 'Revenue from contracts with customers'	1st January 2018
HKFRS 9 'Financial instruments'	1st January 2018

The Group is considering the financial impacts of the amendments and standards and the timing of its application. So far it has concluded that the adoption of these standards is unlikely to have a significant impact on the consolidated financial statements except for the following:

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (Continued)

(b) Amendments, new standards and interpretations issued but not yet effective for the year ended 31st December 2015 (Continued)

HKFRS 9 'Financial instruments'

HKFRS 9 'Financial instruments' is effective for the accounting period beginning on or after 1st January 2018. The standard addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of HKFRS 9 was issued in September 2014. It replaces the guidance in HKAS 39 that relates to the classification and measurement of financial instruments. HKFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. There is a new expected losses model that replaces the incurred loss measurement model used in HKAS 39. For financial liabilities, the standard retains most of the HKAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. Amendments to HKFRS 9 also bring into effect a substantial overhaul of hedge accounting models. The Group is in the process of assessing the impact of HKFRS 9 to the financial statements.

HKFRS 15 'Revenue from contracts with customers'

HKFRS 15 'Revenue from contracts with customers' is effective for the accounting period beginning on or after 1st January 2018. The standard contains a single model that applies to contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. However, it does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other HKFRSs. The Standard will replace HKAS 11 'Construction contracts', HKAS 18 'Revenue', HK(IFRIC) Int-13 'Customer loyalty programmes', HK(IFRIC) Int-15 'Agreement for the construction of real estate', HK(IFRIC) Int-18 'Transfer of assets from customers' and HK(SIC) Int-31 'Barter transactions involving advertising services'. All entities will be subject to extensive new disclosure requirements. The Group is in the process of assessing the financial and disclosure impact on the adoption of the HKFRS 15.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Consolidation

The consolidated financial statements include the financial statements of the Bank and all its subsidiaries made up to 31st December 2015.

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, 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. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

On entity-level financial statements, investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

(b) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

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

(c) Joint ventures

A joint venture is an arrangement whereby the Group and other parties contractually agree to share control of the arrangement and have right to the net assets of the arrangement. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in thousands of units of Hong Kong Dollars (HK$'000), which is the Bank's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions that are transactions denominated, or that require settlement, in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary items denominated in foreign currency are translated with the closing rate as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rate at the date when the fair value was determined.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at exchange rates at the reporting date of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

All foreign exchange gains and losses recognised in the income statement are presented net in the income statement within the corresponding item. Foreign exchange gains and losses on other comprehensive income items are presented in other comprehensive income within the corresponding item.

In the case of changes in the fair value of monetary assets denominated in foreign currency classified as available-for-sale, a distinction is made between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security.

Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount, except impairment, are recognised in other comprehensive income.

Translation differences on non-monetary financial instruments, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary financial instruments, such as equities classified as available-for-sale investments, are included in other comprehensive income.

(c) Group companies and overseas branches

The results and financial positions of all the Group's entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the reporting date;
- Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange differences are recognised in other comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Foreign currency translation (Continued)

(c) Group companies and overseas branches (Continued)

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, are taken to other comprehensive income. When a foreign operation is disposed of, or partially disposed of, such exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.4 Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised within 'interest income' and 'interest expense' in the income statement using the effective interest method.

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

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.5 Fee and commission income and expense

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group retained no part of the loan package for itself or retained a part at the same effective interest rate as the other participants. Commissions and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party - such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses - are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Asset management fees related to investment funds are recognised rateably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

2.6 Dividend income

Dividends are recognised in the income statement when the entity's right to receive payment is established.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Leases

(a) Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating lease (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(b) Finance lease

Leasehold land classified as finance lease commences amortisation from the time when the land interest becomes available for its intended use. Amortisation on leasehold land classified as finance lease and depreciation on those assets is calculated using the straight-line method to allocate their cost over their estimated useful lives. Interest in leasehold land is amortised on a straight-line basis over the unexpired period of the lease term.

2.8 Properties and equipment

(a) Land and bank premises

Land and buildings comprise mainly branches and offices. Leasehold land classified as finance lease and buildings are stated at historical cost, which includes expenditure that is directly attributable to the acquisition of the items, less accumulated depreciation and impairment losses. Depreciation of land and buildings is provided annually by charging a sum sufficient to write down the cost of the land and buildings systematically. The land is depreciated over the lease term. The depreciation of the buildings is based on management's appraisal of their conditions, which includes estimations of the remaining useful lives, which are not expected to exceed 40 years.

Interest in freehold land is stated at cost.

(b) Furniture, fittings and equipment

Furniture, fittings and equipment are stated at historical cost less accumulated depreciation and impairment losses. Effective 1st January 2015, the Group has changed its method of providing depreciation on furniture, fittings and equipment from 'reducing balance' method to 'straight-line' method to write off the cost of assets over their useful lives which are estimated from 4 to 10 years. The change will give a systematic basis of depreciation charge, reflecting the time pattern in which the economic benefits will be derived from the use of these assets. The impact on the change in depreciation policy for the Group for the year ended 31st December 2015 and subsequent years is not material.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

(c) Property under development

Leasehold land for property under development is stated at historical cost, less accumulated depreciation and impairment losses, and development expenditure is stated at the aggregate amount of costs incurred up to the date of completion. For depreciation of leasehold land for properties under development, please refer to Note 2.8(a) above.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.22). The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains or losses on disposals are determined by comparing proceeds and the carrying amount of the relevant assets and are recognised in the income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Investment properties

Property that is held for long-term rental yields or for capital appreciation or both is classified as investment property. Investment properties are land and office buildings. Investment properties are measured at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost of investment properties using the straight-line method over the unexpired period of the lease term for land and the shorter of the leases or 40 years for buildings.

2.10 Financial assets

2.10.1 Classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and financial assets designated at fair value through profit or loss upon initial recognition.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of recent actual pattern of short-term profit-making. Derivatives are also categorised as held for trading unless they are designated as hedging instruments. Financial assets held for trading consist of debt instruments, including money-market paper, traded corporate and bank loans, and equity instruments, as well as financial assets with embedded derivatives. They are recognised in the statement of financial position as 'Financial assets held for trading'.

Financial instruments included in this category are recognised initially at fair value; transaction costs are taken directly to the income statement. Gains and losses arising from changes in fair value are included directly in the income statement and are reported as 'Net trading income'. Interest income and expense and dividend income on financial assets held for trading are included in 'Net trading income'. The instruments are derecognised when the rights to receive cash flows have expired or the Group has transferred substantially all the risks and rewards of ownership and the transfer qualifies for derecognition.

The Group designates certain financial assets upon initial recognition as at fair value through profit or loss (fair value option). This designation cannot subsequently be changed. According to HKAS 39, the fair value option is only applied when the following conditions are met:

(i) the application on the fair value option reduces or eliminates an accounting mismatch that would otherwise arise; or

(ii) the financial assets are part of a portfolio of financial instruments which is risk managed and reported to senior management on a fair value basis; or

(iii) the financial assets consist of debt hosts and embedded derivatives that must be separated.

Financial assets for which the fair value option is applied are recognised in the statement of financial position as 'Financial assets designated at fair value'. Fair value changes relating to financial assets designated at fair value through profit or loss are recognised in 'Net income from financial instruments designated at fair value through profit or loss'.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Financial assets (Continued)

2.10.1 Classification (Continued)

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (i) those that the entity intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; (ii) those that the entity upon initial recognition designates as available-for-sale; or (iii) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables are initially recognised at fair value which is the cash given originally to purchase the loan including any transaction costs and measured subsequently at amortised cost using the effective interest rate method. Loans and receivables are reported in the statement of financial position as placements with and loans and advances to banks or customers. Interest on loans is included in the income statement and is reported as interest income. In the case of an impairment, it is reported as a deduction from the carrying value of the loans and advances to banks or customers and recognised in the income statement as impairment losses on loans and advances to banks or customers, as appropriate.

(c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity, other than:

(i) those that the Group upon initial recognition designates as at fair value through profit or loss;

(ii) those that the Group designates as available-for-sale investments; and

(iii) those that meet the definition of loans and receivables.

They are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method. They are derecognised when the rights to receive cash flows have expired.

Interest on held-to-maturity investments is included in the income statement and is reported as interest income. In the case of an impairment, it has been reported as a deduction from the carrying value of the investment and recognised in the income statement as impairment charges on held-to-maturity investments.

(d) Available-for-sale investments

Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. Available-for-sale investments consist mainly of debt and equity investments.

Available-for-sale investments are initially recognised at fair value which is the cash given including any transaction costs and measured subsequently at fair value with gains and losses been recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial assets are derecognised. If an available-for-sale investment is determined to be impaired the cumulative gain or loss previously recognised in the statement of comprehensive income is recognised in the income statement. However, interest calculated using the effective interest method on monetary assets classified as available-for-sale investments is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement as 'Dividend income' when the Group's right to receive payment is established.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Financial assets (Continued)

2.10.2 Reclassification of financial assets

The Group may choose to reclassify a non-derivative trading financial asset out of the held for trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading or available-for-sale investments categories if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity investments categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

On reclassification of a financial asset out of the 'at fair value through profit or loss' category all embedded derivatives are re-assessed and, if necessary, separately accounted for.

2.10.3 Recognition and measurement

Regular-way purchases and sales of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

Available-for-sale investments and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. They are presented within 'net trading income' (for financial assets that are held for trading), and within 'net income from financial instruments designated at fair value through profit or loss' (for financial assets that are designated at fair value through profit or loss). Gains and losses arising from changes in the fair value of available-for-sale investments are recognised directly in other comprehensive income, until the financial asset is derecognised or impaired. At this time the cumulative gain or loss previously recognised in the equity is recognised in the income statement.

2.11 Offsetting financial instruments

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral; and
- Downgrading below investment grade level.

The estimated period between a loss occurring and its identification is determined by management for each identified portfolio. In general, the periods used vary between 3 months and 12 months; in exceptional cases, longer periods are warranted.

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.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Impairment of financial assets (Continued)

(a) Assets carried at amortised cost (Continued)

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 in the Group. Historical loss experience is adjusted on the basis of current observable data 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 currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowances for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

(b) Assets classified as available-for-sale investments

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the group uses the criteria set out in (a) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale investments, the cumulative loss - measured as the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss on that investment previously recognised in the income statement - is removed from equity and recognised in the income statement.

Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale investments increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

2.13 Financial liabilities

Financial liabilities are classified into two categories: financial liabilities at fair value through profit or loss and other financial liabilities. All financial liabilities are classified at inception and recognised initially at fair value.

(a) Financial liabilities at fair value through profit or loss

This category has two sub-categories: financial liabilities held for trading, and those designated at fair value through profit or loss at inception.

A financial liability is classified as held for trading if it is incurred principally for the purpose of repurchasing in the short term. It is carried at fair value and any gains and losses from changes in fair value are recognised in the income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 Financial liabilities (Continued)

(a) Financial liabilities at fair value through profit or loss (Continued)

A financial liability is typically classified as fair value through profit or loss at inception if it meets the following criteria:

(i) The designation eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring the financial liabilities or recognising the gains and losses on them on different bases; or

(ii) Part of a group of financial liabilities, that are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis, are designated at fair value through profit or loss; or

(iii) Financial instruments, such as debt securities issued, containing one or more embedded derivatives significantly modify the cash flows, are designated at fair value through profit or loss.

Financial liabilities designated as at fair value through profit or loss are designated as such at inception. Financial liabilities designated at fair value through profit or loss are carried at fair value and any gains and losses from changes in fair value are recognised in the income statement.

(b) Other financial liabilities

Other financial liabilities are recognised initially at fair value net of transaction costs incurred. Other financial liabilities are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the other financial liabilities using the effective interest method.

2.14 Determination of fair value

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on major exchanges and broker quotes from Bloomberg and Reuters.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs (for example, LIBOR yield curve, FX rates, volatilities and counterparty spreads) existing at the end of each reporting period.

The Group uses widely recognised valuation models for determining fair values of non-standardised financial instruments of lower complexity, such as options or interest rate and currency swaps. For these financial instruments, inputs into models are generally market-observable.

For more complex instruments, the Group uses developed models, which are usually based on valuation methods and techniques generally recognised as standard within the industry. Valuation models are used primarily to value derivatives transacted in the over-the-counter market, unlisted debt securities (including those with embedded derivatives) and other debt instruments for which markets were or have become illiquid. Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 Determination of fair value (Continued)

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions the Group holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors including model risks, liquidity risk and counterparty risk. Based on the established fair value model governance policies, and related controls and procedures applied, management believes that these valuation techniques are necessary and appropriate to fairly state the values of financial instruments carried at fair value in the statement of financial position. Price data and parameters used in the measurement procedures applied are generally reviewed carefully and adjusted, if necessary, particularly in view of the current market developments.

In cases when the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at cost less impairment. The fair value for loans and receivables as well as liabilities to banks and customers are determined using a present value model on the basis of contractually agreed cash flows, taking into account credit quality, liquidity and costs.

The fair values of contingent liabilities and irrevocable loan commitments correspond to their carrying amounts.

2.15 Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

2.16 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the countries where the Group's entities operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted at the end of the reporting date 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 depreciation of properties and equipment, revaluation of certain financial assets and liabilities including derivative contracts, provisions for pensions and other post-retirement benefits and tax losses carried forward; and, in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base. However, the deferred income tax is not accounted for 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.16 Current and deferred income tax (Continued)

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and joint ventures, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not be reversed in the foreseeable future.

Deferred tax related to fair value re-measurement of available-for-sale investments, which are charged or credited to other comprehensive income, is also credited or charged to other comprehensive income and is subsequently recognised in the income statement together with the deferred gain or loss upon disposal.

2.17 Employee benefits

(a) Retirement benefit costs

The Group operates three retirement benefit schemes comprising of a defined contribution scheme, a Mandatory Provident Fund Scheme and a defined benefit scheme that are available to the Group's employees. However, the principal schemes that the Group contributes to are the defined contribution scheme and the Mandatory Provident Fund Scheme. The assets of the Group's Mandatory Provident Fund Scheme, the defined contribution scheme and the defined benefit scheme are held separately from those of the Group in independently administered funds.

The Group's contributions to the defined contribution scheme and the Mandatory Provident Fund Scheme are charged to the income statement.

The defined benefit scheme is funded by payments from the Group by taking recommendations of independent qualified actuaries. The defined benefit costs are assessed using the Attained Age Method and the cost of providing the benefit is charged to the income statement so as to spread the regular cost over the service lives of employees in accordance with the advice of qualified actuaries, who value the scheme once every three years.

(b) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. Employee entitlements to sick leave and maternity leave are recognised when the absences occur.

(c) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed: a termination when the entity has a detailed formal plan to terminate the employment of current employees without possibility of withdrawal or when the entity recognises costs for a restructuring that is within the scope of HKAS 37 and involves payment of termination benefits. In the case of an offer made to encourage voluntary redundancy the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the reporting date are discounted to present value.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if that party controls, jointly controls or has significant influence over the Group; is a member of the same financial reporting group, such as parents, subsidiaries and fellow subsidiaries; is an associate or a joint venture of the Group or parent reporting group; is a key management personnel of the Group or parents, or where the Group and the party are subject to common control. Related parties may be individuals or entities.

2.19 Repossessed assets

Repossessed collateral assets are recorded as 'Repossessed assets' and reported in 'Other assets' and the relevant loans are derecognised. The repossessed collateral assets are measured at the lower of carrying amount and fair value less cost to sell.

2.20 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition including cash, balances with banks, placements with and loans and advances to banks, treasury bills and certificates of deposit that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.21 Fiduciary activities

The Group commonly acts as trustees and in other fiduciary capacities, for a fee and commission income, that result in the holding or placing of assets on behalf of individuals, trusts and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group.

2.22 Impairment of investment in subsidiaries, joint ventures and non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

2.24 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with HKAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of management. The fee income earned is recognised on a straight-line basis over the life of the guarantee.

Any increase in the liability relating to guarantees is reported in the income statement within other operating expenses.

3 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the 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, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

The Group has in place policies and procedures for the identification, measurement, control and monitoring of credit, liquidity, market, interest rate, foreign exchange and operational risks. One of the major functions of the Board of Directors is to ensure that the Group establishes policies, procedures and controls to manage the various types of risk it faces. The Board of Directors has delegated its powers to the Risk Management Committee, the Executive Committee, the Asset and Liability Committee, the Credit Committee and the Operational Risk Management Committee for the supervision of major functional areas. Senior management is always watchful for changes in economic, political and market conditions in which the Group operates and the inherent risks the Group faces.

The Risk Management Division is responsible for monitoring the overall risk management of the Group's operations. Reconciliation procedures are also in place to ensure that the systems capture all necessary data. Prior to implementation of any new product or service, various analyses, testing, development and planning will be performed and its proposal will be endorsed by the Product Development Committee before submission to the management for approval. All of the above arrangements ensure that the risk management processes are operating effectively.

The Audit Department performs regular audits to ensure compliance with the policies and procedures.

3.1 Credit risk

The Group takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Group by failing to discharge an obligation. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Group's portfolio, could result in losses that are different from those provided for at the reporting date.

The Group has in place effective credit review, monitoring and control systems including an effective loan classification system that identify, monitor, and determine loan loss provisions in a timely manner. Management therefore carefully manages the exposure to credit risk.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product, industry sector and by country are approved annually by the Board of Directors.

The exposure to any one counterparty including banks and brokers is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. The Group has in place effective monitoring and control systems to identify, monitor and address problem credits in an accurate and timely manner. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees. The Group further mitigates credit risk by entering into netting arrangements with counterparties such as banks with which it undertakes credit activities.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (Continued)

3.1.1 Risk limit control and mitigation policies

(a) Collateral

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these methods is the taking of security for funds advanced, which is a common practice. The Group implements guidelines on the acceptability of specific classes of collateral for credit risk mitigation. The principal collateral types for loans and advances are:

– Mortgages over residential properties;
– Charges over business assets such as premises, inventory and accounts receivable; and
– Charges over bank deposits and financial instruments such as debt securities and equities.

In addition to the above, the Group will also seek for guarantee where appropriate. To minimise credit loss, the Group will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances which are partially secured or unsecured.

(b) Derivatives

The Group maintains strict control limits on net open derivatives positions (i.e. the difference between purchase and sale contracts), by both amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. assets where their fair values are positive), which in relation to derivatives is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Group requires margin deposits from counterparties.

(c) Credit-related commitments

The Group has issued credit related commitments including guarantees and letters of credit. These instruments carry similar credit risk as loans. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit - which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties - carry the same credit risk as loans. Documentary and commercial letters of credit - which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions - are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (Continued)

3.1.2 Impairment and provisioning policies

The Group has established effective control systems that enable the Group to identify, monitor and determine loan loss provisions in a timely manner. Policies and procedures are in place to ensure the aggregate amount of individually and collectively assessed loan loss provisions are adequate to absorb estimated credit losses in the loan portfolio. The table below shows the percentage of the Group's on-balance sheet items relating to loans and advances and the associated impairment allowances for each of the Group's internal loan classification categories:

	2015		2014	
	Loans and advances (%)	Impairment allowances (%)	Loans and advances (%)	Impairment allowances (%)
1 – pass	94.40	0.41	97.22	0.39
2 – special mention	4.82	0.28	2.30	0.41
3 – sub-standard	0.72	0.73	0.44	1.18
4 – doubtful	0.01	36.31	0.01	36.77
5 – loss	0.05	44.44	0.03	97.16
	100.00		100.00	

Grade 1 'Pass' represents loans for which borrowers are current in meeting commitments and full repayment of interest and principal is not in doubt.

Grade 2 'Special mention' represents loans with significant deficiencies and potential weakness such that if adverse conditions persist, ultimate loss for the Bank may occur.

Grade 3 'Sub-standard' represents loans in which borrowers are displaying a definable weakness that is likely to jeopardise repayment. These loans include rescheduled loans and loans where some loss of principal or interest is possible after taking into account the net realisable value of security.

Grade 4 'Doubtful' represents loans which collection in full is improbable and the Group expects to sustain a loss of interest and/or principal after taking into account the net realisable value of security.

Grade 5 'Loss' represents loans which considered as uncollectible after exhausting all collection efforts such as realisation of collateral, initiation of legal proceedings and need to be fully or partially written off.

The credit review, monitoring and control systems assist management to determine whether objective evidence of impairment exists under HKAS 39, based on the following criteria set out by the Group:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral.

The Group's policy requires the review of individual financial assets that are above materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the loss incurred at the reporting date on a case-by-case basis. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous assets that are individually below materiality thresholds; and (ii) losses that have been incurred but have not yet been identified, by using the available historical experience and management judgment.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (Continued)

3.1.3 Maximum exposure to credit risk before collateral held or other credit enhancements

	Maximum exposure	
	2015	2014
Credit risk exposures relating to on-balance sheet assets are as follows:		
Balances with central banks and Hong Kong Monetary Authority	14,859,526	8,135,720
Balances with banks	19,663,287	20,571,537
Placements with and loans and advances to banks	14,268,484	23,720,240
Loans and advances to customers	64,100,702	67,168,827
Financial assets held for trading: debt securities	365,570	214,895
Derivative financial instruments	224,712	102,243
Available-for-sale investments: debt securities	35,366,937	22,483,238
Held-to-maturity investments	2,508,464	2,465,840
Other assets	695,147	1,246,594
Credit risk exposures relating to off-balance sheet items are as follows:		
– Financial guarantees	2,239,438	2,341,440
– Off-balance sheet commitments and other credit related contingent liabilities	42,192,548	42,715,791
As at 31st December	196,484,815	191,166,365

The above table represents a worst case scenario of credit risk exposures to the Group as at 31st December 2015 and 2014, without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts. For letters of guarantee issued, the maximum exposure to credit risk is the maximum amount that the Group could be required to pay if the guarantees are called upon. For off-balance sheet commitments and other credit related contingent liabilities that are irrevocable over the life of the respective facilities or revocable in the event of a significant adverse change, the maximum exposure to credit risk is disclosed as the full amount of the committed facilities.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (Continued)

3.1.3 Maximum exposure to credit risk before collateral held or other credit enhancements (Continued)

Credit risk mitigation, collateral and other credit enhancements

The Group uses a variety of techniques to reduce the credit risk arising from its lending activities. Enforceable legal documentation establishes the Group's direct, irrevocable and unconditional recourse to any collateral, security or other credit enhancements provided.

The table below describes the nature of collateral held and their financial effect by class of financial asset:

Balances and placements with and loans and advances to banks	These exposures are generally considered to be low risk due to the nature of the counterparties. Collateral is generally not sought on these balances.
Securities lending	The Group has in place general guidelines on maximum loan to value ratio under securities lending. The loans and advances under securities lending are fully secured by the securities pledged.
Loans and advances	These exposures are secured, partially secured or unsecured depending on the type of collateral and type of facilities offered to customers. The major types of collateral taken include residential properties, other properties, bank deposits, stocks and shares and wealth management products. Recognised guarantees are also employed by the Group for credit enhancement. As at 31st December 2015, the collateral coverage of advances to customers is 87% (2014: 89%). As at 31st December 2015, 77% (2014: 90%) of the trade bills are bankers' acceptance under letters of credit.
Trading debt securities	These exposures are carried at fair value which reflects the credit risk. No collateral is sought directly from the issuer or the counterparty; however this may be implicit in the terms of the instrument.
Derivative financial instruments	Master netting agreements are typically used to enable the effects of derivative assets and liabilities with the same counterparty to be offset when measuring these exposures.
Available-for-sale debt securities	The exposures are subject to approved counterparty limit and country limit and under close monitoring in accordance with relevant policies of the Group. Impairment assessment is also conducted periodically.
Held-to-maturity debt securities	The exposures are subject to approved counterparty limit and country limit and under close monitoring in accordance with relevant policies of the Group. Impairment assessment is also conducted periodically.
Contingent liabilities and commitments	The components and nature of contingent liabilities and commitments are disclosed in Note 35. Regarding the commitments that are unconditionally cancellable without prior notice, the Group would withdraw the credit facilities extended to borrowers in case their credit quality deteriorates. Accordingly, these commitments do not expose the Group to significant credit risk.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (Continued)

3.1.4 Concentration of risks of financial assets with credit risk exposure

International claims

The following table shows the Group's international claims by major country or geographical segment, each representing not less than 10% of the Group's total international claims. International claims refer to exposures to counterparties on which the ultimate risk lies, and are derived according to the location of the counterparties after taking into account any recognised risk transfer. In general, transfer of risk from one country to another is recognised if the claims against a counterparty are guaranteed by another party in a different country or if the claims are on an overseas branch of a bank whose head office is located in a different country.

As at 31st December 2015

			Non-bank private sector		
	Banks	Official sector	Non-bank financial institutions	Non-financial private sector	Total
Developed countries	11,950,000	210,000	167,000	821,000	13,148,000
Offshore centres	6,772,000	–	982,000	13,233,000	20,987,000
– of which Hong Kong	5,805,000	–	752,000	11,558,000	18,115,000
Developing Asia-Pacific	46,162,000	36,000	65,000	3,226,000	49,489,000
– of which China	34,535,000	36,000	65,000	2,209,000	36,845,000
– of which Chinese Taipei	10,268,000	–	–	972,000	11,240,000

As at 31st December 2014

			Non-bank private sector		
	Banks	Official sector	Non-bank financial institutions	Non-financial private sector	Total
Developed countries	8,183,000	225,000	–	1,137,000	9,545,000
Offshore centres	8,311,000	–	853,000	14,502,000	23,666,000
– of which Hong Kong	7,685,000	–	647,000	12,014,000	20,346,000
Developing Asia-Pacific	48,029,000	169,000	29,000	3,346,000	51,573,000
– of which China	37,496,000	169,000	29,000	2,563,000	40,257,000
– of which Chinese Taipei	10,413,000	–	–	763,000	11,176,000

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (Continued)

3.1.5 Loans and advances

Loans and advances are summarised as follows:

	2015	2014
Neither past due nor impaired	63,195,494	66,089,555
Past due but not impaired	678,880	1,046,189
Impaired	501,548	321,362
Gross loans and advances	64,375,922	67,457,106
Less: impairment allowances	(275,220)	(288,279)
Net loans and advances	64,100,702	67,168,827

Further information on individual and collective impairment allowances for loans and advances to customers is provided in Note 19.

(a) Loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the policies and procedures adopted by the Group.

As at 31st December 2015

	Individuals				Corporate entities		
	Overdrafts	Credit cards	Term loans and others	Mortgages	Large corporate customers and others	SME	Total loans and advances to customers
Grades:							
1 – pass	551,869	242,684	6,077,911	8,018,214	39,976,833	5,422,731	60,290,242
2 – special mention	112,212	7,087	157,030	420,639	1,786,124	422,160	2,905,252
Total	664,081	249,771	6,234,941	8,438,853	41,762,957	5,844,891	63,195,494

As at 31st December 2014

	Individuals				Corporate entities		
	Overdrafts	Credit cards	Term loans and others	Mortgages	Large corporate customers and others	SME	Total loans and advances to customers
Grades:							
1 – pass	823,635	250,872	6,295,436	7,828,892	43,646,566	5,986,754	64,832,155
2 – special mention	39,943	8,418	49,552	134,141	840,635	184,711	1,257,400
Total	863,578	259,290	6,344,988	7,963,033	44,487,201	6,171,465	66,089,555

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (Continued)

3.1.5 Loans and advances (Continued)

(b) Loans and advances past due but not impaired

Loans and advances less than 3 months past due are not considered impaired, unless other information is available to indicate the contrary. Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

As at 31st December 2015

	Individuals				
	Overdrafts	Credit cards	Term loans and others	Mortgages	Total
Past due up to 1 month	–	2,919	47,258	136,006	186,183
Past due over 1 month but less than 2 months	–	458	441	62,855	63,754
Past due over 2 months but less than 3 months	–	–	–	–	–
Past due over 3 months	747	–	291	5,703	6,741
Total	747	3,377	47,990	204,564	256,678

	Corporate entities		
	Large corporate customers and others	SME	Total
Past due up to 1 month	296,586	41,263	337,849
Past due over 1 month but less than 2 months	25,789	10,118	35,907
Past due over 2 months but less than 3 months	12,151	10,024	22,175
Past due over 3 months	26,271	–	26,271
Total	360,797	61,405	422,202

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (Continued)

3.1.5 Loans and advances (Continued)

(b) Loans and advances past due but not impaired (Continued)

As at 31st December 2014

	Individuals				
	Overdrafts	Credit cards	Term loans and others	Mortgages	Total
Past due up to 1 month	–	2,753	8,780	154,268	165,801
Past due over 1 month but less than 2 months	157	328	9,845	11,564	21,894
Past due over 2 months but less than 3 months	2,034	–	–	–	2,034
Past due over 3 months	–	–	608	580	1,188
Total	2,191	3,081	19,233	166,412	190,917

	Corporate entities		
	Large corporate customers and others	SME	Total
Past due up to 1 month	645,216	47,999	693,215
Past due over 1 month but less than 2 months	126,019	30,627	156,646
Past due over 2 months but less than 3 months	2,909	2,502	5,411
Past due over 3 months	–	–	–
Total	774,144	81,128	855,272

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (Continued)

3.1.5 Loans and advances (Continued)

(c) Loans and advances by industry sector

The following table shows the breakdown of the Group's loans and advances (excluding trade bills and other eligible bills) by industry sector according to the usage of loans based on the categories and definitions set by the Hong Kong Monetary Authority ('HKMA').

	2015		2014	
	Gross loans and advances	% covered by collateral	Gross loans and advances	% covered by collateral
Loans for use in Hong Kong				
Industrial, commercial and financial				
– Property development	3,541,664	49%	2,781,546	61%
– Property investment	9,229,089	95%	10,026,879	96%
– Financial concerns	991,029	100%	1,221,779	98%
– Stockbrokers	37,288	100%	67,563	100%
– Wholesale and retail trade	1,004,119	89%	1,259,005	86%
– Manufacturing	2,277,647	77%	2,376,750	71%
– Transport and transport equipment	717,464	92%	786,089	75%
– Recreational activities	182,455	69%	316,809	81%
– Information technology - telecommunication	90,085	99%	90,324	98%
– Hotels, boarding houses and catering	813,823	96%	785,404	97%
– Others	4,330,653	92%	4,510,015	88%
Individuals				
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme or their respective successor schemes	133,099	100%	158,856	100%
– Loans for the purchase of other residential properties	4,710,363	100%	4,487,666	100%
– Credit card advances	229,251	0%	237,560	0%
– Others	6,443,416	92%	6,627,674	92%
Trade finance	5,762,436	74%	7,336,982	80%
Loans for use outside Hong Kong	22,909,443	89%	21,474,608	92%
Total	63,403,324	87%	64,545,509	89%

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (Continued)

3.1.5 Loans and advances (Continued)

(c) Loans and advances by industry sector (Continued)

For those industry sectors to which the amount of loans and advances constitute not less than 10% of the Group's total amount of loans and advances, their corresponding amount of individually assessed impaired loans and advances, overdue loans and advances, individual impairment allowances and collective impairment allowances are analysed as follows:

	2015			
	Impaired loans and advances	Loans and advances overdue for over three months	Individual impairment allowances	Collective impairment allowances
Industrial, commercial and financial				
– Property investment	26,996	19,488	105	37,021

	2014			
	Impaired loans and advances	Loans and advances overdue for over three months	Individual impairment allowances	Collective impairment allowances
Industrial, commercial and financial				
– Property investment	12,557	2,212	37	40,057

	2015		
	New provisions	Loans written off as uncollectible	Recoveries of advances written off in previous years
Industrial, commercial and financial			
– Property investment	105	–	14

	2014		
	New provisions	Loans written off as uncollectible	Recoveries of advances written off in previous years
Industrial, commercial and financial			
– Property investment	25	–	–

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (Continued)

3.1.5 Loans and advances (Continued)

(d) Loans and advances by geographical area

The information concerning the breakdown of the gross amount of loans and advances to customers by country or geographical area is derived according to the location of the customers after taking into account any transfer of risk. In general, such transfer of risk takes place if the loans and advances are guaranteed by a party in a country which is different from that of the customers.

As at 31st December 2015

	Gross loans and advances to customers	Individually assessed impaired loans and advances	Loans and advances overdue for over three months	Total individual impairment allowances	Total collective impairment allowances
Hong Kong	42,489,244	252,122	166,908	18,430	172,021
Mainland China	5,585,611	–	–	–	20,106
United States	13,242,902	248,200	8,398	989	51,898
Others	3,058,165	1,226	3,409	5	11,771
	64,375,922	501,548	178,715	19,424	255,796
% of total loans and advances to customers		0.78			
Fair value of collateral		914,115			

As at 31st December 2014

	Gross loans and advances to customers	Individually assessed impaired loans and advances	Loans and advances overdue for over three months	Total individual impairment allowances	Total collective impairment allowances
Hong Kong	42,481,385	107,686	66,138	22,211	173,084
Mainland China	9,230,786	–	–	–	27,211
United States	11,759,420	210,357	8,788	839	46,167
Others	3,985,515	3,319	3,319	3,317	15,450
	67,457,106	321,362	78,245	26,367	261,912
% of total loans and advances to customers		0.48			
Fair value of collateral		647,374			

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (Continued)

3.1.5 Loans and advances (Continued)

(e) Loans and advances overdue for more than 3 months

	2015		2014	
		% of gross loans and advances to customers		% of gross loans and advances to customers
Gross loans and advances which have been overdue for:				
– six months or less but over three months	16,145	0.03	9,239	0.01
– one year or less but over six months	83,410	0.13	12,632	0.02
– over one year	79,160	0.12	56,374	0.09
	178,715	0.28	78,245	0.12
Current market value of collateral	315,960		188,335	
Covered portion by collateral	156,933		55,439	
Uncovered portion by collateral	21,782		22,806	
Individually assessed impairment allowances	15,914		23,192	

Collateral held against such loans and advances mainly include mortgages over properties.

(f) Rescheduled loans and advances net of amounts included in loans and advances overdue for more than 3 months

	2015		2014	
		% of gross loans and advances to customers		% of gross loans and advances to customers
Rescheduled loans and advances	19,565	0.03	8,334	0.01

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (Continued)

3.1.6 Repossessed assets

During the year, the Group had obtained assets by taking possession of collateral held as security, as follows:

	Carrying amount	
	2015	2014
Nature of assets		
Industrial property	3,850	497
Residential properties	–	17,550
	3,850	18,047

As at 31st December 2015, the fair value of the repossessed assets amounted to HK$3,850,000 (2014: HK$22,020,000).

Repossessed asset is sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. Repossessed asset is classified in the statement of financial position within 'Other assets' in Note 27.

3.1.7 Debt securities

The table below presents an analysis of debt securities by rating agency designation for the respective issues as at 31st December, based on Standard & Poor's ratings or their equivalent. In the absence of such issue ratings, the ratings designated for the issuers are reported.

As at 31st December 2015	Financial assets held for trading	Available-for-sale investments	Held-to-maturity investments	Total
AAA	–	36,990	2,058,057	2,095,047
AA- to AA+	360,864	5,968,207	295,155	6,624,226
A- to A+	–	22,487,524	77,626	22,565,150
BBB- to BBB+	–	4,451,417	77,626	4,529,043
Unrated	4,706	2,422,799	–	2,427,505
Total	365,570	35,366,937	2,508,464	38,240,971

As at 31st December 2014	Financial assets held for trading	Available-for-sale investments	Held-to-maturity investments	Total
AAA	–	75,342	2,062,077	2,137,419
AA- to AA+	214,895	6,557,503	248,410	7,020,808
A- to A+	–	9,170,808	77,677	9,248,485
BBB- to BBB+	–	4,720,132	77,676	4,797,808
Unrated	–	1,959,453	–	1,959,453
Total	214,895	22,483,238	2,465,840	25,163,973

There were no overdue debt securities in the year of 2015 (2014: Nil).

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Market risk

Market risk is the risk that interest rates, foreign exchange rates, equity or commodity prices will move relative to positions taken, resulting in profits or losses. In the ordinary course of business, the Group enters into various types of financial instruments, mainly forward exchange contracts, that comprise transactions initiated for the Group's own account and customer needs. The Group's positions are managed by the Treasury Division under the limits and guidelines laid down in the foreign exchange risk management policy and policy on allocating transactions of financial instruments to the trading, non-trading or investment book approved by the Executive Committee and Risk Management Committee. The Risk Management Division is responsible for monitoring the transactions to ensure the activities are within the relevant limits and guidelines.

3.2.1 Market risk measurement techniques

The measuring procedures and limit system used for market risk management have been approved by the Executive Committee. Limits on notional, stop loss and sensitivity are set for trading positions which are marked-to-market daily.

Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress testing is tailored to the business and typically uses scenario analysis. The results of the stress tests are reviewed by management, the Asset and Liability Committee, the Executive Committee, the Risk Management Committee and the Board of Directors.

3.2.2 Market risk sensitivity summary for 2015 and 2014

The Group uses different types of derivatives to manage foreign exchange and interest rate sensitivity primarily by hedging its underlying positions. The types of derivatives used by the Group include forward exchange rate and interest rate contracts which are typically made over-the-counter and are managed within limits approved by the Executive Committee and Risk Management Committee. The policy on the use of derivatives is reviewed by Risk Management Committee and recommended changes and amendments are approved by the Executive Committee or the Risk Management Committee.

Interest rate risk

As at 31st December 2015, if market interest rates had been 100 basis points higher (2014: 100 basis points higher) with other variables held constant, profit before tax for the year would have been HK$6,254,000 lower (2014: HK$80,986,000 higher). Available-for-sale investments revaluation gain shown as other comprehensive income would have been reduced by HK$521,016,000 (2014: reduced by HK$191,293,000).

Foreign exchange risk

As at 31st December 2015, over 89% (2014: over 90%) of the net on-balance sheet position of the Group were denominated in HKD and USD, and these two currencies were closely pegged, there is immaterial foreign exchange risk arising from the translation of foreign-currency denominated financial assets and financial liabilities into HKD.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Market risk (Continued)

3.2.3 Foreign exchange risk

Foreign exchange risk is the risk that the holding of foreign currencies will affect the Group's position as a result of a change in foreign currency exchange rates. The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Group's foreign exchange risk arises primarily from currency exposures originated by the Group's commercial banking businesses. The foreign exchange risk is managed by the Treasury Division and monitored by management and the Asset and Liability Committee within position limits set in the foreign exchange risk management policy approved by the Executive Committee and Risk Management Committee. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. The table below summarises the Group's exposure to foreign currency exchange rate risk as at 31st December. Included in the table are the Group's financial instruments at carrying amounts, categorised by currency.

Concentrations of currency risk: on- and off-balance sheet financial instruments.

As at 31st December 2015	HKD	USD	RMB	Other	Total
Assets					
Cash and balances with banks	18,074,413	11,805,019	3,146,367	1,814,929	34,840,728
Placements with and loans and advances to banks	1,999,702	6,556,766	3,729,762	1,982,254	14,268,484
Loans and advances to customers	35,915,151	23,556,323	2,140,669	2,488,559	64,100,702
Financial assets held for trading	39,744	365,570	–	27,341	432,655
Derivative financial instruments	–	21,271	155,827	47,614	224,712
Available-for-sale investments	15,403,714	10,888,041	9,317,369	2,947,985	38,557,109
Held-to-maturity investments	2,058,057	450,407	–	–	2,508,464
Other assets	611,065	77,572	4,191	2,319	695,147
Total	74,101,846	53,720,969	18,494,185	9,311,001	155,628,001
Liabilities					
Deposits and balances from banks	224,877	3,533,589	1,901,692	328,047	5,988,205
Deposits from customers	64,046,864	41,972,875	14,415,453	8,769,719	129,204,911
Derivative financial instruments	–	19,775	175,531	31,308	226,614
Other liabilities	613,827	337,606	89,574	31,340	1,072,347
Total	64,885,568	45,863,845	16,582,250	9,160,414	136,492,077
Net on-balance sheet position	9,216,278	7,857,124	1,911,935	150,587	19,135,924
Credit commitments	26,446,665	16,607,615	940,210	437,496	44,431,986

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Market risk (Continued)

3.2.3 Foreign exchange risk (Continued)

As at 31st December 2014	HKD	USD	RMB	Other	Total
Assets					
Cash and balances with banks	11,990,121	6,368,023	6,245,190	4,500,527	29,103,861
Placements with and loans and advances to banks	5,242,734	8,608,691	9,225,876	642,939	23,720,240
Loans and advances to customers	35,894,114	24,705,171	4,138,041	2,431,501	67,168,827
Financial assets held for trading	27,654	364,556	–	28,550	420,760
Derivative financial instruments	479	2,045	33,023	66,696	102,243
Available-for-sale investments	10,884,062	10,408,934	700,273	3,280,040	25,273,309
Held-to-maturity investments	2,062,077	403,763	–	–	2,465,840
Other assets	1,042,835	7,116	180,855	15,788	1,246,594
Total	67,144,076	50,868,299	20,523,258	10,966,041	149,501,674
Liabilities					
Deposits and balances from banks	1,432,288	4,880,493	386,780	619,246	7,318,807
Deposits from customers	57,441,968	35,542,766	18,909,791	9,498,957	121,393,482
Derivative financial instruments	220	647	31,014	50,646	82,527
Other liabilities	1,014,450	306,114	25,426	107,634	1,453,624
Total	59,888,926	40,730,020	19,353,011	10,276,483	130,248,440
Net on-balance sheet position	7,255,150	10,138,279	1,170,247	689,558	19,253,234
Credit commitments	27,453,718	15,198,623	1,838,945	565,945	45,057,231

3.2.4 Interest rate risk

Interest rate risk is the risk that the Group's position may be adversely affected by a change of market interest rates. The Group's interest rate risk arises primarily from the timing differences in the repricing of interest bearing assets, liabilities and commitments (repricing risk) as well as change of market rates or pricing indices at different time or by different amounts for different financial instruments (basis risk). The primary objective of interest rate risk management is to limit the potential adverse effects of interest rate movement on net interest income by closely monitoring the net repricing gap of the Group's assets and liabilities. The interest rate risk is managed by the Treasury Division and monitored by management and the Asset and Liability Committee under the limits and guidelines laid down in the interest rate risk management policy approved by the Executive Committee and Risk Management Committee.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Market risk (Continued)

3.2.4 Interest rate risk (Continued)

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 takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily by management.

The table below summarises the Group's exposure to interest rate risks. It includes the Group's financial instruments at carrying amounts (non-derivatives), categorised by the earlier of contractual re-pricing (for example floating rate notes) or maturity dates.

As at 31st December 2015	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and balances with banks	19,007,289	–	–	–	–	15,833,439	34,840,728
Placements with and loans and advances to banks	–	4,585,176	9,600,897	–	–	82,411	14,268,484
Loans and advances to customers	52,877,189	7,524,864	2,882,543	654,646	–	161,460	64,100,702
Financial assets held for trading	–	–	–	113,344	55,986	263,325	432,655
Derivative financial instruments	–	–	–	–	–	224,712	224,712
Available-for-sale investments	3,879,157	12,001,659	2,140,869	17,242,268	410,688	2,882,468	38,557,109
Held-to-maturity investments	–	251,067	1,180,263	1,072,973	–	4,161	2,508,464
Investments in joint ventures	–	–	–	–	–	304,440	304,440
Properties and equipment	–	–	–	–	–	2,637,660	2,637,660
Investment properties	–	–	–	–	–	995,610	995,610
Deferred income tax assets	–	–	–	–	–	47,571	47,571
Other assets	27,042	–	–	–	–	668,105	695,147
Total assets	75,790,677	24,362,766	15,804,572	19,083,231	466,674	24,105,362	159,613,282
Liabilities							
Deposits and balances from banks	4,541,341	542,549	118,143	–	–	786,172	5,988,205
Deposits from customers	68,579,450	27,045,059	19,503,788	728,412	5,022	13,343,180	129,204,911
Derivative financial instruments	–	–	–	–	–	226,614	226,614
Other liabilities	253,867	–	–	–	–	818,480	1,072,347
Provisions	–	–	–	–	–	96,049	96,049
Current income tax liabilities	–	–	–	–	–	92,263	92,263
Deferred income tax liabilities	–	–	–	–	–	292,254	292,254
Total liabilities	73,374,658	27,587,608	19,621,931	728,412	5,022	15,655,012	136,972,643
Total interest repricing gap	2,416,019	(3,224,842)	(3,817,359)	18,354,819	461,652	8,450,350	22,640,639

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Market risk (Continued)

3.2.4 Interest rate risk (Continued)

As at 31st December 2014

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and balances with banks	19,957,918	–	–	–	–	9,145,943	29,103,861
Placements with and loans and advances to banks	–	9,025,865	14,550,790	–	–	143,585	23,720,240
Loans and advances to customers	53,734,091	7,224,000	5,257,646	787,051	–	166,039	67,168,827
Financial assets held for trading	–	–	–	92,403	121,769	206,588	420,760
Derivative financial instruments	–	–	–	–	–	102,243	102,243
Available-for-sale investments	3,534,019	10,637,906	451,237	5,400,597	2,247,001	3,002,549	25,273,309
Held-to-maturity investments	–	355,809	297,851	1,808,646	–	3,534	2,465,840
Investments in joint ventures	–	–	–	–	–	259,628	259,628
Properties and equipment	–	–	–	–	–	2,657,913	2,657,913
Investment properties	–	–	–	–	–	5,178	5,178
Deferred income tax assets	–	–	–	–	–	44,120	44,120
Other assets	25,664	–	–	–	–	1,220,930	1,246,594
Total assets	77,251,692	27,243,580	20,557,524	8,088,697	2,368,770	16,958,250	152,468,513
Liabilities							
Deposits and balances from banks	5,813,354	1,098,573	62,056	–	–	344,824	7,318,807
Deposits from customers	63,754,504	25,362,465	20,237,795	321,258	5,022	11,712,438	121,393,482
Derivative financial instruments	–	–	–	–	–	82,527	82,527
Other liabilities	284,862	–	–	–	–	1,168,762	1,453,624
Provisions	–	–	–	–	–	95,132	95,132
Current income tax liabilities	–	–	–	–	–	92,199	92,199
Deferred income tax liabilities	–	–	–	–	–	289,174	289,174
Total liabilities	69,852,720	26,461,038	20,299,851	321,258	5,022	13,785,056	130,724,945
Total interest repricing gap	7,398,972	782,542	257,673	7,767,439	2,363,748	3,173,194	21,743,568

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfill commitments to lend. The Group's liquidity is managed by the Treasury Division and monitored by management and the Asset and Liability Committee in accordance with the guidelines and procedures laid down in the liquidity risk management policy approved by the Board of Directors, which has regard to a variety of factors, including liquidity maintenance ratio, loan to deposit ratio, liquidity cushion, maturity mismatch profile, diversity and stability of the deposit base and ability to borrow in the interbank market to ensure that both the funding liquidity and market liquidity are properly handled. An adequate stock of high quality liquid assets is being maintained at all times, in order to enable the Group to meet deposit withdrawals, to repay interbank borrowings, and to make new loans and investments as and when required in a timely and cost effective manner under both normal business conditions and emergency situations.

3.3.1 Liquidity risk management process

The Group's liquidity management process, as carried out within the Group and monitored by management, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers. The Group maintains an active presence in global money markets to enable this to happen;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring liquidity maintenance ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets (Note 3.3.4).

Management also monitors unmatched medium-term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees.

The Group conducts stress testing regularly to analyse liquidity risk. The Group's stress tests are conducted with hypothetical as well as historical assumptions. Both funding and market liquidity risks are addressed. Three stress scenarios including the institution-specific crisis, the general market crisis and the combined crisis are adopted with minimum survival period defined according to Supervisory Policy Manual LM-2 'Sound Systems and Controls for Liquidity Risk Management' of the HKMA.

With reference to the stress-testing results, the Group identifies potential vulnerability within the Group, and formulates a Contingency Funding Plan, a component of the Group's Business Continuity Plan, to describe the Group's strategy for dealing with any liquidity problem and the procedures for making up cash flow deficits in emergency situations.

Annual drill test is conducted and the Contingency Funding Plan is subject to regular review in order to cope with the changes of business environment. Any significant changes to the Contingency Funding Plan are approved by the Board of Directors.

The Group also performs reverse stress-testing in accordance with the HKMA's SPM IC-5 'Stress-testing'. It is a process of working backwards from the event causing business failures and involves a mix of qualitative and quantitative analyses. The Group uses results of stress-testing and reverse stress-testing to strengthen resilience to liquidity stress and serve as early-warning triggers for the formulation of management actions and contingency funding plan to mitigate potential stress and vulnerability which the Group might face.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Liquidity risk (Continued)

3.3.2 Maturity analysis

The table below analyses the Group's assets and liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date.

As at 31st December 2015	Repayable on demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Indefinite	Total
Assets								
Cash and balances with banks	17,076,459	17,764,269	–	–	–	–	–	34,840,728
Placements with and loans and advances to banks	–	–	4,611,640	9,656,844	–	–	–	14,268,484
Loans and advances to customers	4,770,586	4,178,676	5,847,705	11,156,660	19,124,710	18,361,278	661,087	64,100,702
Financial assets held for trading	–	196	196	394	124,206	240,578	67,085	432,655
Derivative financial instruments	–	75,423	51,099	98,190	–	–	–	224,712
Available-for-sale investments	–	263,694	674,124	3,229,850	30,294,071	902,324	3,193,046	38,557,109
Held-to-maturity investments	–	133	252,628	1,182,730	1,072,973	–	–	2,508,464
Investments in joint ventures	–	–	–	–	–	–	304,440	304,440
Properties and equipment	–	–	–	–	20,266	2,581,476	35,918	2,637,660
Investment properties	–	–	–	–	–	995,610	–	995,610
Deferred income tax assets	–	–	–	–	47,571	–	–	47,571
Other assets	37,327	368,263	4,647	33,970	246,821	–	4,119	695,147
Total assets	21,884,372	22,650,654	11,442,039	25,358,638	50,930,618	23,081,266	4,265,695	159,613,282
Liabilities								
Deposits and balances from banks	440,639	4,025,299	610,257	484,411	427,599	–	–	5,988,205
Deposits from customers	51,214,055	30,534,921	27,110,661	19,611,334	733,940	–	–	129,204,911
Derivative financial instruments	–	48,982	56,892	120,739	1	–	–	226,614
Other liabilities	52,079	727,511	53,529	239,228	–	–	–	1,072,347
Provisions	–	383	91,249	–	4,267	150	–	96,049
Current income tax liabilities	–	–	–	92,263	–	–	–	92,263
Deferred income tax liabilities	–	–	–	–	292,254	–	–	292,254
Total liabilities	51,706,773	35,337,096	27,922,588	20,547,975	1,458,061	150	-	136,972,643
Net liquidity gap	(29,822,401)	(12,686,442)	(16,480,549)	4,810,663	49,472,557	23,081,116	4,265,695	22,640,639
Of which certificates of deposit included in: Available-for-sale investments	–	200,626	345,903	2,953,077	14,304,271	489,543	–	18,293,420

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Liquidity risk (Continued)

3.3.2 Maturity analysis (Continued)

As at 31st December 2014

	Repayable on demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Indefinite	Total
Assets								
Cash and balances with banks	10,025,474	19,078,387	–	–	–	–	–	29,103,861
Placements with and loans and advances to banks	–	–	9,081,507	14,638,733	–	–	–	23,720,240
Loans and advances to customers	4,873,211	3,902,387	6,540,151	15,150,385	19,611,018	16,770,313	321,362	67,168,827
Financial assets held for trading	–	181	181	362	74,828	139,343	205,865	420,760
Derivative financial instruments	–	29,253	48,076	24,914	–	–	–	102,243
Available-for-sale investments	–	395,258	1,416,359	1,851,386	15,977,106	2,840,255	2,792,945	25,273,309
Held-to-maturity investments	–	17	452,278	299,748	1,713,797	–	–	2,465,840
Investments in joint ventures	–	–	–	–	–	–	259,628	259,628
Properties and equipment	–	–	–	–	85,062	2,536,053	36,798	2,657,913
Investment properties	–	–	–	–	–	5,178	–	5,178
Deferred income tax assets	–	–	–	–	44,120	–	–	44,120
Other assets	127,612	855,654	5,393	30,643	223,173	–	4,119	1,246,594
Total assets	15,026,297	24,261,137	17,543,945	31,996,171	37,729,104	22,291,142	3,620,717	152,468,513
Liabilities								
Deposits and balances from banks	427,613	5,420,076	788,327	255,983	426,808	–	–	7,318,807
Deposits from customers	46,810,709	28,418,433	25,440,441	20,396,266	327,633	–	–	121,393,482
Derivative financial instruments	–	23,625	37,495	21,407	–	–	–	82,527
Other liabilities	53,335	1,060,295	62,158	277,836	–	–	–	1,453,624
Provisions	–	306	90,043	–	4,664	119	–	95,132
Current income tax liabilities	–	–	–	92,199	–	–	–	92,199
Deferred income tax liabilities	–	–	–	–	289,174	–	–	289,174
Total liabilities	47,291,657	34,922,735	26,418,464	21,043,691	1,048,279	119	–	130,724,945
Net liquidity gap	(32,265,360)	(10,661,598)	(8,874,519)	10,952,480	36,680,825	22,291,023	3,620,717	21,743,568
Of which certificates of deposit included in: Available-for-sale investments	–	269,223	940,306	1,299,234	10,312,249	472,091	–	13,293,103

3.3.3 Funding approach

Sources of liquidity are regularly reviewed by management to maintain a wide diversification by currency, geography, provider, product and term.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Liquidity risk (Continued)

3.3.4 Non-derivative financial liabilities and assets held for managing liquidity risk

The table below presents the cash flows payable by the Group under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flow, whereas the Group manages the liquidity risk based on a different basis, but they do not result in a significantly different analysis.

As at 31st December 2015

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities						
Deposits and balances from banks	4,481,101	612,156	492,677	431,432	–	6,017,366
Deposits from customers	81,829,467	27,241,023	19,902,457	798,400	–	129,771,347
Other liabilities	779,590	53,529	239,228	–	–	1,072,347
Total	87,090,158	27,906,708	20,634,362	1,229,832	–	136,861,060
Assets held for managing liquidity risk	44,424,012	11,823,854	26,992,875	56,040,027	29,487,805	168,768,573

As at 31st December 2014

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities						
Deposits and balances from banks	5,850,882	796,523	262,256	436,221	–	7,345,882
Deposits from customers	75,317,491	25,580,748	20,758,525	358,002	–	122,014,766
Other liabilities	1,113,630	62,158	277,836	–	–	1,453,624
Total	82,282,003	26,439,429	21,298,617	794,223	–	130,814,272
Assets held for managing liquidity risk	38,535,401	18,014,040	33,586,837	42,043,199	28,877,489	161,056,966

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Liquidity risk (Continued)

3.3.4 Non-derivative financial liabilities and assets held for managing liquidity risk (Continued)

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash and balances with banks, placements with and loans and advances to banks, loans and advances to customers, available-for-sale investments, held-to-maturity investments and financial assets held for trading. In addition, debt securities can be pledged to secure liabilities, if necessary. The Group would also be able to meet unexpected net cash outflows by selling securities and accessing additional funding sources such as asset-backed markets.

The Group's policy defines the size and composition of liquidity cushion. The Group's liquidity cushion includes but not limited to high quality government securities such as Exchange Fund papers and the United States Treasuries.

3.3.5 Derivative liabilities

The table below analyses the Group's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. Contractual maturities are assessed to be essential for an understanding of the timing of the cashflows on all derivatives. Some of the Group's derivatives are subject to collateral requirements. Cash flows for those derivatives could occur earlier than the contractual maturity. The amounts disclosed in the table are the contractual undiscounted cash flows.

As at 31st December 2015

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Derivatives held for trading:						
Exchange rate contracts						
– Outflow	20,966,881	8,866,843	23,579,264	11,606	–	53,424,594
– Inflow	20,993,803	8,862,321	23,551,289	11,626	–	53,419,039

As at 31st December 2014

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Derivatives held for trading:						
Exchange rate contracts						
– Outflow	8,629,765	3,621,475	3,139,997	–	–	15,391,237
– Inflow	8,635,325	3,632,377	3,149,491	–	–	15,417,193

Total derivative exposure is insignificant to the Group's financial position. In the case of a 2-notch downgrade of the Group's credit rating, the impact on the Group's derivative collateral requirements is minimal.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Liquidity risk (Continued)

3.3.6 Off-balance sheet items

(a) Loan and other commitments

The dates of the contractual amounts of the Group's off-balance sheet instruments (Note 35(c)) that commit it to extend credit to customers and other facilities, are summarised in the table below.

(b) Acceptances and other financial facilities

Acceptances and other financial facilities, are also included below based on the conditions existing at the reporting date as to what contractual payments are required.

(c) Operating lease commitments

Where a group company is the lessee, the future minimum lease payments under non-cancellable operating leases, as disclosed in Note 35(b), are summarised in the table below.

(d) Capital commitments

Capital commitments for the acquisition of properties and equipment (Note 35(a)) are summarised in the table below.

As at 31st December 2015

	No later than 1 year	1-5 years	Over 5 years	Total
Loan and other commitments	36,406,042	2,536,186	361,655	39,303,883
Forward forward deposits placed	1,005,099	–	–	1,005,099
Guarantees, acceptances and other financial facilities				
– Acceptances	408,637	–	–	408,637
– Guarantees and standby letters of credit	1,832,029	400,845	6,564	2,239,438
– Documentary and commercial letters of credit	1,474,929	–	–	1,474,929
Operating lease commitments	138,176	100,105	2,260	240,541
Capital commitments	269,387	77,278	–	346,665
Total	41,534,299	3,114,414	370,479	45,019,192

As at 31st December 2014

	No later than 1 year	1-5 years	Over 5 years	Total
Loan and other commitments	29,348,284	1,551,648	272,456	31,172,388
Forward forward deposits placed	8,224,547	–	–	8,224,547
Guarantees, acceptances and other financial facilities				
– Acceptances	470,792	–	–	470,792
– Guarantees and standby letters of credit	2,100,022	236,390	5,028	2,341,440
– Documentary and commercial letters of credit	2,848,064	–	–	2,848,064
Operating lease commitments	114,969	133,800	2	248,771
Capital commitments	834,210	459,065	–	1,293,275
Total	43,940,888	2,380,903	277,486	46,599,277

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.4 Fair value of financial assets and liabilities

(a) Financial instruments not measured at fair value

(i) Balances with banks and placements with and loans and advances to banks

Balances with banks and placements with and loans and advances to banks include inter-bank placements. The maturities of these financial assets are within one year. The carrying amount at the reporting date approximates their fair value.

(ii) Loans and advances to customers

Loans and advances are stated net of impairment allowances. An insignificant portion of loans and advances to customers bears interest at fixed rate. The carrying amount at the reporting date approximates their fair value.

(iii) Held-to-maturity securities

The fair value for held-to-maturity securities is based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics. For the carrying value and fair value of held-to-maturity securities, please refer to Note 23. The fair value of held-to-maturity securities is classified under Level 1 (2015: HK$2,365,937,000, 2014: HK$2,397,965,000) and Level 2 (2015: HK$155,253,000, 2014: HK$77,677,000) in the fair value hierarchy. Please refer to Note 3.4(b) for the definition of fair value hierarchy.

(iv) Deposits and balances from banks and deposits from customers

Substantially all the deposits and balances from banks and deposits from customers mature within 1 year from the reporting date. Hence, the carrying amount at the reporting date approximates their fair value.

(b) Fair value hierarchy

Valuation governance

The Group has in place fair valuation policy to ensure adequate governance and control processes for the designation and valuation of financial instruments to be measured at fair value for financial reporting, risk management and regulatory capital purposes. The valuation process is conducted by control units independent of risk taking units.

The Group is to recognise transfers into and transfers out of fair value hierarchy levels as of that date of the event or change in circumstances that caused the transfer.

HKFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities, funds and debt securities on exchanges and paper gold.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the OTC derivative contracts, unlisted equities securities, unlisted funds and unlisted debt securities. The sources of input parameters such as HIBOR and LIBOR yield curves or counterparty credit risk are obtained from Bloomberg and Reuters.

Level 3 – Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.4 Fair value of financial assets and liabilities (Continued)

(b) Fair value hierarchy (Continued)

Recurring fair value measurement

As at 31st December 2015	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
Debt securities	250,123	115,447	–	365,570
Equity securities	32,531	–	–	32,531
Funds	6,359	27,341	–	33,700
Others	854	–	–	854
Derivative financial instruments				
Exchange rate contracts	–	224,712	–	224,712
Available-for-sale investments				
Debt securities	7,522,654	27,841,409	2,874	35,366,937
Equity securities	169,469	81,430	2,939,273	3,190,172
Total Assets	7,981,990	28,290,339	2,942,147	39,214,476
Derivative financial instruments				
Exchange rate contracts	–	226,614	–	226,614
Total Liabilities	–	226,614	–	226,614

As at 31st December 2014	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
Debt securities	214,895	–	–	214,895
Equity securities	172,540	–	–	172,540
Funds	4,775	28,180	–	32,955
Others	370	–	–	370
Derivative financial instruments				
Exchange rate contracts	–	102,243	–	102,243
Available-for-sale investments				
Debt securities	4,931,035	17,549,329	2,874	22,483,238
Equity securities	135,726	95,835	2,558,510	2,790,071
Total Assets	5,459,341	17,775,587	2,561,384	25,796,312
Derivative financial instruments				
Exchange rate contracts	–	82,527	–	82,527
Total Liabilities	–	82,527	–	82,527

There were no significant transfers of financial assets or liabilities between level 1 and level 2 fair value hierarchy classifications.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.4 Fair value of financial assets and liabilities (Continued)

(b) Fair value hierarchy (Continued)

Level 2 fair values of unlisted debt investments and funds are determined based on quotes from brokers. The most significant input is discount rate and dividend yield of the instruments.

Level 2 fair values of unlisted equity securities are determined based on quoted prices for identical assets from over-the-counter market.

Level 2 fair values of exchange rate contracts are determined using forward exchange rates at the reporting date, with the resulting value discounted back to present value.

Level 3 fair values of unlisted equity securities are determined based on latest price of identical assets between independent third parties. If no such information is available, management estimates the fair value based on comparable market data such as price to book ratio, price to earnings ratio etc. adjusted for marketability.

If the change in the price to book ratio would be shifted by +/- 5% the impact on other comprehensive income would be increased/ decreased by HK$145,230,000 (2014: HK$126,191,000), respectively.

The following table presents the changes in level 3 instruments for the years ended 31st December 2014 and 2015 respectively.

	Available-for-sale investments		
	Equity securities	Debt securities	Total
As at 1st January 2014	2,113,983	2,754	2,116,737
Total gains			
– Profit or loss	–	–	–
– Other comprehensive income	210,266	–	210,266
Purchases	234,022	120	234,142
Settlements	–	–	–
Exchange adjustments	239	–	239
As at 31st December 2014	2,558,510	2,874	2,561,384
As at 1st January 2015	**2,558,510**	**2,874**	**2,561,384**
Total gains			
– Profit or loss	**–**	**–**	**–**
– Other comprehensive income	**203,813**	**–**	**203,813**
Purchases	**202,764**	**–**	**202,764**
Settlements	**–**	**–**	**–**
Exchange adjustments	**(25,814)**	**–**	**(25,814)**
As at 31st December 2015	**2,939,273**	**2,874**	**2,942,147**

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.5 Capital management

The Group's policy is to maintain a strong capital base to support the development of the Group's business and to ensure compliance with the statutory capital adequacy ratio requirement, a requirement used to assess the capital adequacy of banks. Capital is allocated to the various activities of the Group depending on the risk taken by each business division. Where the subsidiaries or branches are directly regulated by other regulators, they are required to maintain capital according to the rules of those regulators.

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of statement of financial position, are:

– To comply with the capital requirements under the Banking (Capital) Rules ('BCR') of the Banking Ordinance;

– To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders;

– To support the Group's stability and growth;

– To allocate capital in an efficient and risk based approach to optimise risk adjusted return to the shareholders; and

– To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Group's management, employing techniques based on the BCR. The required information is filed with the HKMA on a quarterly basis.

The HKMA requires each bank or banking group to maintain a ratio of total regulatory capital to the risk-weighted asset (the capital adequacy ratio) at or above the statutory minimum ratio. Subsidiaries of the Group are also subject to statutory capital requirements from other regulatory authorities, such as the Securities and Futures Commission.

The regulatory capital requirements are strictly observed when managing economic capital. The regulatory capital of the Group comprises the following:

– Common Equity Tier 1 ('CET1') capital and Tier 1 capital: share capital, general reserve, available-for-sale investments revaluation reserve and retained earnings; and

– Tier 2 capital: collective impairment allowances and regulatory reserve.

	2015	2014
CET1 capital ratio	**19.1%**	18.3%
Tier 1 capital ratio	**19.1%**	18.3%
Total capital ratio	**19.9%**	19.0%

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.6 Operational risk management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It is inherent in all material products, activities, processes and systems. The Operational Risk Management Committee oversees the Group's operational risk to ensure the operations are in accordance with the controls and procedures laid down in the operational risk management policy approved by the Executive Committee. The Risk Management Division is responsible for the central operational risk management function. Policies and procedures have been established to control exposures and to identify operational risk factors. Insurance policies are taken to mitigate unforeseeable operational risk. A Business Continuity Plan is established to ensure the Group's ability to operate on an ongoing basis and limit losses in the event of severe business disruption, particularly where the Group's physical, telecommunication, or information technology infrastructures have been damaged or made inaccessible.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The Group's financial statements and its financial results are influenced by accounting policies, assumptions, estimates, and management judgment which necessarily have to be made in the course of preparation of the consolidated financial statements.

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events.

Accounting policies and management's judgments for certain items are especially critical for the Group's results and financial situation due to their materiality in amount.

(a) Impairment allowances on loans and advances

The Group reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(b) Impairment of available-for-sale investments

The Group follows the guidance of HKAS 39 to determine when available-for-sale investments are impaired. This determination requires judgment. In making this judgment, the Group evaluates among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

(c) Held-to-maturity investments

The Group follows the guidance of HKAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale investments. The investments would therefore be measured at fair value not amortised cost.

(d) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax and deferred tax assets and liabilities in the period in which such determination is made.

(e) Distinction between investment property and owner-occupied property

The Group determines whether a property qualifies as investment property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions can be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

5 BUSINESS ACTIVITIES ANALYSIS

(a) By business activities

The Group is engaged predominantly in banking and related financial activities. It comprises retail and corporate banking, trade finance, treasury and other classes of business.

Retail banking - incorporating banking services to private individuals such as current accounts, savings accounts, time deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.

Corporate banking - incorporating banking services to corporate customers such as current accounts, time deposits, overdrafts, loans and other credit facilities.

Trade finance - incorporating import and export bills services (including RMB business), invoice financing and invoice discounting.

Treasury - responsible for asset and liability management, managing the capital, liquidity, and the interest rate and foreign exchange positions of the Group.

The 'Others' business mainly comprises remittance, share dealing, provision of trustee, wealth management and insurance services.

For the purpose of assessing performance of business activity by class, the allocation of revenue, besides the direct revenue generated by the business, also includes the benefits of funding resources derived from the other businesses by way of internal fund transfer pricing mechanisms. Cost allocation is based on the direct cost incurred by the class of business and internal allocation of management overheads. Asset allocation is based on the assets directly attributable to the class of business and internal allocation of assets.

2015	Retail and corporate banking	Trade Finance	Treasury	Others	Total
Net interest income	1,983,986	100,487	393,862	2,783	2,481,118
Net fee and commission income	157,400	108,842	20	495,391	761,653
Net trading income	–	–	138,929	–	138,929
Net gains from disposal of available-for-sale investments	–	–	94,238	–	94,238
Profit before income tax	1,412,513	118,524	508,178	341,626	2,380,841
Operating assets	62,451,994	3,764,503	91,089,349	2,307,436	159,613,282
Charge/ (reversal) of impairment losses on loans and advances	5,326	(506)	–	–	4,820

5 BUSINESS ACTIVITIES ANALYSIS (CONTINUED)

(a) By business activities (Continued)

2014

	Retail and corporate banking	Trade Finance	Treasury	Others	Total
Net interest income	1,900,812	110,697	503,318	2,783	2,517,610
Net fee and commission income	163,675	117,555	156	406,769	688,155
Net trading income	–	–	111,797	–	111,797
Net gains from disposal of available-for-sale investments	–	–	46,961	–	46,961
Profit before income tax	1,365,829	141,378	529,849	306,195	2,343,251
Operating assets	63,596,470	6,258,151	81,173,639	1,440,253	152,468,513
Charge/ (reversal) of impairment losses on loans and advances	14,524	(1,227)	–	–	13,297

(b) By geographical regions

The following tables provide information by geographical area, which was determined with reference to the location of the principal operations of the branches and subsidiaries of the Group.

2015

	Total assets	Total liabilities	Contingent liabilities and commitments	Total operating income	Profit before income tax	Capital expenditure
Hong Kong & Mainland China	142,445,284	125,184,999	38,993,238	3,071,140	1,949,601	326,379
United States	14,607,204	10,055,987	5,379,614	504,967	398,554	498
United Kingdom	2,560,794	1,731,657	59,134	51,755	32,686	41
Total	159,613,282	136,972,643	44,431,986	3,627,862	2,380,841	326,918

2014

	Total assets	Total liabilities	Contingent liabilities and commitments	Total operating income	Profit before income tax	Capital expenditure
Hong Kong & Mainland China	136,919,884	119,863,918	41,513,232	3,012,790	1,980,027	201,635
United States	12,943,290	8,877,096	3,484,795	442,495	343,566	785
United Kingdom	2,605,339	1,983,931	59,204	41,995	19,658	731
Total	152,468,513	130,724,945	45,057,231	3,497,280	2,343,251	203,151

6 NET INTEREST INCOME

Interest income

	2015	2014
Cash and balances with banks	689,944	915,921
Held-to-maturity and available-for-sale investments	773,747	619,062
Loans and advances to customers	2,216,201	2,123,566
Others	6,895	8,709
Interest income on financial assets that are not at fair value through profit or loss	3,686,787	3,667,258

Included within interest income

	2015	2014
Interest income accrued on impaired financial assets	11,356	5,652

Interest expense

	2015	2014
Deposits and balances from banks	89,221	57,611
Deposits from customers	1,113,933	1,089,306
Others	2,515	2,731
Interest expense on financial liabilities that are not at fair value through profit or loss	1,205,669	1,149,648

7 NET FEE AND COMMISSION INCOME

Fee and commission income

	2015	2014
Bills	101,164	112,390
Nominees, custodian and securities brokerage	285,343	220,342
Wealth management products	101,991	91,625
Remittance	66,505	57,115
Facility fees	105,062	106,523
Credit cards	45,899	46,113
Retail banking	44,615	43,114
Insurance	42,149	36,786
Loans and advances	4,779	7,522
Trust and other commissions	4,677	4,257
	802,184	725,787

Fee and commission expense

	2015	2014
Bills	4,358	3,517
Nominees, custodian and securities brokerage	17,892	16,025
Retail banking	18,110	17,881
Credit cards	91	127
Remittance	80	82
	40,531	37,632
Of which :		
Net fee and commission income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading nor designated at fair value		
– fee and commission income	256,904	272,548
– fee and commission expense	4,449	3,644
Net fee and commission income on trust and other fiduciary activities		
– fee and commission income	22,395	22,526

The Group provides custody, trustee and advisory services to third parties. Those assets that are held in a fiduciary capacity are not included in these financial statements.

8 DIVIDEND INCOME

	2015	2014
Dividend income from available-for-sale investments		
– listed investments	2,318	–
– unlisted investments	49,328	41,713
	51,646	41,713

9 NET TRADING INCOME

	2015	2014
Foreign exchange	138,668	105,276
Interest rate instruments	(1,317)	(11,167)
Equities	302	16,786
Other trading income	1,276	902
	138,929	111,797

'Foreign exchange' trading income includes gains and losses from spot and forward contracts, swaps and translated foreign currency assets and liabilities, which are not designated as qualifying hedging relationship. 'Interest rate instruments' trading income includes the results of trading in government securities, corporate debt securities and money market instruments. 'Equities' trading income includes the results of trading in equity securities in local and overseas markets.

10 OTHER OPERATING INCOME

	2015	2014
Gross rental income from investment properties	882	722
Others	71,128	70,285
	72,010	71,007

There were no direct operating expenses (2014: HK$56,000 were included in operating expenses) arising from investment properties that generated rental income.

11 NET EARNED INSURANCE PREMIUM

	2015	2014
Insurance premium revenue	60,497	59,216
Insurance premium ceded to reinsurers	(13,312)	(13,480)
	47,185	45,736

The related net insurance claims incurred and movement in policyholders' liabilities of HK$18,821,000 (2014: HK$24,942,000) were shown after being netted off with the insurance claims and loss adjustment expenses recovered from reinsurers of HK$2,933,000 (2014: HK$2,747,000).

12 OPERATING EXPENSES

	2015	2014
Auditor's remuneration		
Statutory audit services	6,476	7,129
Non-statutory audit and other services (Note a)	5,660	5,508
Advertising costs	10,185	28,847
Depreciation expenses	75,837	53,915
Employee benefit expenses		
Wages and salaries and other costs (Note b)	727,588	685,726
Pension costs - defined contribution schemes	51,276	51,109
Pension costs - defined benefit schemes	45	88
Premises and equipment expenses, excluding depreciation		
Rental of premises	148,295	123,653
Building expenses	12,815	10,012
Building management fee	14,498	10,935
Other operating expenses		
Computer rental and licence	14,599	14,608
Credit card business promotion	28,608	24,011
Credit card service fee	10,427	10,556
Insurance	6,902	3,813
Legal and consultancy	5,994	7,799
Postage	14,764	14,815
Printing and stationery	9,399	9,817
Repair and maintenance	18,305	17,106
Telephone and communications	26,777	28,090
Travelling and transportation	5,484	6,125
Water, heat and light	15,318	15,370
Others	68,090	52,644
	1,277,342	1,181,676

Note a:

Included in the non-statutory audit and other services is the fee paid for the full scope audit of the Group's financial information for the group reporting to the ultimate holding company in Taiwan under its local statutory requirements.

Note b:

Employee benefit expenses include directors' emoluments.

13 DIRECTORS' EMOLUMENTS

The emoluments of the Directors of the Bank disclosed pursuant to section 383 of the Hong Kong Companies Ordinance (Cap.622) and the Companies (Disclosure of Information about Benefits of Directors) Regulation were set out below:

	2015	2014
Fees	5,625	5,292
Basic salaries, allowances and bonus	25,803	26,847
Contributions to retirement benefits schemes	1,371	1,472
	32,799	33,611

14 CHARGE OF IMPAIRMENT LOSSES ON LOANS AND ADVANCES TO CUSTOMERS

	2015	2014
Trade bills	(337)	(103)
Loans and advances to customers	5,157	13,400
	4,820	13,297
Net charge/ (reversal) of impairment losses		
– Individually assessed (Note 19(b))	9,150	(5,538)
– Collectively assessed (Note 19(b))	(4,330)	18,835
	4,820	13,297
Of which		
– new allowances	35,558	64,207
– releases	(27,022)	(37,402)
– recoveries	(3,716)	(13,508)
Net charge to income statement	4,820	13,297

15 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2014: 16.5%) on the estimated assessable profits for the year. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the income statement represents:

	2015	2014
Current income tax:		
– Hong Kong profits tax	293,290	298,866
– Overseas taxation	200,276	156,283
– Over provisions in respect of prior years	(14,534)	(17,893)
Total current income tax	479,032	437,256
Deferred income tax:		
– Hong Kong deferred tax	3,190	(232)
– Overseas deferred tax	(3,716)	6,188
Total deferred income tax	(526)	5,956
Income tax expense	478,506	443,212

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the tax rates of the countries in which the Group operates as follows:

	2015	2014
Profit before tax	2,380,841	2,343,251
Tax calculated at domestic tax rates applicable to profits in the respective countries	508,279	482,974
Tax effects of:		
Income not subject to tax	(21,672)	(20,733)
Expenses not deductible for tax purposes	6,912	5,378
Net effect of investments in partnerships	(479)	(6,514)
Over provisions in respect of prior years	(14,534)	(17,893)
Tax expense	478,506	443,212

The Bank has entered into aircraft leverage lease arrangement, involving special purpose partnerships in which the Bank is the general partner. As at 31st December 2015, the unamortised carrying cost of the investments in such partnerships, which was included in 'Other assets', amounted to HK$181,029,000 (2014: HK$187,131,000). The Bank's tax benefits in these special purpose partnerships are amortised over the life of the individual partnerships.

16 DIVIDEND

The dividends paid in 2015 and 2014 were HK$940,000,000 (HK$47 per share) and HK$880,000,000 (HK$44 per share) respectively. A dividend in respect of the year ended 31st December 2015 of HK$47 per share, amounting to a total dividend of HK$940,000,000, is to be proposed at the Annual General Meeting on 20th April 2016. These financial statements do not reflect this dividend payable.

	2015	2014
Proposed final dividend of HK$47 (2014: HK$47) per ordinary share	940,000	940,000

17 CASH AND BALANCES WITH BANKS

	2015	2014
Cash in hand	317,915	396,604
Balances with central banks and Hong Kong Monetary Authority	14,859,526	8,135,720
Balances with banks	19,663,287	20,571,537
	34,840,728	29,103,861

As at 31st December 2015, HK$1,500,000 (2014: HK$1,500,000) were deposited in the name of the Director of Accounting Services Treasury Hong Kong by a subsidiary company of the Bank to comply with the statutory requirement.

As at 31st December 2015, there were HK$153,294,000 (2014: HK$266,314,000) of statutory deposits with the central banks in the countries the Group is operating the business for the purpose of complying with the statutory requirements of the countries.

Included in the above amounts, HK$74,067,000 (2014: HK$74,127,000) were deposited with designated banks in the People's Republic of China as at 31st December 2015, to comply with the local statutory requirement.

18 PLACEMENTS WITH AND LOANS AND ADVANCES TO BANKS

	2015	2014
Placements with banks maturing between 1 and 12 months	14,210,961	22,770,447
Loans and advances to banks maturing between 1 and 12 months	57,523	949,793
	14,268,484	23,720,240

Included in the above amounts, HK$303,503,000 (2014: HK$131,207,000) were deposited with designated banks in the People's Republic of China as at 31st December 2015, to comply with the local statutory requirement. No impairment allowances for the placements with and loans and advances to banks were needed.

19 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysis of loans and advances to customers

	2015	2014
Loans and advances to individuals		
– Overdrafts	665,501	876,531
– Credit cards	255,306	266,091
– Term loans and others	6,295,049	6,371,249
– Mortgages	8,668,772	8,149,151
Loans and advances to corporate entities		
– Large corporate customers and others	42,539,208	45,513,686
– SME	5,952,086	6,280,398
Gross loans and advances to customers	64,375,922	67,457,106
Less: impairment allowances		
– Individually assessed	(19,424)	(26,367)
– Collectively assessed	(255,796)	(261,912)
	64,100,702	67,168,827
Gross trade bills and other eligible bills, included within loans and advances to customers	972,598	2,911,597
Less: impairment allowances on trade bills		
– Collectively assessed	(777)	(1,114)
	971,821	2,910,483

The Group accepted listed securities at fair value of HK$2,881,252,000 (2014: HK$3,419,936,000) as collateral for shares financing facilities. These securities are permitted to be sold or re-pledged in the event of default by the borrowers.

As at 31st December 2015, the Bank's branches in the United States were not required to pledge their real estate loans to the State of California and with the Office of the Comptroller of the Currency in compliance with local regulatory requirements (2014: HK$54,059,000).

19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(b) Movement in impairment allowances on loans and advances to customers

	Impairment allowances for loans and advances to individuals – Individual assessment				
	Overdrafts	Credit cards	Term loans and others	Mortgages	Total
As at 1st January 2015	16	1,122	885	45	2,068
Charge/ (write-back) of impairment losses (Note 14)	58	3,032	42	(260)	2,872
Loans written off as uncollectible	(75)	(4,285)	(859)	–	(5,219)
Recoveries of advances written off in previous years	2	792	239	315	1,348
As at 31st December 2015	1	661	307	100	1,069
As at 1st January 2014	417	1,510	1,004	206	3,137
Charge/ (write-back) of impairment losses (Note 14)	(446)	2,739	(8,415)	(1,325)	(7,447)
Loans written off as uncollectible	–	(3,948)	(267)	–	(4,215)
Recoveries of advances written off in previous years	45	821	8,563	1,164	10,593
As at 31st December 2014	16	1,122	885	45	2,068

	Impairment allowances for loans and advances to corporate entities – Individual assessment		
	Large corporate customers and others	SME	Total
As at 1st January 2015	17,473	6,826	24,299
Charge of impairment losses (Note 14)	5,595	683	6,278
Loans written off as uncollectible	(12,462)	(2,128)	(14,590)
Recoveries of advances written off in previous years	1,565	803	2,368
As at 31st December 2015	12,171	6,184	18,355
As at 1st January 2014	26,461	4,404	30,865
Charge/ (write-back) of impairment losses (Note 14)	(5)	1,914	1,909
Loans written off as uncollectible	(11,378)	(12)	(11,390)
Recoveries of advances written off in previous years	2,395	520	2,915
As at 31st December 2014	17,473	6,826	24,299

19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(b) Movement in impairment allowances on loans and advances to customers (Continued)

	Impairment allowances for loans and advances to individuals – Collective assessment				
	Overdrafts	Credit cards	Term loans and others	Mortgages	Total
As at 1st January 2015	3,472	4,207	25,533	32,589	65,801
Charge/ (write-back) of impairment losses (Note 14)	(907)	(379)	21	2,280	1,015
Exchange adjustments	–	–	(111)	(353)	(464)
As at 31st December 2015	2,565	3,828	25,443	34,516	66,352
As at 1st January 2014	3,313	6,863	22,988	28,653	61,817
Charge/ (write-back) of impairment losses (Note 14)	159	(2,656)	2,600	4,256	4,359
Exchange adjustments	–	–	(55)	(320)	(375)
As at 31st December 2014	3,472	4,207	25,533	32,589	65,801

	Impairment allowances for loans and advances to corporate entities – Collective assessment		
	Large corporate customers and others	SME	Total
As at 1st January 2015	171,099	25,012	196,111
Write-back of impairment losses (Note 14)	(4,062)	(1,283)	(5,345)
Exchange adjustments	(1,113)	(209)	(1,322)
As at 31st December 2015	165,924	23,520	189,444
As at 1st January 2014	154,668	27,602	182,270
Charge/ (write-back) of impairment losses (Note 14)	17,037	(2,561)	14,476
Exchange adjustments	(606)	(29)	(635)
As at 31st December 2014	171,099	25,012	196,111

20 FINANCIAL ASSETS HELD FOR TRADING

	2015	2014
Debt securities		
Listed outside Hong Kong	166,664	214,895
Unlisted	198,906	–
Total debt securities	365,570	214,895
Equity securities		
Listed in Hong Kong	32,531	22,879
Listed outside Hong Kong	–	149,661
Total equity securities	32,531	172,540
Funds		
Listed in Hong Kong	6,359	4,775
Unlisted	27,341	28,180
Total funds	33,700	32,955
Other financial assets held for trading	854	370
Total financial assets held for trading	432,655	420,760
Included within debt securities are:		
Government notes and bonds	169,753	214,895
Other debt securities	195,817	–
	365,570	214,895
Financial assets held for trading are analysed by type of issuer as follows:		
Sovereigns	169,753	214,895
Banks	12,854	2,776
Corporates	250,048	203,089
	432,655	420,760

21 DERIVATIVE FINANCIAL INSTRUMENTS

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time. The fair values of derivative instruments held are set out below.

21 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

As at 31st December 2015

	Contract amount	Fair values	
		Assets	Liabilities
Derivatives held for trading			
Exchange rate contracts			
Forwards and swaps	53,419,039	224,712	(226,614)
Total recognised derivative assets/ (liabilities)		224,712	(226,614)

As at 31st December 2014

	Contract amount	Fair values	
		Assets	Liabilities
Derivatives held for trading			
Exchange rate contracts			
Forwards and swaps	15,417,193	102,243	(82,527)
Total recognised derivative assets/ (liabilities)		102,243	(82,527)

	Credit risk weighted amount	
	2015	2014
Exchange rate contracts	308,654	89,650

The contract amounts of these instruments indicate the volume of transactions outstanding as at the reporting date, they do not represent the amounts at risk.

The credit risk weighted amounts as at 31st December 2015 and 2014 are the amounts that have been calculated in accordance with the BCR.

The above credit risk weighted amounts and fair values have not taken into account the effect of bilateral netting arrangements and accordingly the amounts disclosed are shown on a gross basis.

The Group uses the following derivative strategies:

– Trading purposes (customer needs)

  The Group offers its customers derivatives in connection with their risk-management actions to transfer, modify or reduce their interest rate, foreign exchange and other market/credit risks or for their own trading purposes. As part of this process, the Group considers the customers' suitability for the risk involved, and the business purpose for the transaction. The Group also manages its derivative-risk positions through offsetting trade activities, controls focused on price verification, and daily reporting of positions to senior managers.

– Trading purposes (own account)

  The Group trades derivatives for its own account. These derivatives entered into in order to take proprietary positions. Trading limits and price verification controls are key aspects of this activity.

22 AVAILABLE-FOR-SALE INVESTMENTS

	2015	2014
Debt securities		
Listed in Hong Kong	4,147,983	3,147,179
Listed outside Hong Kong	3,374,671	1,783,856
Unlisted	27,844,283	17,552,203
Total debt securities	35,366,937	22,483,238
Equity securities		
Listed outside Hong Kong	169,469	135,726
Unlisted (Note)	3,020,703	2,654,345
Total equity securities	3,190,172	2,790,071
	38,557,109	25,273,309
Included within debt securities are		
Certificates of deposit held	18,293,420	13,293,105
Government notes and bonds	–	127,157
Other debt securities	17,073,517	9,062,976
	35,366,937	22,483,238
Available-for-sale investments are analysed by type of issuer as follows:		
Sovereigns	–	127,157
Public sector entities	36,990	75,342
Banks	32,097,684	19,407,252
Corporates	6,422,435	5,663,558
	38,557,109	25,273,309

Note: Included the investment in Bank of Shanghai, China with fair value of HK$2,904,598,000 (2014: HK$2,523,811,000).

The movement in available-for-sale investments is summarised as follows:

	2015	2014
As at 1st January	25,273,309	25,472,136
Additions	22,447,507	7,080,407
Gains from changes in fair value	110,196	348,842
Disposals and redemptions	(8,547,015)	(7,276,259)
Amortisation	(23,061)	(35,780)
Exchange adjustments	(827,422)	(297,220)
Others	123,595	(18,817)
As at 31st December	38,557,109	25,273,309

23 HELD-TO-MATURITY INVESTMENTS

	2015	2014
Debt securities		
Listed in Hong Kong	1,871,557	2,045,390
Listed outside Hong Kong	311,439	265,097
Unlisted	325,468	155,353
	2,508,464	2,465,840
Market value of listed securities	2,195,776	2,475,642
Included within debt securities are:		
Government bills, notes and bonds	2,336,926	2,293,800
Other debt securities	171,538	172,040
	2,508,464	2,465,840
Held-to-maturity investments are analysed by type of issuer as follows:		
Sovereigns	2,336,926	2,293,800
Banks	171,538	172,040
	2,508,464	2,465,840

As at 31st December 2015, certain of the Bank's branches in the United States have pledged held-to-maturity investments amounting to HK$295,155,000 (2014: HK$248,410,000) to the State of California and with the Office of the Comptroller of the Currency in compliance with local regulatory requirements.

As at 31st December 2015, listed and unlisted debt securities at amortised cost of HK$2,041,771,000 (2014: HK$2,045,390,000) comprising Exchange Fund Notes and Exchange Fund Bills were pledged to the Hong Kong Monetary Authority to facilitate settlement operations. There were no related liabilities at the year end.

The movement in held-to-maturity investments is summarised as follows:

	2015	2014
As at 1st January	2,465,840	2,484,874
Additions	800,494	619,848
Redemptions	(748,017)	(629,122)
Amortisation	(10,152)	(8,612)
Exchange adjustments	(328)	(130)
Others	627	(1,018)
As at 31st December	2,508,464	2,465,840

24A SUBSIDIARIES

The following is a list of the subsidiaries as at 31st December 2015:

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Percentage of ordinary share capital held	2015		2014	
					Total assets	Total equity	Total assets	Total equity
Shanghai Commercial Bank (Nominees) Limited	Hong Kong	Nominee services Hong Kong	100 ordinary shares	[1]100%	10	10	10	10
Shanghai Commercial Bank Trustee Limited	Hong Kong	Trustee services Hong Kong	1,000 ordinary shares	[2]60%	15,368	15,042	14,685	14,436
Shacom Futures Limited	Hong Kong	Commodities trading Hong Kong	100,000 ordinary shares	[1]100%	20,085	7,819	19,610	8,656
Shacom Investment Limited	Hong Kong	Investment in Exchange Fund Bills and Notes Hong Kong	10,000 ordinary shares	[1]100%	2,287,052	1,247	2,226,809	1,193
Shacom Property Holdings (BVI) Limited	British Virgin Islands	Property holding United Kingdom	2 ordinary shares of US$1 each	[1]100%	38,214	(1,288)	39,186	(2,333)
Shacom Property (NY) Inc.	United States of America	Property holding United States of America	10 ordinary shares of US$1 each	[1]100%	5,736	5,736	5,795	5,795
Shacom Property (CA) Inc.	United States of America	Property holding United States of America	10 ordinary shares of US$1 each	[1]100%	2,754	2,754	2,781	2,781
Shacom Assets Investments Limited	Hong Kong	Investment in notes and bonds Hong Kong	10,000 ordinary shares	[1]100%	997,185	65	978,181	61
Infinite Financial Solutions Limited	Hong Kong	I.T. application services provider Hong Kong	500,000 ordinary shares	[1]100%	24,907	17,132	22,658	16,352
Shacom Insurance Brokers Limited	Hong Kong	Insurance broker Hong Kong	1,000,000 ordinary shares	[1]100%	4,088	1,283	3,271	1,132
Shacom Securities Limited	Hong Kong	Securities brokerage services Hong Kong	1,000,000 ordinary shares	[1]100%	191,858	158,663	328,394	158,290
Hai Kwang Property Management Company Limited	Hong Kong	Property management Hong Kong	2 ordinary shares	[1]100%	734	444	653	411
Paofoong Insurance Company (Hong Kong) Limited	Hong Kong	Insurance Hong Kong	500,000 ordinary shares	[2]60%	247,284	155,357	236,448	146,549
Right Honour Investments Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary shares of US$1 each	[1]100%	–	(83)	–	(72)
Glory Step Investments Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary shares of US$1 each	100%	192,973	(2,063)	193,098	(1,730)
Silver Wisdom Investments Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary shares of US$1 each	100%	287,640	(2,127)	288,028	(1,693)
KCC 23F Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary shares of HK$1 each	[1]100%	245,885	45,071	[3]N/A	[3]N/A
KCC 25F Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary shares of HK$1 each	[1]100%	247,869	46,868	[3]N/A	[3]N/A
KCC 26F Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary shares of HK$1 each	[1]100%	249,866	49,091	[3]N/A	[3]N/A

[1] Ordinary share capital is held directly by the Bank.

[2] 60% of ordinary share capital is held directly by the Bank and 40% of ordinary share capital is held by non-controlling interests in equity.

[3] KCC 23F Limited, KCC 25F Limited and KCC 26F Limited became wholly-owned subsidiaries of the Bank with effect from 30th April 2015.

The loans to subsidiaries are secured, interest free and have no fixed term of repayment. The carrying amounts of loans to subsidiaries are HK$4,402,672,000 (2014: HK$3,728,857,000) which approximate their fair values.

24B INVESTMENTS IN JOINT VENTURES

	2015	2014
As at 1st January	259,628	234,456
Share of profits, net of tax	35,141	40,944
Dividends paid	(20,470)	(17,520)
Other equity movement	30,141	1,748
As at 31st December	304,440	259,628

The Group's interests in its joint ventures for the years ended 2015 and 2014, which are unlisted, are as follows:

Name of entity	Place of incorporation	% of ownership interest
Joint Electronic Teller Services Limited	Hong Kong	20% of 'A' shares
Bank Consortium Holding Limited	Hong Kong	14.29% of 'A' shares
BC Reinsurance Limited	Hong Kong	21%
Hong Kong Life Insurance Limited	Hong Kong	16.67%
i-Tech Solutions Limited	Hong Kong	50%

24B INVESTMENTS IN JOINT VENTURES (CONTINUED)

Summarised financial information for joint ventures which are accounted for using the equity method is set out below:

2015

Name	Assets	Liabilities	Revenue	Profit	Other comprehensive income/ (loss)	Total comprehensive income	Dividends received from joint ventures
Joint Electronic Teller Services Limited	401,141	29,353	130,762	26,249	–	26,249	800
Bank Consortium Holding Limited	700,564	53,198	546,892	164,110	(154)	163,956	16,520
BC Reinsurance Limited	720,379	393,156	177,093	30,584	–	30,584	3,150
Hong Kong Life Insurance Limited	10,736,041	9,994,257	2,574,663	36,119	180,968	217,087	–
i-Tech Solutions Limited	6,357	496	6,791	124	–	124	–
	12,564,482	10,470,460	3,436,201	257,186	180,814	438,000	20,470

2014

Name	Assets	Liabilities	Revenue	Profit	Other comprehensive income	Total comprehensive income	Dividends received from joint ventures
Joint Electronic Teller Services Limited	378,585	18,738	102,142	19,376	–	19,376	800
Bank Consortium Holding Limited	647,883	54,821	512,553	157,371	16	157,387	14,620
BC Reinsurance Limited	741,346	429,707	253,156	56,072	–	56,072	2,100
Hong Kong Life Insurance Limited	8,726,735	8,202,038	1,604,068	45,457	10,480	55,937	–
i-Tech Solutions Limited	6,377	639	7,374	104	–	104	–
	10,500,926	8,705,943	2,479,293	278,380	10,496	288,876	17,520

Note: The balances with the joint ventures arising from normal business transactions are included in Note 38.

25 PROPERTIES AND EQUIPMENT

	Leasehold land	Bank premises	Furniture, fittings and equipment	Property under development: Leasehold land	Property under development: Development cost	Total
As at 1st January 2014						
Cost	679,678	485,916	629,278	1,383,906	86,792	3,265,570
Accumulated depreciation	(81,230)	(221,570)	(528,812)	(9,944)	–	(841,556)
Net book amount	598,448	264,346	100,466	1,373,962	86,792	2,424,014
Year ended December 2014						
Opening net book amount	598,448	264,346	100,466	1,373,962	86,792	2,424,014
Additions	52,401	–	22,664	–	127,706	202,771
Transfers from investment properties (Note 26)						
Cost	88,815	1,777	–	–	–	90,592
Accumulated depreciation	(272)	(1,667)	–	–	–	(1,939)
Transfers to investment properties (Note 26)						
Cost	(23)	(2,519)	–	–	–	(2,542)
Accumulated depreciation	6	944	–	–	–	950
Disposals/ write-off						
Cost	–	–	(27,553)	–	–	(27,553)
Accumulated depreciation	–	–	26,640	–	–	26,640
Depreciation charge	(5,287)	(9,410)	(36,931)	(1,651)	–	(53,279)
Exchange adjustments	–	(1,518)	(223)	–	–	(1,741)
Closing net book amount	734,088	251,953	85,063	1,372,311	214,498	2,657,913
As at 31st December 2014						
Cost	820,871	483,097	622,982	1,383,906	214,498	3,525,354
Accumulated depreciation	(86,783)	(231,144)	(537,919)	(11,595)	–	(867,441)
Net book amount	734,088	251,953	85,063	1,372,311	214,498	2,657,913
Year ended December 2015						
Opening net book amount	**734,088**	**251,953**	**85,063**	**1,372,311**	**214,498**	**2,657,913**
Additions	**360**	**–**	**32,481**	**–**	**294,077**	**326,918**
Acquisition of subsidiaries	**389,586**	**331,216**	**–**	**–**	**–**	**720,802**
Transfers to investment properties (Note 26)						
Cost	**–**	**–**	**–**	**(729,457)**	**(268,070)**	**(997,527)**
Accumulated depreciation	**–**	**–**	**–**	**6,982**	**–**	**6,982**
Disposals/ write-off						
Cost	**–**	**–**	**(8,663)**	**–**	**–**	**(8,663)**
Accumulated depreciation	**–**	**–**	**8,519**	**–**	**–**	**8,519**
Depreciation charge	**(17,166)**	**(19,285)**	**(37,622)**	**(1,651)**	**–**	**(75,724)**
Exchange adjustments	**–**	**(1,312)**	**(248)**	**–**	**–**	**(1,560)**
Closing net book amount	**1,106,868**	**562,572**	**79,530**	**648,185**	**240,505**	**2,637,660**
As at 31st December 2015						
Cost	**1,210,817**	**812,489**	**645,077**	**654,449**	**240,505**	**3,563,337**
Accumulated depreciation	**(103,949)**	**(249,917)**	**(565,547)**	**(6,264)**	**–**	**(925,677)**
Net book amount	**1,106,868**	**562,572**	**79,530**	**648,185**	**240,505**	**2,637,660**

Property under development represents the related costs paid as at 31st December 2015 and 2014 for the re-development of the Bank's new Head Office building in Central, Hong Kong.

As at 31st December 2015, interests in freehold land outside Hong Kong amounted to HK$35,918,000 (2014: HK$36,798,000) are included as bank premises above.

During the year, the Group has revised the method of providing depreciation on furniture, fittings and equipment from reducing balance method to straight-line method. Please refer to Note 2.8(b) for details.

26 INVESTMENT PROPERTIES

			Property under development		
	Leasehold land	Buildings	Leasehold land	Buildings	Total
As at 1st January 2014					
Cost	91,623	2,676	–	–	94,299
Accumulated depreciation	(408)	(1,396)	–	–	(1,804)
Net book amount	91,215	1,280	–	–	92,495
Year ended December 2014					
Opening net book amount	91,215	1,280	–	–	92,495
Additions	380	–	–	–	380
Transfers to properties and equipment (Note 25)					
Cost	(88,815)	(1,777)	–	–	(90,592)
Accumulated depreciation	272	1,667	–	–	1,939
Transfers from properties and equipment (Note 25)					
Cost	23	2,519	–	–	2,542
Accumulated depreciation	(6)	(944)	–	–	(950)
Depreciation charge	(100)	(536)	–	–	(636)
Closing net book amount	2,969	2,209	–	–	5,178
As at 31st December 2014					
Cost	3,211	3,418	–	–	6,629
Accumulated depreciation	(242)	(1,209)	–	–	(1,451)
Net book amount	2,969	2,209	–	–	5,178
Year ended December 2015					
Opening net book amount	**2,969**	**2,209**	**–**	**–**	**5,178**
Transfers from properties and equipment (Note 25)					
Cost	**–**	**–**	**729,457**	**268,070**	**997,527**
Accumulated depreciation	**–**	**–**	**(6,982)**	**–**	**(6,982)**
Depreciation charge	**(27)**	**(86)**	**–**	**–**	**(113)**
Closing net book amount	**2,942**	**2,123**	**722,475**	**268,070**	**995,610**
As at 31st December 2015					
Cost	**3,211**	**3,418**	**729,457**	**268,070**	**1,004,156**
Accumulated depreciation	**(269)**	**(1,295)**	**(6,982)**	**–**	**(8,546)**
Net book amount	**2,942**	**2,123**	**722,475**	**268,070**	**995,610**

Property under development represents the related costs paid as at 31st December 2015 for the re-development of the Bank's new Head Office building in Central, Hong Kong.

As at 31st December 2015, the Group's investment property under development was valued at HK$3,235,719,000 (as-is) or HK$3,437,600,000 (as-complete) by an independent firm of chartered surveyors, Savills Valuation and Professional Services Limited, who has among their staff Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of properties being valued, whereas the other investment properties were valued at HK$27,787,000 (2014: HK$27,219,000) by the Directors with reference to other valuation agents. The valuations were performed on an open market value basis.

27 OTHER ASSETS

	2015	2014
Repossessed assets	3,850	18,047
Accounts receivable and prepayments (Note)	584,862	1,151,547
Others	106,435	77,000
	695,147	1,246,594

Note: Included unamortised carrying costs of investment in special purpose partnerships as stated in Note 15.

28 DEPOSITS FROM CUSTOMERS

	2015			
	Large corporate customers and others	SME	Individuals	Total
Demand deposits and current accounts	7,142,752	1,830,442	4,461,631	13,434,825
Savings deposits	12,211,915	1,954,772	22,965,184	37,131,871
Time, call and notice deposits	36,054,142	2,252,890	39,943,435	78,250,467
Deposits from Hong Kong Government Exchange Fund	387,748	–	–	387,748
	55,796,557	6,038,104	67,370,250	129,204,911

	2014			
	Large corporate customers and others	SME	Individuals	Total
Demand deposits and current accounts	5,825,244	1,766,194	4,138,193	11,729,631
Savings deposits	11,085,261	2,117,507	21,572,060	34,774,828
Time, call and notice deposits	32,942,843	1,748,069	39,810,026	74,500,938
Deposits from Hong Kong Government Exchange Fund	388,085	–	–	388,085
	50,241,433	5,631,770	65,520,279	121,393,482

Deposits amounting to HK$78,535,377,000 (2014: HK$74,807,356,000) are at fixed interest rates, HK$50,566,696,000 (2014: HK$46,504,459,000) are at managed interest rates and all other deposits, amounting to HK$102,838,000 (2014: HK$81,667,000) are at variable rates.

29 OTHER LIABILITIES

	2015	2014
Margin deposits	274,795	305,429
Accounts payable and accruals	309,080	708,841
Liabilities for insurance contracts (Note)	87,635	84,768
Others	400,837	354,586
	1,072,347	1,453,624

Note: Amounts recoverable from reinsurance of liabilities under insurance contracts issued amounting to HK$3,654,000 (2014: HK$4,162,000) are included in 'Other assets' in Note 27.

30 PROVISIONS

	2015	2014
As at 1st January	95,132	93,064
Additional provisions charged to income statement	136,456	133,447
Utilised during the year	(135,539)	(131,379)
As at 31st December	96,049	95,132
Current	91,632	90,349
Non-current	4,417	4,783

Majority of the 2015 and 2014 balances represent provision for staff bonus.

31 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

Deferred income tax assets

	Impairment allowances	Accelerated tax depreciation	Fair value losses on available-for-sale investments	Others	Total
As at 1st January 2014	34,881	1,549	154	13,846	50,430
Credited/ (charged) to the income statement	3,282	(9,957)	–	487	(6,188)
Exchange adjustments	(463)	385	–	6	(72)
Charged to equity	–	–	(90)	–	(90)
Reclassified from deferred income tax liabilities	–	40	–	–	40
As at 31st December 2014	37,700	(7,983)	64	14,339	44,120
Credited/ (charged) to the income statement	**2,963**	**(98)**	**–**	**778**	**3,643**
Exchange adjustments	**(482)**	**336**	**–**	**(13)**	**(159)**
Charged to equity	**–**	**–**	**(206)**	**–**	**(206)**
Reclassified from deferred income tax liabilities	**–**	**–**	**173**	**–**	**173**
As at 31st December 2015	**40,181**	**(7,745)**	**31**	**15,104**	**47,571**

Deferred income tax liabilities

	Impairment allowances	Accelerated tax depreciation	Fair value gains on available-for-sale investments	Others	Total
As at 1st January 2014	32,214	(10,303)	(261,194)	(1,260)	(240,543)
Credited/ (charged) to the income statement	276	1,031	–	(1,075)	232
Charged to equity	–	–	(50,082)	–	(50,082)
Reclassified to current income tax liabilities	–	–	–	1,259	1,259
Reclassified to deferred income tax assets	–	(40)	–	–	(40)
As at 31st December 2014	32,490	(9,312)	(311,276)	(1,076)	(289,174)
Charged to the income statement	**(1,856)**	**(1,182)**	**–**	**(79)**	**(3,117)**
Credited to equity	**–**	**–**	**210**	**–**	**210**
Reclassified to deferred income tax assets	**–**	**–**	**(173)**	**–**	**(173)**
As at 31st December 2015	**30,634**	**(10,494)**	**(311,239)**	**(1,155)**	**(292,254)**

32 SHARE CAPITAL

	2015	2014
Issued and fully paid:		
20,000,000 shares	2,000,000	2,000,000

33 RESERVES

	Regulatory reserve	Available-for-sale investments revaluation reserve	General and other reserves	Total
As at 1st January 2014	499,572	1,321,067	7,371,582	9,192,221
Change in fair value of available-for-sale investments	–	348,623	–	348,623
Realised on disposal of available-for-sale investments	–	(46,961)	–	(46,961)
Effect of deferred taxation	–	(50,136)	–	(50,136)
Currency translation differences	(975)	(279)	(23,731)	(24,985)
Share of reserve of joint ventures	–	1,748	–	1,748
Transfer from retained earnings	200,000	–	–	200,000
As at 31st December 2014	698,597	1,574,062	7,347,851	9,620,510
As at 1st January 2015	698,597	1,574,062	7,347,851	9,620,510
Change in fair value of available-for-sale investments	–	109,698	–	109,698
Realised on disposal of available-for-sale investments	–	(94,238)	–	(94,238)
Effect of deferred taxation	–	86	–	86
Currency translation differences	(2,047)	(13,516)	(82,139)	(97,702)
Share of reserves of joint ventures	–	(1,121)	31,262	30,141
As at 31st December 2015	696,550	1,574,971	7,296,974	9,568,495

33 RESERVES (CONTINUED)

Nature and purpose of reserves:

(a) Regulatory reserve

The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance and local regulatory requirements of overseas branches for prudent supervision purpose. Any movements in the regulatory reserve for Hong Kong operation are made in consultation with the Hong Kong Monetary Authority.

(b) Available-for-sale investments revaluation reserve

Available-for-sale investments revaluation reserve represents the cumulative net change in the fair value of available-for-sale investments until the financial assets are derecognised or impaired as stated in the accounting policy for financial assets. (Note 2.10, Note 2.12 and Note 2.14)

(c) General and other reserves

General and other reserves comprise previous years' transfers from retained earnings and translation reserve arising from translation of foreign operations during consolidation and share of changes in equity of joint ventures.

34 CASH AND CASH EQUIVALENTS

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise the following balances with less than three months' maturity from the date of acquisition and that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

	2015	2014
Cash and balances with banks	31,523,648	26,531,954
Placements with and loans and advances to banks	3,139,418	2,872,561
	34,663,066	29,404,515

35 CONTINGENT LIABILITIES AND COMMITMENTS

(a) Capital commitments

Capital expenditure at the reporting date but not yet incurred is as follows:

	2015	2014
Properties and equipment		
Contracted but not provided for	268,030	483,808
Authorised but not contracted for	78,635	809,467
	346,665	1,293,275

(b) Operating lease commitments

Where a group company is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

	2015	2014
No later than 1 year	138,176	114,969
Later than 1 year and no later than 5 years	100,105	133,800
Later than 5 years	2,260	2
	240,541	248,771

Where a group company is the lessor, the future minimum lease receivables under non-cancellable operating leases are as follows:

	2015	2014
No later than 1 year	700	823
Later than 1 year and no later than 5 years	225	903
	925	1,726

(c) Credit commitments

The contract amounts of the Group's off-balance sheet instruments that commit it to extend credit to customers:

	2015	2014
Direct credit substitutes	2,224,270	2,333,546
Trade-related contingencies	1,898,734	3,326,750
Forward forward deposits placed	1,005,099	8,224,547
Other commitments with an original maturity of:		
– under 1 year	285,427	563,132
– 1 year and over	3,921,157	2,371,973
– unconditionally cancellable	35,097,299	28,237,283
	44,431,986	45,057,231

The credit risk weighted amount of credit commitments is HK$4,630,828,000 (2014: HK$5,733,515,000).

(d) Other contingent liabilities

The Group is involved in legal actions which are in relation to its normal business operations. No material provision was made for those actions against the Group because the management believes that the Group has adequate grounds to defend against the claimants or the amounts involved in those actions are not expected to be material.

36 OFFSETTING FINANCIAL INSTRUMENTS

The following tables present details of financial instruments subject to offsetting, enforceable master netting arrangements and similar agreements.

As at 31st December 2015

	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amounts
				Financial instruments	Cash collateral received	
Assets						
Derivative financial instruments	165,453	–	165,453	(93,404)	–	72,049
Other assets	164,937	(151,693)	13,244	–	–	13,244
Total	330,390	(151,693)	178,697	(93,404)	–	85,293

	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amounts
				Financial instruments	Cash collateral pledged	
Liabilities						
Derivative financial instruments	189,888	–	189,888	(93,404)	–	96,484
Other liabilities	170,287	(151,693)	18,594	–	–	18,594
Total	360,175	(151,693)	208,482	(93,404)	–	115,078

36 OFFSETTING FINANCIAL INSTRUMENTS (CONTINUED)

As at 31st December 2014

	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amounts
				Financial instruments	Cash collateral received	
Assets						
Derivative financial instruments	61,668	–	61,668	(32,054)	–	29,614
Other assets	543,895	(386,711)	157,184	–	–	157,184
Total	605,563	(386,711)	218,852	(32,054)	–	186,798

	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amounts
				Financial instruments	Cash collateral pledged	
Liabilities						
Derivative financial instruments	60,527	–	60,527	(32,054)	–	28,473
Other liabilities	397,316	(386,711)	10,605	–	–	10,605
Total	457,843	(386,711)	71,132	(32,054)	–	39,078

Derivative financial instruments disclosed above are recorded on a gross basis in the consolidated statement of financial position. Since master netting agreements have been entered into for these derivative financial instruments, the net settlement amounts if an event of default or other precedent events occurred are disclosed under 'Net amounts' to comply with the accounting requirements.

The tables below reconcile the amounts of derivative financial instruments, net amounts of other assets and other liabilities presented in the consolidated statement of financial position.

	2015	2014
Assets		
Net amounts of derivative financial instruments after offsetting as stated above	165,453	61,668
Derivative financial instruments not in scope of offsetting disclosures	59,259	40,575
Total derivative financial instruments	224,712	102,243
Net amounts of other assets after offsetting as stated above	13,244	157,184
Other assets not in scope of offsetting disclosures	681,903	1,089,410
Total other assets	695,147	1,246,594
Liabilities		
Net amounts of derivative financial instruments after offsetting as stated above	189,888	60,527
Derivative financial instruments not in scope of offsetting disclosures	36,726	22,000
Total derivative financial instruments	226,614	82,527
Net amounts of other liabilities after offsetting as stated above	18,594	10,605
Other liabilities not in scope of offsetting disclosures	1,053,753	1,443,019
Total other liabilities	1,072,347	1,453,624

37 INFORMATION ABOUT LOANS, QUASI-LOANS AND OTHER DEALINGS IN FAVOUR OF DIRECTORS, CONTROLLED BODIES CORPORATE AND CONNECTED ENTITIES

For the year 2014, balances are disclosed pursuant to Section 78 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622), with reference to Section 161B of the predecessor Hong Kong Companies Ordinance (Cap. 32). For the year 2015, balances are disclosed pursuant to Section 383 of the Hong Kong Companies Ordinance (Cap. 622) and Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G).

	Balance outstanding as at 31st December		Maximum balance during the year	
	2015	2014	2015	2014
Aggregate amount outstanding in respect of principal and interest	112,051	206,116	230,051	250,851

38 RELATED PARTY TRANSACTIONS

A number of banking transactions were entered into with related parties by the Group in the normal course of business and at arm's length basis. These include loans, deposits, trade finance transactions and investment transactions. The outstanding balances of the related party transactions, as at the reporting date, and related expense and income for the year are as follows:

2015	Ultimate holding company and fellow subsidiaries	Joint ventures	Key management personnel (Note)	Other related parties	Total
Aggregate amounts outstanding at the year end					
– Loans and advances	–	5,835	149,150	–	154,985
– Cash and balances with banks	90	–	–	27,622	27,712
– Deposits and balances from banks and customers	620,818	244,651	1,758,238	1,223,274	3,846,981
– Available-for-sale investments	81,430	–	–	442,373	523,803
– Collectively assessed impairment allowances	–	23	619	–	642
– Contingent liabilities and other commitments	85,404	2,000	1,653,036	–	1,740,440
Interest income received from related parties	22	225	5,390	145	5,782
Interest expenses paid to related parties	2,328	2,477	19,213	7,741	31,759

38 RELATED PARTY TRANSACTIONS (CONTINUED)

2014

	Ultimate holding company and fellow subsidiaries	Joint ventures	Key management personnel (Note)	Other related parties	Total
Aggregate amounts outstanding at the year end					
– Loans and advances	–	8,669	259,125	–	267,794
– Cash and balances with banks	73	–	–	97,422	97,495
– Deposits and balances from banks and customers	765,359	129,852	1,469,769	844,495	3,209,475
– Available-for-sale investments	95,835	–	–	422,959	518,794
– Collectively assessed impairment allowances	–	35	1,066	–	1,101
– Contingent liabilities and other commitments	106,449	2,000	1,114,954	–	1,223,403
Interest income received from related parties	640	304	7,418	397	8,759
Interest expenses paid to related parties	4,060	2,076	3,807	6,413	16,356

Note: Include key management personnel and Directors of the Bank and the ultimate holding company, their close family members and entities that are controlled or jointly controlled, directly or indirectly, by key management perosnnel or Directors.

Key management personnel compensation

The compensation for Directors and key management personnel of the Bank is as follows:

	2015	2014
Salaries and other short-term employee benefits	75,209	75,512

39 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE BANK

(a) Statement of Financial Position of the Bank

	As at 31st December	
	2015	2014
ASSETS		
Cash and balances with banks	34,838,164	29,094,650
Placements with and loans and advances to banks	14,268,484	23,720,240
Loans and advances to customers	64,100,702	67,168,827
Financial assets held for trading	400,010	398,923
Derivative financial instruments	224,712	102,243
Available-for-sale investments	38,442,147	25,158,298
Held-to-maturity investments	450,408	403,763
Investments in joint ventures	116,000	116,000
Investments in and loans to subsidiaries	3,193,437	2,505,622
Properties and equipment	1,413,587	2,129,882
Investment properties	1,023,724	33,671
Deferred income tax assets	47,571	44,016
Other assets	649,809	1,191,285
TOTAL ASSETS	159,168,755	152,067,420
LIABILITIES		
Deposits and balances from banks	5,988,205	7,318,807
Deposits from customers	129,204,911	121,393,482
Derivative financial instruments	226,614	82,527
Other liabilities	961,307	1,344,514
Provisions	94,246	94,554
Current income tax liabilities	92,104	91,612
Deferred income tax liabilities	292,081	289,174
TOTAL LIABILITIES	136,859,468	130,614,670
EQUITY		
CAPITAL AND RESERVES ATTRIBUTABLE TO THE EQUITY HOLDERS		
Share capital	2,000,000	2,000,000
Retained earnings	10,772,905	9,833,619
Reserves	9,536,382	9,619,131
	22,309,287	21,452,750
TOTAL EQUITY AND LIABILITIES	159,168,755	152,067,420

Approved and authorised for issue by the Board of Directors on 15th March 2016.

Lincoln Chu Kuen Yung
Chairman

Hung-ching Yung
Director

Gordon Che Keung Kwong
Director

David Sek-chi Kwok
Managing Director & Chief Executive

39 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE BANK (CONTINUED)

(b) Reserve movement of the Bank

	Regulatory reserve	Available-for-sale investments revaluation reserve	General reserve	Total
As at 1st January 2014	499,572	1,321,799	7,371,435	9,192,806
Change in fair value of available-for-sale investments	–	348,294	–	348,294
Realised on disposal of available-for-sale investments	–	(46,961)	–	(46,961)
Effect of deferred taxation	–	(50,082)	–	(50,082)
Currency translation differences	(975)	(279)	(23,672)	(24,926)
Transfer from retained earnings	200,000	–	–	200,000
As at 31st December 2014	698,597	1,572,771	7,347,763	9,619,131
As at 1st January 2015	**698,597**	**1,572,771**	**7,347,763**	**9,619,131**
Change in fair value of available-for-sale investments	**–**	**108,951**	**–**	**108,951**
Realised on disposal of available-for-sale investments	**–**	**(94,238)**	**–**	**(94,238)**
Effect of deferred taxation	**–**	**210**	**–**	**210**
Currency translation differences	**(2,047)**	**(13,516)**	**(82,109)**	**(97,672)**
As at 31st December 2015	**696,550**	**1,574,178**	**7,265,654**	**9,536,382**

SUPPLEMENTARY FINANCIAL INFORMATION

(All amounts in HK dollar thousands unless otherwise stated)

The following information is disclosed as part of the accompanying information to the consolidated financial statements and does not form part of the audited financial statements.

1 Liquidity maintenance ratio

	2015
Liquidity maintenance ratio ('LMR')	53.1%

The LMR became effective on 1st January 2015 to replace the liquidity ratio required by the repealed section 102 of the Hong Kong Banking Ordinance. The LMR is calculated as the simple average of each calendar month's average LMR for the twelve months of financial year of the Bank's Hong Kong offices, overseas branches, Shacom Investment Limited and Shacom Assets Investments Limited computed in accordance with the Banking (Liquidity) Rules.

	2014
Liquidity ratio	46.0%

The liquidity ratio is calculated as the simple average of each calendar month's average liquidity ratio for the twelve months of the financial year of the Bank's Hong Kong offices and overseas branches computed in accordance with the Hong Kong Banking Ordinance.

2 Capital structure and adequacy

The calculation of the capital adequacy ratios as at 31st December 2015 and 2014 is based on the Banking (Capital) Rules ('BCR'). The capital adequacy ratios represent the consolidated ratios of the Bank's Hong Kong offices, overseas branches, Shacom Property (CA) Inc., Shacom Property (NY) Inc., Shacom Property Holdings (BVI) Limited, Shacom Investment Limited, Shacom Assets Investments Limited, Right Honour Investments Limited, Glory Step Investments Limited, Silver Wisdom Investments Limited, Shacom Insurance Brokers Limited, KCC 23F Limited, KCC 25F Limited and KCC 26F Limited computed in accordance with Section 3C(1) of the BCR. KCC 23F Limited, KCC 25F Limited and KCC 26F Limited have been included in the consolidated capital adequacy ratio in 2015 when the Group acquired them in April 2015. For accounting purposes, the basis of consolidation is described in Note 2.2 to the consolidated financial statements.

2 Capital structure and adequacy (Continued)

The table below presents the balance sheets based on the accounting scope of consolidation and the regulatory scope of consolidation respectively as at 31st December 2015.

	Balance sheet as in published financial statements	Under regulatory scope of consolidation
Assets		
Cash and balances with banks	34,840,728	34,838,164
Placements with and loans and advances to banks	14,268,484	14,268,484
Loans and advances to customers	64,100,702	64,100,702
Financial assets held for trading	432,655	400,010
Derivative financial instruments	224,712	224,712
Available-for-sale investments	38,557,109	38,442,147
Held-to-maturity investments	2,508,464	2,508,464
Investments in joint ventures	304,440	116,000
Investments in and amounts due from subsidiaries	–	187,096
Properties and equipment	2,637,660	2,616,078
Investment properties	995,610	1,023,724
Deferred income tax assets	47,571	47,571
Other assets	695,147	654,140
Total assets	159,613,282	159,427,292
Liabilities		
Deposits and balances from banks	5,988,205	5,988,205
Deposits from customers	129,204,911	129,204,911
Derivatives financial instruments	226,614	226,614
Amounts due to subsidiaries	–	273,301
Other liabilities	1,072,347	964,759
Provisions	96,049	94,246
Current income tax liabilities	92,263	92,104
Deferred income tax liabilities	292,254	292,081
Total liabilities	136,972,643	137,136,221
Equity		
Share capital	2,000,000	2,000,000
Retained earnings	11,003,984	10,754,718
Reserves	9,568,495	9,536,353
Non-controlling interests	68,160	–
Total equity	22,640,639	22,291,071
Total equity and liabilities	159,613,282	159,427,292

2 Capital structure and adequacy (Continued)

The table below shows the reconciliation of the capital components from balance sheet based on regulatory scope of consolidation to the Capital Disclosures Template as at 31st December 2015.

	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Cross reference to Definition of Capital Components
Assets			
Cash and balances with banks	34,840,728	34,838,164	
Placements with and loans and advances to banks	14,268,484	14,268,484	
Loans and advances to customers	64,100,702	64,100,702	
of which: collective impairment allowances reflected in regulatory capital		*255,796*	(1)
Financial assets held for trading	432,655	400,010	
of which: insignificant capital investments in financial sector entities exceeding 10% threshold		*4,520*	(2)
Derivative financial instruments	224,712	224,712	
Available-for-sale investments	38,557,109	38,442,147	
of which: insignificant capital investments in financial sector entities exceeding 10% threshold		*1,192,253*	(3)
Held-to-maturity investments	2,508,464	2,508,464	
Investments in joint ventures	304,440	116,000	
Investments in and amounts due from subsidiaries	–	187,096	
Properties and equipment	2,637,660	2,616,078	
Investment properties	995,610	1,023,724	
Deferred income tax assets	47,571	47,571	(4)
Other assets	695,147	654,140	
Total assets	159,613,282	159,427,292	
Liabilities			
Deposits and balances from banks	5,988,205	5,988,205	
Deposits from customers	129,204,911	129,204,911	
Derivatives financial instruments	226,614	226,614	
Amounts due to subsidiaries	–	273,301	
Other liabilities	1,072,347	964,759	
Provisions	96,049	94,246	
Current income tax liabilities	92,263	92,104	
Deferred income tax liabilities	292,254	292,081	
Total liabilities	136,972,643	137,136,221	
Equity			
Share capital	2,000,000	2,000,000	
of which: paid-in share capital		*2,000,000*	(5)
Retained earnings	11,003,984	10,754,718	
of which: retained earnings		*10,754,718*	(6)
Reserves	9,568,495	9,536,353	
of which: accumulated other comprehensive income (loss), other than regulatory reserve		*8,839,803*	(7)
regulatory reserve		*696,550*	(8)
Non-controlling interests	68,160	–	
Total equity	22,640,639	22,291,071	
Total equity and liabilities	159,613,282	159,427,292	

2 Capital structure and adequacy (Continued)

The Group has already applied full capital deductions under the BCR. The Capital Disclosures Template as at 31st December 2015 is shown below.

		Component of regulatory capital reported by bank	Cross-referenced to balance sheet under regulatory scope of consolidation
	CET1 capital: instruments and reserves		
1	Directly issued qualifying CET1 capital instruments plus any related share premium	2,000,000	(5)
2	Retained earnings	10,754,718	(6)
3	Disclosed reserves	9,536,353	(7) + (8)
4	Directly issued capital subject to phase out from CET1 capital (only applicable to non-joint stock companies)	Not applicable	
5	Minority interests arising from CET1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in CET1 capital of the consolidation group)	–	
6	**CET1 capital before regulatory deductions**	**22,291,071**	
	CET1 capital: regulatory deductions		
7	Valuation adjustments	–	
8	Goodwill (net of associated deferred tax liability)	–	
9	Other intangible assets (net of associated deferred tax liability)	–	
10	Deferred tax assets net of deferred tax liabilities	47,571	(4)
11	Cash flow hedge reserve	–	
12	Excess of total EL amount over total eligible provisions under the IRB approach	–	
13	Gain-on-sale arising from securitisation transactions	–	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	–	
15	Defined benefit pension fund net assets (net of associated deferred tax liabilities)	–	
16	Investments in own CET1 capital instruments (if not already netted off paid-in capital on reported balance sheet)	–	
17	Reciprocal cross-holdings in CET1 capital instruments	–	
18	Insignificant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	1,114,463	(2) + (3) - (9)
19	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	–	
20	Mortgage servicing rights (amount above 10% threshold)	Not applicable	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	Not applicable	
22	Amount exceeding the 15% threshold	Not applicable	
23	of which: significant investments in the common stock of financial sector entities	Not applicable	
24	of which: mortgage servicing rights	Not applicable	
25	of which: deferred tax assets arising from temporary differences	Not applicable	
26	National specific regulatory adjustments applied to CET1 capital	696,550	
26a	Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	–	
26b	Regulatory reserve for general banking risks	696,550	(8)
26c	Securitisation exposures specified in a notice given by the Monetary Authority	–	
26d	Cumulative losses below depreciated cost arising from the institution's holdings of land and buildings	–	
26e	Capital shortfall of regulated non-bank subsidiaries	–	
26f	Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	–	
27	Regulatory deductions applied to CET1 capital due to insufficient AT1 capital and Tier 2 capital to cover deductions	–	
28	**Total regulatory deductions to CET1 capital**	**1,858,584**	
29	**CET1 capital**	**20,432,487**	

2 Capital structure and adequacy (Continued)

		Component of regulatory capital reported by bank	Cross-referenced to balance sheet under regulatory scope of consolidation
	AT1 capital: instruments		
30	Qualifying AT1 capital instruments plus any related share premium	–	
31	of which: classified as equity under applicable accounting standards	–	
32	of which: classified as liabilities under applicable accounting standards	–	
33	Capital instruments subject to phase out arrangements from AT1 capital	–	
34	AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidation group)	–	
35	of which: AT1 capital instruments issued by subsidiaries subject to phase out arrangements	–	
36	**AT1 capital before regulatory deductions**	–	
	AT1 capital: regulatory deductions		
37	Investments in own AT1 capital instruments	–	
38	Reciprocal cross-holdings in AT1 capital instruments	–	
39	Insignificant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	–	
40	Significant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	–	
41	National specific regulatory adjustments applied to AT1 capital	–	
42	Regulatory deductions applied to AT1 capital due to insufficient Tier 2 capital to cover deductions	–	
43	**Total regulatory deductions to AT1 capital**	–	
44	**AT1 capital**	–	
45	**Tier 1 capital (Tier 1 = CET1 + AT1)**	**20,432,487**	
	Tier 2 capital: instruments and provisions		
46	Qualifying Tier 2 capital instruments plus any related share premium	–	
47	Capital instruments subject to phase out arrangements from Tier 2 capital	–	
48	Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group)	–	
49	of which: capital instruments issued by subsidiaries subject to phase out arrangements	–	
50	Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	952,346	(1) + (8)
51	**Tier 2 capital before regulatory deductions**	**952,346**	
	Tier 2 capital: regulatory deductions		
52	Investments in own Tier 2 capital instruments	–	
53	Reciprocal cross-holdings in Tier 2 capital instruments	–	
54	Insignificant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	82,310	(9)
55	Significant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	–	
56	National specific regulatory adjustments applied to Tier 2 capital	–	
56a	Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital	–	
57	**Total regulatory deductions to Tier 2 capital**	**82,310**	
58	**Tier 2 capital**	**870,036**	
59	**Total capital (Total capital = Tier 1 + Tier 2)**	**21,302,523**	
60	**Total risk weighted assets**	**106,806,068**	

2 Capital structure and adequacy (Continued)

		Component of regulatory capital reported by bank	Cross-referenced to balance sheet under regulatory scope of consolidation
Capital ratios (as a percentage of risk weighted assets)			
61	CET1 capital ratio	19.1%	
62	Tier 1 capital ratio	19.1%	
63	Total capital ratio	19.9%	
64	Institution specific buffer requirement (minimum CET1 capital requirement as specified in s.3B of the BCR plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB or D-SIB requirements)	4.5%	
65	of which: capital conservation buffer requirement	0.0%	
66	of which: bank specific countercyclical buffer requirement	0.0%	
67	of which: G-SIB and D-SIB buffer requirement	0.0%	
68	CET1 capital surplus over the minimum CET1 requirement and any CET1 capital used to meet the Tier 1 and Total capital requirement under s.3B of the BCR	14.6%	
National minima (if different from Basel 3 minimum)			
69	National CET1 minimum ratio	Not applicable	
70	National Tier 1 minimum ratio	Not applicable	
71	National Total capital minimum ratio	Not applicable	
Amounts below the thresholds for deduction (before risk weighting)			
72	Insignificant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	2,154,695	
73	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	378,136	
74	Mortgage servicing rights (net of related tax liability)	Not applicable	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	Not applicable	
Applicable caps on the inclusion of provisions in Tier 2 capital			
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the basic approach and the standardised (credit risk) approach (prior to application of cap)	952,346	
77	Cap on inclusion of provisions in Tier 2 under the basic approach and the standardised (credit risk) approach	1,218,677	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach (prior to application of cap)	–	
79	Cap for inclusion of provisions in Tier 2 under the IRB approach	–	
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)			
80	Current cap on CET1 capital instruments subject to phase out arrangements	Not applicable	
81	Amount excluded from CET1 capital due to cap (excess over cap after redemptions and maturities)	Not applicable	
82	Current cap on AT1 capital instruments subject to phase out arrangements	–	
83	Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)	–	
84	Current cap on Tier 2 capital instruments subject to phase out arrangements	–	
85	Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)	–	

2 Capital structure and adequacy (Continued)

Note to the template:

Element where a more conservative definition has been applied in the BCR relative to that set out in Basel III capital standards:

Row No.	Description	Hong Kong basis	Basel III basis
10	**Deferred tax assets net of deferred tax liabilities ('DTA')**	**47,571**	–
	Explanation As set out in paragraphs 69 and 87 of the Basel III text issued by the Basel Committee (December 2010), DTAs that rely on future profitability of the bank to be realised are to be deducted, whereas DTAs which relate to temporary differences may be given limited recognition in CET1 capital (and hence be excluded from deduction from CET1 capital up to the specified threshold). In Hong Kong, an authorised institution is required to deduct all DTAs in full, irrespective of their origin, from CET1 capital. Therefore, the amount to be deducted as reported in row 10 may be greater than that required under Basel III. The amount reported under the column 'Basel III basis' in this box represents the amount reported in row 10 (i.e. the amount reported under the 'Hong Kong basis') adjusted by reducing the amount of DTAs to be deducted which relate to temporary differences to the extent not in excess of the 10% threshold set for DTAs arising from temporary differences and the aggregate 15% threshold set for mortgage servicing rights, DTAs arising from temporary differences and significant investments in CET1 capital instruments issued by financial sector entities (excluding those that are loans, facilities and other credit exposures to connected companies) under Basel III.		
Remarks: The amount of the 10%/ 15% thresholds mentioned above is calculated based on the amount of CET1 capital determined under the BCR.			

Abbreviations:
CET1 = Common Equity Tier 1
AT1 = Additional Tier 1

2 Capital structure and adequacy (Continued)

The table below presents the balance sheets based on the accounting scope of consolidation and the regulatory scope of consolidation respectively as at 31st December 2014.

	Balance sheet as in published financial statements	Under regulatory scope of consolidation
Assets		
Cash and balances with banks	29,103,861	29,094,650
Placements with and loans and advances to banks	23,720,240	23,720,240
Loans and advances to customers	67,168,827	67,168,827
Financial assets held for trading	420,760	398,923
Derivative financial instruments	102,243	102,243
Available-for-sale investments	25,273,309	25,158,298
Held-to-maturity investments	2,465,840	2,465,840
Investments in joint ventures	259,628	116,000
Investments in and amounts due from subsidiaries	–	188,181
Properties and equipment	2,657,913	2,635,451
Investment properties	5,178	33,671
Deferred income tax assets	44,120	44,016
Other assets	1,246,594	1,193,541
Total assets	152,468,513	152,319,881
Liabilities		
Deposits and balances from banks	7,318,807	7,318,807
Deposits from customers	121,393,482	121,393,482
Derivatives financial instruments	82,527	82,527
Amounts due to subsidiaries	–	254,665
Other liabilities	1,453,624	1,347,217
Provisions	95,132	94,554
Current income tax liabilities	92,199	91,612
Deferred income tax liabilities	289,174	289,174
Total liabilities	130,724,945	130,872,038
Equity		
Share capital	2,000,000	2,000,000
Retained earnings	10,058,664	9,828,772
Reserves	9,620,510	9,619,071
Non-controlling interests	64,394	–
Total equity	21,743,568	21,447,843
Total equity and liabilities	152,468,513	152,319,881

2 Capital structure and adequacy (Continued)

The table below shows the reconciliation of the capital components from balance sheet based on regulatory scope of consolidation to the Capital Disclosures Template as at 31st December 2014.

	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Cross reference to Definition of Capital Components
Assets			
Cash and balances with banks	29,103,861	29,094,650	
Placements with and loans and advances to banks	23,720,240	23,720,240	
Loans and advances to customers	67,168,827	67,168,827	
of which: collective impairment allowances reflected in regulatory capital		*261,912*	(1)
Financial assets held for trading	420,760	398,923	
of which: insignificant capital investments in financial sector entities exceeding 10% threshold		*9,479*	(2)
Derivative financial instruments	102,243	102,243	
Available-for-sale investments	25,273,309	25,158,298	
of which: insignificant capital investments in financial sector entities exceeding 10% threshold		*967,437*	(3)
Held-to-maturity investments	2,465,840	2,465,840	
Investments in joint ventures	259,628	116,000	
Investments in and amounts due from subsidiaries	–	188,181	
Properties and equipment	2,657,913	2,635,451	
Investment properties	5,178	33,671	
Deferred income tax assets	44,120	44,016	(4)
Other assets	1,246,594	1,193,541	
Total assets	152,468,513	152,319,881	
Liabilities			
Deposits and balances from banks	7,318,807	7,318,807	
Deposits from customers	121,393,482	121,393,482	
Derivatives financial instruments	82,527	82,527	
Amounts due to subsidiaries	–	254,665	
Other liabilities	1,453,624	1,347,217	
Provisions	95,132	94,554	
Current income tax liabilities	92,199	91,612	
Deferred income tax liabilities	289,174	289,174	
Total liabilities	130,724,945	130,872,038	
Equity			
Share capital	2,000,000	2,000,000	
of which: paid-in share capital		*2,000,000*	(5)
Retained earnings	10,058,664	9,828,772	
of which: retained earnings		*9,828,772*	(6)
Reserves	9,620,510	9,619,071	
of which: accumulated other comprehensive income (loss), other than regulatory reserve		*8,920,474*	(7)
regulatory reserve		*698,597*	(8)
Non-controlling interests	64,394	–	
Total equity	21,743,568	21,447,843	
Total equity and liabilities	152,468,513	152,319,881	

2 Capital structure and adequacy (Continued)

The Group has already applied full capital deductions under the BCR. The Capital Disclosures Template as at 31st December 2014 is shown below.

		Component of regulatory capital reported by bank	Cross-referenced to balance sheet under regulatory scope of consolidation
	CET1 capital: instruments and reserves		
1	Directly issued qualifying CET1 capital instruments plus any related share premium	2,000,000	(5)
2	Retained earnings	9,828,772	(6)
3	Disclosed reserves	9,619,071	(7) + (8)
4	Directly issued capital subject to phase out from CET1 capital (only applicable to non-joint stock companies)	Not applicable	
5	Minority interests arising from CET1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in CET1 capital of the consolidation group)	–	
6	**CET1 capital before regulatory deductions**	**21,447,843**	
	CET1 capital: regulatory deductions		
7	Valuation adjustments	–	
8	Goodwill (net of associated deferred tax liability)	–	
9	Other intangible assets (net of associated deferred tax liability)	–	
10	Deferred tax assets net of deferred tax liabilities	44,016	(4)
11	Cash flow hedge reserve	–	
12	Excess of total EL amount over total eligible provisions under the IRB approach	–	
13	Gain-on-sale arising from securitisation transactions	–	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	–	
15	Defined benefit pension fund net assets (net of associated deferred tax liabilities)	–	
16	Investments in own CET1 capital instruments (if not already netted off paid-in capital on reported balance sheet)	–	
17	Reciprocal cross-holdings in CET1 capital instruments	–	
18	Insignificant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	873,031	(2) + (3) - (9)
19	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	–	
20	Mortgage servicing rights (amount above 10% threshold)	Not applicable	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	Not applicable	
22	Amount exceeding the 15% threshold	Not applicable	
23	of which: significant investments in the common stock of financial sector entities	Not applicable	
24	of which: mortgage servicing rights	Not applicable	
25	of which: deferred tax assets arising from temporary differences	Not applicable	
26	National specific regulatory adjustments applied to CET1 capital	698,597	
26a	Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	–	
26b	Regulatory reserve for general banking risks	698,597	(8)
26c	Securitisation exposures specified in a notice given by the Monetary Authority	–	
26d	Cumulative losses below depreciated cost arising from the institution's holdings of land and buildings	–	
26e	Capital shortfall of regulated non-bank subsidiaries	–	
26f	Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	–	
27	Regulatory deductions applied to CET1 capital due to insufficient AT1 capital and Tier 2 capital to cover deductions	–	
28	**Total regulatory deductions to CET1 capital**	**1,615,644**	
29	**CET1 capital**	**19,832,199**	

2 Capital structure and adequacy (Continued)

		Component of regulatory capital reported by bank	Cross-referenced to balance sheet under regulatory scope of consolidation
	AT1 capital: instruments		
30	Qualifying AT1 capital instruments plus any related share premium	–	
31	of which: classified as equity under applicable accounting standards	–	
32	of which: classified as liabilities under applicable accounting standards	–	
33	Capital instruments subject to phase out arrangements from AT1 capital	–	
34	AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidation group)	–	
35	of which: AT1 capital instruments issued by subsidiaries subject to phase out arrangements	–	
36	**AT1 capital before regulatory deductions**	–	
	AT1 capital: regulatory deductions		
37	Investments in own AT1 capital instruments	–	
38	Reciprocal cross-holdings in AT1 capital instruments	–	
39	Insignificant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	–	
40	Significant capital investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	–	
41	National specific regulatory adjustments applied to AT1 capital	–	
42	Regulatory deductions applied to AT1 capital due to insufficient Tier 2 capital to cover deductions	–	
43	**Total regulatory deductions to AT1 capital**	–	
44	**AT1 capital**	–	
45	**Tier 1 capital (Tier 1 = CET1 + AT1)**	**19,832,199**	
	Tier 2 capital: instruments and provisions		
46	Qualifying Tier 2 capital instruments plus any related share premium	–	
47	Capital instruments subject to phase out arrangements from Tier 2 capital	–	
48	Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group)	–	
49	of which: capital instruments issued by subsidiaries subject to phase out arrangements	–	
50	Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	960,509	(1) + (8)
51	**Tier 2 capital before regulatory deductions**	**960,509**	
	Tier 2 capital: regulatory deductions		
52	Investments in own Tier 2 capital instruments	–	
53	Reciprocal cross-holdings in Tier 2 capital instruments	–	
54	Insignificant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	103,885	(9)
55	Significant capital investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	–	
56	National specific regulatory adjustments applied to Tier 2 capital	–	
56a	Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital	–	
57	**Total regulatory deductions to Tier 2 capital**	**103,885**	
58	**Tier 2 capital**	**856,624**	
59	**Total capital (Total capital = Tier 1 + Tier 2)**	**20,688,823**	
60	**Total risk weighted assets**	**108,627,831**	

2 Capital structure and adequacy (Continued)

		Component of regulatory capital reported by bank	Cross-referenced to balance sheet under regulatory scope of consolidation
Capital ratios (as a percentage of risk weighted assets)			
61	CET1 capital ratio	18.3%	
62	Tier 1 capital ratio	18.3%	
63	Total capital ratio	19.0%	
64	Institution specific buffer requirement (minimum CET1 capital requirement as specified in s.3B of the BCR plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB or D-SIB requirements)	4.5%	
65	of which: capital conservation buffer requirement	0.0%	
66	of which: bank specific countercyclical buffer requirement	0.0%	
67	of which: G-SIB and D-SIB buffer requirement	0.0%	
68	CET1 capital surplus over the minimum CET1 requirement and any CET1 capital used to meet the Tier 1 and Total capital requirement under s.3B of the BCR	13.8%	
National minima (if different from Basel 3 minimum)			
69	National CET1 minimum ratio	Not applicable	
70	National Tier 1 minimum ratio	Not applicable	
71	National Total capital minimum ratio	Not applicable	
Amounts below the thresholds for deduction (before risk weighting)			
72	Insignificant capital investments in CET1 capital instruments, AT1 capital instruments and Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	2,070,523	
73	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	389,881	
74	Mortgage servicing rights (net of related tax liability)	Not applicable	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	Not applicable	
Applicable caps on the inclusion of provisions in Tier 2 capital			
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the basic approach and the standardised (credit risk) approach (prior to application of cap)	960,509	
77	Cap on inclusion of provisions in Tier 2 under the basic approach and the standardised (credit risk) approach	1,247,689	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach (prior to application of cap)	–	
79	Cap for inclusion of provisions in Tier 2 under the IRB approach	–	
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)			
80	Current cap on CET1 capital instruments subject to phase out arrangements	Not applicable	
81	Amount excluded from CET1 capital due to cap (excess over cap after redemptions and maturities)	Not applicable	
82	Current cap on AT1 capital instruments subject to phase out arrangements	–	
83	Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)	–	
84	Current cap on Tier 2 capital instruments subject to phase out arrangements	–	
85	Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)	–	

2 Capital structure and adequacy (Continued)

Note to the template:

Element where a more conservative definition has been applied in the BCR relative to that set out in Basel III capital standards:

Row No.	Description	Hong Kong basis	Basel III basis
10	**Deferred tax assets net of deferred tax liabilities ('DTA')**	**44,016**	–
	Explanation As set out in paragraphs 69 and 87 of the Basel III text issued by the Basel Committee (December 2010), DTAs that rely on future profitability of the bank to be realised are to be deducted, whereas DTAs which relate to temporary differences may be given limited recognition in CET1 capital (and hence be excluded from deduction from CET1 capital up to the specified threshold). In Hong Kong, an authorised institution is required to deduct all DTAs in full, irrespective of their origin, from CET1 capital. Therefore, the amount to be deducted as reported in row 10 may be greater than that required under Basel III. The amount reported under the column 'Basel III basis' in this box represents the amount reported in row 10 (i.e. the amount reported under the 'Hong Kong basis') adjusted by reducing the amount of DTAs to be deducted which relate to temporary differences to the extent not in excess of the 10% threshold set for DTAs arising from temporary differences and the aggregate 15% threshold set for mortgage servicing rights, DTAs arising from temporary differences and significant investments in CET1 capital instruments issued by financial sector entities (excluding those that are loans, facilities and other credit exposures to connected companies) under Basel III.		
Remarks: The amount of the 10%/ 15% thresholds mentioned above is calculated based on the amount of CET1 capital determined under the BCR.			

Abbreviations:
CET1 = Common Equity Tier 1
AT1 = Additional Tier 1

2 Capital structure and adequacy (Continued)

The Main Features Template as at 31st December 2015 and 2014 is shown below:

1	Issuer	Shanghai Commercial Bank Limited
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	NA
3	Governing law(s) of the instrument	Laws of Hong Kong
	Regulatory treatment	
4	Transitional Basel III rules#	NA
5	Post-transitional Basel III rules+	Common Equity Tier 1
6	Eligible at solo* / group / group & solo	Solo and Group
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares
8	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	HK$2,000
9	Par value of instrument	NA
10	Accounting classification	Shareholders' equity
11	Original date of issuance	1951, 1968, 1969 ,1970, 1972, 1973, 1975, 1979, 1981, 1985, 1988, 1990, 1991, 1996, 2000
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	NA
16	Subsequent call dates, if applicable	NA
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	NA
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	NA
25	If convertible, fully or partially	NA
26	If convertible, conversion rate	NA
27	If convertible, mandatory or optional conversion	NA
28	If convertible, specify instrument type convertible into	NA
29	If convertible, specify issuer of instrument it converts into	NA
30	Write-down feature	No
31	If write-down, write-down trigger(s)	NA
32	If write-down, full or partial	NA
33	If write-down, permanent or temporary	NA
34	If temporay write-down, description of write-up mechanism	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	NA
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	NA

Footnote:

Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H of the BCR

\+ Regulatory treatment of capital instruments not subject to transitional arrangement provided for in Schedule 4H of the BCR

* Include solo-consolidated

NA Not applicable

3 Capital charges for credit, market and operational risks

The capital requirements for each class of exposures are summarised as follows:

(a) Capital charge for credit risk

	2015	2014
Sovereign exposures	2,241	5,783
Public Sector Entity exposures	592	1,205
Bank exposures	2,122,823	2,346,140
Securities Firm exposures	1,492	2,702
Corporate exposures	3,363,945	3,263,504
Cash items	5,970	7,001
Regulatory Retail exposures	308,890	316,254
Residential Mortgage Loans	502,260	521,709
Other exposures which are not past due exposures	1,077,860	1,045,227
Past due exposures	18,305	5,478
Total capital charge for on-balance sheet exposures	7,404,378	7,515,003
Direct credit substitutes	173,734	183,126
Trade-related contingencies	30,030	52,385
Forward forward deposits placed	16,082	131,593
Other commitments	150,620	91,577
Exchange rate contracts	24,692	7,172
Total capital charge for off-balance sheet exposures	395,158	465,853
Credit valuation adjustment	13,051	4,350
Total capital charge for credit risk	7,812,587	7,985,206

The Group uses the Standardised Approach for calculating credit risk.

This disclosure is made by multiplying the Group's risk-weighted amount derived from the relevant calculation approach by 8%, not the Group's actual 'regulatory capital'.

(b) Capital charge for market risk

	2015	2014
Interest rate exposures (non-securitisation)	40,034	13,453
Equity exposures	4,650	27,866
Foreign exchange exposures	177,760	192,080
Capital charge for market risk	222,444	233,399

The Group uses the Standardised Approach for calculating market risk.

(c) Capital charge for operational risk

	2015	2014
Capital charge for operational risk	509,455	471,621

The Group uses the Basic Indicator Approach for calculating operational risk.

4 Risk management

(a) Credit risk

(i) Credit risk exposures

Standard & Poor's Ratings Services, Moody's Investors Service and Rating and Investment Information, Inc. are the ECAIs that the Group has used in relation to each and all classes of credit risk exposures below. The process it used to map ECAI issuer ratings to exposures booked in its banking book is a process as prescribed in Part 4 of the BCR.

As at 31st December 2015

	Total exposures	Exposures after recognised credit risk mitigation		Risk-weighted amounts		Total risk-weighted amounts
		Rated	Unrated	Rated	Unrated	
A. On-balance Sheet						
1 Sovereign	17,201,619	17,224,992	–	28,012	–	28,012
2 Public Sector Entity	36,990	36,990	–	7,398	–	7,398
3 Multilateral Development Bank	16,285	16,285	–	–	–	–
4 Bank	63,666,074	63,021,319	2,585,608	25,760,713	774,579	26,535,292
5 Securities Firm	37,293	–	37,293	–	18,647	18,647
6 Corporate	46,998,204	4,374,585	39,644,774	2,404,534	39,644,774	42,049,308
7 Cash Items	337,519	–	1,385,493	–	74,626	74,626
8 Regulatory Retail	5,167,595	–	5,148,160	–	3,861,120	3,861,120
9 Residential Mortgage Loans	11,277,800	–	11,270,964	–	6,278,248	6,278,248
10 Other exposures which are not Past Due Exposures	12,913,129	2,015,591	10,890,454	2,015,591	11,457,658	13,473,249
11 Past Due Exposures	182,578	–	182,578	–	228,810	228,810
B. Off-balance Sheet						
1 Off-balance sheet exposures other than OTC derivative transactions	5,626,780	1,213,898	4,412,882	296,600	4,334,228	4,630,828
2 OTC derivative transactions	711,092	682,205	28,887	279,986	28,668	308,654

As at 31st December 2014

	Total exposures	Exposures after recognised credit risk mitigation		Risk-weighted amounts		Total risk-weighted amounts
		Rated	Unrated	Rated	Unrated	
A. On-balance Sheet						
1 Sovereign	10,562,384	10,585,762	–	72,289	–	72,289
2 Public Sector Entity	75,341	75,341	–	15,068	–	15,068
3 Multilateral Development Bank	16,687	16,687	–	–	–	–
4 Bank	63,527,015	62,165,302	5,193,124	27,593,300	1,733,446	29,326,746
5 Securities Firm	67,558	–	67,558	–	33,779	33,779
6 Corporate	47,470,168	4,372,929	38,232,406	2,561,392	38,232,406	40,793,798
7 Cash Items	416,602	–	1,446,059	–	87,513	87,513
8 Regulatory Retail	5,276,383	–	5,270,896	–	3,953,173	3,953,173
9 Residential Mortgage Loans	11,028,901	–	11,022,059	–	6,521,357	6,521,357
10 Other exposures which are not Past Due Exposures	12,487,601	1,934,933	10,545,584	1,934,933	11,130,406	13,065,339
11 Past Due Exposures	61,859	–	61,859	–	68,478	68,478
B. Off-balance Sheet						
1 Off-balance sheet exposures other than OTC derivative transactions	12,522,056	8,456,686	4,065,370	1,755,408	3,978,107	5,733,515
2 OTC derivative transactions	235,453	198,971	36,482	53,673	35,977	89,650

As at 31st December 2015, the credit risk to corporate and past due exposures are covered by recognised collateral of HK$1,047,974,000 (2014: HK$1,029,457,000) and HK$90,114,000 (2014: HK$48,620,000) respectively.

As at 31st December 2015, the credit risk to corporate, regulatory retail, residential mortgage loans, other exposures which are not past due exposures and off-balance sheet exposures other than OTC derivative transactions are covered by recognised guarantees of HK$2,397,965,000 (2014: HK$4,596,765,000), HK$19,435,000 (2014: HK$5,487,000), HK$6,836,000 (2014: HK$6,842,000), HK$7,084,000 (2014: HK$7,084,000) and HK$150,000,000 (2014: HK$195,000,000) respectively.

4 Risk management (Continued)

(a) Credit risk (Continued)

(ii) Counterparty credit risk exposures

The following table summarises the Group's main credit exposures arising from OTC derivative transactions:

	2015	2014
OTC derivatives:		
Gross total positive fair value	224,414	102,225
Credit equivalent amounts	711,092	235,453
Risk weighted amounts	308,654	89,650

The breakdown of the credit equivalent amounts and the risk-weighted amounts is summarised as follows:

	2015	2014
Notional amounts:		
– Banks	47,124,024	12,248,968
– Corporates	1,327,137	1,048,692
– Others	170,195	25,128
	48,621,356	13,322,788
Credit equivalent amounts:		
– Banks	679,818	195,205
– Corporates	29,344	39,749
– Others	1,930	499
	711,092	235,453
Risk-weighted amounts:		
– Banks	278,793	49,907
– Corporates	27,964	39,331
– Others	1,897	412
	308,654	89,650

As at 31st December 2015, the default risk exposure, capital charge and risk-weighted amount under the standardised credit valuation adjustment method are HK$708,589,000, HK$13,051,000 and HK$163,138,000 respectively (2014: HK$235,453,000, HK$4,350,000 and HK$54,375,000 respectively).

4 Risk management (Continued)

(b) Asset securitisation

There are no such exposures for the years ended 31st December 2015 and 2014.

(c) Equity exposures in banking book

Equity holdings in other entities are accounted for in accordance with the underlying intentions of holdings at the inception of acquisition. The classifications for equity holdings taken for relationship and strategic purposes will be separated from those taken for other purposes (including capital appreciation). Investments in equity shares which are intended to be held on a continuing basis, but which do not comprise investments in joint ventures or subsidiaries, are classified as 'Available-for-sale Investments' and are reported in the statement of financial position.

Gains/ (losses) related to equity exposures are as follows:

	2015	2014
Realised gains from sales during the year	–	–
Unrealised revaluation gains at year ended:		
– Amount included in reserves but not through income statement	2,025,578	1,829,023

(d) Interest rate exposures in banking book

2015

	Currency				
Equivalent in Hong Kong Dollars	HKD	USD	RMB	Others	Total
Interest rate risk shock (200 basis points upward) Increase/ (decline) in earnings	(205,630)	323,259	(120,090)	(10,023)	(12,484)

2014

	Currency				
Equivalent in Hong Kong Dollars	HKD	USD	RMB	Others	Total
Interest rate risk shock (200 basis points upward) Increase/ (decline) in earnings	131,087	(2,136)	40,417	(7,414)	161,954

For 2015 and 2014, the effect of decline in earnings and increase in earnings with interest rate risk shock of 200 basis points downward are contra to that with interest rate risk shock of 200 basis points upward.

The above analysis is based on the methodology as set out by the Hong Kong Monetery Authority ('HKMA') in the completion instructions for the 'Return of Interest Rate Risk Exposure' which is compiled on a quarterly basis.

5 Leverage ratio

The leverage ratios represent the consolidated ratios computed in the same regulatory consolidation basis as the capital adequacy ratio. The table below presents the Summary Comparison Table as at 31st December 2015 and 2014.

		Leverage ratio framework	
	Item	**2015**	2014
1	Total consolidated assets as per published financial statements	**159,613,282**	152,468,513
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	**(185,990)**	(148,632)
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	**–**	–
4	Adjustments for derivative financial instruments	**534,655**	154,172
5	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	**–**	–
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	**9,136,510**	15,345,784
7	Other adjustments	**(1,602,788)**	(1,353,732)
8	Leverage ratio exposure	**167,495,669**	166,466,105

The Leverage Ratio Common Disclosure Template as at 31st December 2015 and 2014 is shown below:

		Leverage ratio framework	
	Item	**2015**	2014
	On-balance sheet exposures		
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	**159,458,376**	152,479,550
2	Less: Asset amounts deducted in determining Basel III Tier 1 capital (reported as negative amounts)	**(1,858,584)**	(1,615,644)
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	**157,599,792**	150,863,906
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	**224,712**	102,243
5	Add-on amounts for PFE associated with all derivatives transactions	**534,655**	154,172
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	**–**	–
7	Less: Deductions of receivables assets for cash variation margin provided in derivatives transactions (reported as negative amounts)	**–**	–
8	Less: Exempted CCP leg of client-cleared trade exposures (reported as negative amounts)	**–**	–
9	Adjusted effective notional amount of written credit derivatives	**–**	–
10	Less: Adjusted effective notional offsets and add-on deductions for written credit derivatives (reported as negative amounts)	**–**	–
11	Total derivative exposures (sum of lines 4 to 10)	**759,367**	256,415
	Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	**–**	–
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets (reported as negative amounts)	**–**	–
14	CCR exposure for SFT assets	**–**	–
15	Agent transaction exposures	**–**	–
16	Total securities financing transaction exposures (sum of lines 12 to 15)	**–**	–

5 Leverage ratio (Continued)

		Leverage ratio framework	
	Item	**2015**	2014
	Other off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	**44,431,986**	45,057,231
18	Less: Adjustments for conversion to credit equivalent amounts (reported as negative amounts)	**(35,295,476)**	(29,711,447)
19	Off-balance sheet items (sum of lines 17 and 18)	**9,136,510**	15,345,784
	Capital and total exposures		
20	Tier 1 capital	**20,432,487**	19,832,199
21	Total exposures (sum of lines 3, 11, 16 and 19)	**167,495,669**	166,466,105
	Leverage ratio		
22	Basel III leverage ratio	**12.20%**	11.91%

Abbreviations:

CCP = Central counterparty
CCR = Counterparty credit risk
PFE = Potential future exposure
SFT = Securities financing transactions

6 Non-bank mainland exposures

The Bank

	2015			2014		
Types of counterparties	**On-balance sheet exposures**	**Off-balance sheet exposures**	**Total**	On-balance sheet exposures	Off-balance sheet exposures	Total
1. Central government, central government-owned entities and their subsidiaries and joint ventures	**1,999,232**	**29,681**	**2,028,913**	1,788,968	–	1,788,968
2. Local governments, local government-owned entities and their subsidiaries and joint ventures	**–**	**–**	**–**	88,342	–	88,342
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and joint ventures	**2,666,392**	**788,832**	**3,455,224**	2,629,650	756,512	3,386,162
4. Other entities of central government not reported in item 1 above	**626,137**	**–**	**626,137**	38,785	–	38,785
5. Other entities of local governments not reported in item 2 above	**–**	**–**	**–**	–	–	–
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	**3,872,365**	**762,751**	**4,635,116**	3,753,422	1,582,343	5,335,765
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	**513,103**	**88**	**513,191**	618,823	–	618,823
Total	**9,677,229**	**1,581,352**	**11,258,581**	8,917,990	2,338,855	11,256,845
Total assets after provision	**149,656,291**			144,037,531		
On-balance sheet exposures as percentage of total assets	**6.47%**			6.19%		

7 Currency concentrations

Equivalent in Hong Kong dollars	2015 Spot assets	Spot liabilities	Forward purchases	Forward sales	Net long/ (short) position	Net structural position
US Dollars	54,699,000	(49,089,000)	39,797,000	(27,952,000)	17,455,000	5,687,000
Pound Sterling	3,156,000	(3,145,000)	335,000	(331,000)	15,000	28,000
Renminbi	18,440,000	(16,811,000)	6,627,000	(7,280,000)	976,000	1,309,000
Canadian Dollars	1,406,000	(1,391,000)	67,000	(82,000)	–	–
Australian Dollars	3,703,000	(3,871,000)	1,113,000	(952,000)	(7,000)	–
Other currencies and gold	2,620,000	(2,682,000)	1,623,000	(1,544,000)	17,000	–
	84,024,000	(76,989,000)	49,562,000	(38,141,000)	18,456,000	7,024,000

Equivalent in Hong Kong dollars	2014 Spot assets	Spot liabilities	Forward purchases	Forward sales	Net long/ (short) position	Net structural position
US Dollars	52,117,000	(44,072,000)	7,714,000	(11,324,000)	4,435,000	5,265,000
Pound Sterling	3,434,000	(3,419,000)	42,000	(35,000)	22,000	17,000
Renminbi	21,737,000	(20,309,000)	3,851,000	(3,410,000)	1,869,000	436,000
Canadian Dollars	1,437,000	(1,446,000)	25,000	(16,000)	–	–
Australian Dollars	5,055,000	(5,030,000)	550,000	(549,000)	26,000	–
Other currencies and gold	2,527,000	(2,487,000)	681,000	(730,000)	(9,000)	–
	86,307,000	(76,763,000)	12,863,000	(16,064,000)	6,343,000	5,718,000

Net structural position includes structural positions of the Bank's overseas branches and subsidiaries. Structural assets and liabilities include:

– investments in properties and equipment, net of depreciation;

– capital, statutory reserves and unremitted profits of overseas branches; and

– investments in overseas subsidiaries and related company.

The above disclosure is based on the significance of the Group's foreign currency exposures of the current year.

8 Disclosure on Remuneration

GUIDING PRINCIPLES

The Bank is committed to sustaining long-term capital preservation and financial strength for the benefits of all stakeholders. The Remuneration Policy (the 'Policy') of the Bank is designed to promote fairness and consistency in the compensation approach; to attract, motivate and retain talents, as well as to help achieve the business goals under prudent risk management principles.

The Policy applies to the Bank in Hong Kong and its subsidiaries, where appropriate. While the basic principles are applicable to foreign branches, they are also subject to their local regulatory requirements in respective jurisdictions.

REMUNERATION COMMITTEE

The Remuneration Committee (the 'Committee') is established with written Terms of Reference defining its authority and duties to oversee the formulation and implementation of a sound remuneration policy by the Bank, and to ensure its consistency with the best practices and applicable legal and regulatory requirements.

Directly appointed by the Board of the Bank, majority of the members of the Committee are Independent Non-executive Directors. The Committee is chaired by Mr. Hung-ching Yung. The other members are Dr. Richard Lee and Mr. Johnson Mou Daid Cha.

The Committee reviews the Policy and the remuneration structure at least annually and the Policy will be submitted to the Board for approval. In 2015, the Committee held two meetings. The review covered the composition and changes in the senior management team, a discussion on the remuneration deferment arrangement, the risk level and financial stability of the Bank, and the vesting of variable remuneration with reference to the risk appetite and the risk exposure of the Bank.

The Committee may at its discretion seek information and recommendations from relevant internal departments or independent consultant as appropriate when conducting the review. In 2015, the Committee has not sought advice from external consultant on remuneration matters.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Committee is responsible for making recommendations to the Board on the formulation and review of the remuneration packages for Directors, the Chief Executive and Senior Management, with reference to the Bank's financial condition and future prospect, risk management framework, reward and people strategies. Such packages are subject to the final approval of the Board.

No individual Director/ Staff or any of his/ her associates shall be involved in deciding his/ her own remuneration package.

REMUNERATION STRUCTURE

The remuneration package is a combination of fixed and variable remuneration. Fixed remuneration consists of basic salary, allowances, double pay and provident fund contribution. Variable remuneration takes into account the overall performance of the Bank and individual business units, while individual performance is measured against the established key performance indicators, adherence to risk management policies, compliance with legal and regulatory requirements and ethical standards. The variable remuneration is awarded in the form of cash bonus.

A proportion of the variable remuneration will be deferred and the vesting criteria of the deferred payment are subject to the impact of financial and non-financial factors over a period of time.

PERFORMANCE MEASUREMENTS AND THE DISTRIBUTION OF VARIABLE REMUNERATION

The Bank maintains a performance evaluation scheme to ensure individual staff performance would be differentiated into various levels, and be adequately and effectively evaluated. Final approval of the discretionary bonus which is all cash-based is determined by various quantitative and qualitative assessment criteria set out in the performance appraisal system.

The employees within risk control functions are remunerated independently. The performance of business units where they oversee does not affect their remuneration.

When deciding the remuneration measures, the Bank shall also take into account certain key risk factors such as its asset quality, liquidity position, business environments, respective staff performance, the overall business results as well as long-term financial position. The established remuneration measures continued to apply in 2015. The timing and the portion of the performance-related bonus distribution are vested in the Committee and finally with the Board. The bonus (or part of it) may be withheld if the Bank's performance is not justified, or if the business objectives are not achieved, or when it is necessary to protect the financial soundness of the Bank.

8 Disclosure on Remuneration (Continued)

DEFERRAL ARRANGEMENTS

In view of the Bank's existing business model and organisation structure, a portion of the discretionary bonus payment of senior management is subject to deferment and a vesting period of three years in order to align with the long-term value creation and time horizons of risk. In circumstances where it is later established that any performance measurement is proven to have been manifestly misstated, or it is later established that the employee concerned has committed fraud, malfeasance, or has violated material internal control policies or breached the relevant rules and regulations, a claw back of unvested deferred variable remuneration shall apply.

SENIOR MANAGEMENT AND KEY PERSONNEL REMUNERATION

Aggregate quantitative information on remuneration for the Bank's senior management and key personnel during the year, split into fixed and variable remuneration, is set out below:

	2015		2014	
Total value of remuneration awards for the current financial year	Non-deferred	Deferred	Non-deferred	Deferred
Fixed remuneration				
Number of Beneficiaries	17		17	
• Cash-based	38,984	Nil	37,510	Nil
Variable remuneration				
Number of Beneficiaries	14		14	
• Cash-based	21,691	2,092	23,728	2,327
Deferred remuneration				
• Vested cash	–	2,250	–	2,446
• Unvested cash	–	4,267	–	4,664

Notes:

(i) Remuneration refers to all remuneration payable to employees during the year when being appointed as senior management.

(ii) Senior management refers to those executives who are also key personnel of the Bank, including the Chief Executive and division heads of major businesses and operations at the rank of Executive Vice President or above. There are 17 employees categorised as senior management and key personnel during the year 2015. Number of key personnel other than those senior management described during the year 2015 is nil. No senior management or key personnel has been awarded or paid guaranteed bonus or severance payment during the years of 2015 and 2014.

(iii) The unvested deferred remuneration relates to the 2013, 2014 and 2015 variable remuneration.

(iv) No deferred variable remuneration had been reduced through performance adjustments or due to ex post explicit or implicit adjustments in 2015 and 2014.

The Bank has complied with the disclosure requirements set out in Part 3 of the Supervisory Policy Manual CG-5 'Guideline on a Sound Remuneration System' issued by the HKMA.

BRANCHES AND SUBSIDIARIES

Management and Administration

35/F., Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong
Telephone: (852) 2841 5415
Fax: (852) 2810 4623
SWIFT: SCBK HK HH
Web Site: www.shacombank.com.hk

Hong Kong Island Branches

Retail Banking Operations - Central	Basement, Manning House, 48 Queen's Road Central
Aberdeen Branch	118 Aberdeen Main Road, Aberdeen
Causeway Bay Branch	18 Pennington Street, Causeway Bay
Hennessy Road Branch	Shop LG16, C. C. Wu Building, 302 Hennessy Road, Wanchai
North Point Branch	486 King's Road, North Point
President Theatre Branch	Shop A, G/F., 517 Jaffe Road, Causeway Bay
Shaukiwan Branch	136 Shaukiwan Main Street East, Shaukiwan
Sheung Wan Branch	G/F., 41-47 Jervois Street, Sheung Wan
Siu Sai Wan Branch	Shop 9, G/F., Harmony Garden, 9 Siu Sai Wan Road, Chai Wan
Taikoo Shing Branch	G502 Tai Yue Avenue, Taikoo Shing, Quarry Bay
Victoria Centre Branch	G7 Victoria Centre, 15 Watson Road, Causeway Bay
Wanchai Branch	19-21 Hennessy Road, Wanchai
West Point Branch	47 Catchick Street, West Point

Kowloon Branches

Jordan Road Branch	Shop 2, G/F., Sino Cheer Plaza, 23 Jordan Road, Jordan
Kowloon Bay Branch	Telford House, 16 Wang Hoi Road, Kowloon Bay
Kowloon Tong Branch	G28 Franki Centre, 320 Junction Road, Kowloon Tong
Kwun Tong Branch	57-61 Hong Ning Road, Kwun Tong
Laichikok Branch	Shops 5-8, G/F., Lai Kwan Court, 438 Castle Peak Road
Mei Foo Sun Chuen (Stage 1) Branch	29D Broadway, Mei Foo Sun Chuen, Laichikok
Mei Foo Sun Chuen (Stage 4) Branch	83B Broadway, Mei Foo Sun Chuen, Laichikok
Mody Road Branch	Units 101-103, 1/F., Wing On Plaza, 62 Mody Road, Tsimshatsui East
Mongkok Branch	666 Nathan Road, Mongkok
Ping Shek Estate Branch	115 Tsuen Shek House, Ping Shek Estate, Ngau Chi Wan
Sanpokong Branch	28 Hong Keung Street, Sanpokong
Sham Shui Po Branch	141 Cheung Sha Wan Road, Sham Shui Po
Tokwawan Branch	60 Tokwawan Road, Tokwawan
Tsimshatsui Branch	7 Hankow Road, Tsimshatsui
Tsimshatsui East Branch	G27 Houston Centre, 63 Mody Road, Tsimshatsui East
Waterloo Road Branch	84K Waterloo Road, Homantin
Whampoa Garden Branch	Shop 9, Palm Mansions, Whampoa Garden, Site 4, Hunghom
Wong Tai Sin Branch	Shop 117, 1/F., Temple Mall North, 136 Lung Cheung Road, Wong Tai Sin

New Territories and Outlying Island Branches

Kingswood Villa Branch	Shop G08, G/F., Phase 2, Kingswood Ginza, 18 Tin Yan Road, Tin Shui Wai
Kwai Chung Branch	Shop 3, Hutchison Estate, 482 Castle Peak Road, Kwai Chung
Ma On Shan Branch	Shop 308, Level 3, Ma On Shan Plaza, 608 Sai Sha Road, Ma On Shan
Shatin Branch	Shop 70B, Level 3, Shatin Centre, Wang Pok Street, Shatin
Sheung Shui Branch	82 San Fung Avenue, Sheung Shui
Tai Po Branch	Shop 54, Level 1, Uptown Plaza, 9 Nam Wan Road, Tai Po
Texaco Road Branch	Shops B128-131, East Asia Commercial Centre, 36-60 Texaco Road, Tsuen Wan
Tseung Kwan O Branch	Shops G1-2, G/F., Metro City Plaza III, The Metropolis, 8 Mau Yip Road, Tseung Kwan O
Tsuen Wan Branch	405 Castle Peak Road, Tsuen Wan
Tuen Mun Branch	Shop 1-3, G/F., Ming Wai Building, 4-26 Tuen Mun Heung Sze Wui Road, Tuen Mun
Tung Chung Branch	Shops 1-2, Block 5, Tung Chung Crescent, Tung Chung, Lantau
TVB Office	2/F., Workshop Block, TVB City, 77 Chun Choi Street, Tseung Kwan O Industrial Estate
Yuen Long Branch	17 Hong Lok Road, Yuen Long

Overseas Branches

London Branch	65 Cornhill, London, EC3V 3NB, U.K.
Los Angeles Branch	383 East Valley Boulevard, Alhambra, CA 91801, U.S.A.
New York Branch	125 East 56th Street, New York, NY 10022, U.S.A.
San Francisco Branch	231 Sansome Street, San Francisco, CA 94104, U.S.A.

Mainland Branches

Shanghai Branch	Room 913, China Merchants Tower, 161 Lu Jia Zui Road (E), Pu Dong, Shanghai 200120, P.R.C.
Shanghai FTZ Sub-Branch	Room 03-05, 15/F, 55 Ji Long Rd, Pu Dong, Shanghai 200131, P.R.C.
Shenzhen Branch	Room 01-03, 20/F, Tower One, Kerry Plaza, No.1 Zhong Xin Si Road, Futian District, Shenzhen 518048, P.R.C.

Wholly-owned Subsidiaries

Glory Step Investments Limited
Hai Kwang Property Management Company Limited
Infinite Financial Solutions Limited
KCC 23F LImited
KCC 25F LImited
KCC 26F LImited
Right Honour Investments Limited
Shacom Assets Investments Limited
Shacom Futures Limited
Shacom Insurance Brokers Limited
Shacom Investment Limited
Shacom Property (CA) Inc.
Shacom Property (NY) Inc.
Shacom Property Holdings (BVI) Limited
Shacom Securities Limited
Shanghai Commercial Bank (Nominees) Limited
Silver Wisdom Investments Limited

Subsidiaries

Shanghai Commercial Bank Trustee Limited
Paofoong Insurance Company (Hong Kong) Limited