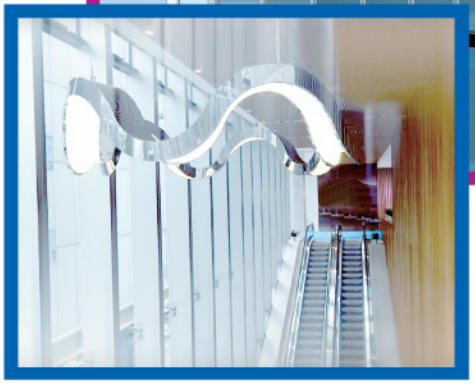
SHANGHAI COMMERCIAL BANK







Building for the Future

2016

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, insurance and 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

	2016	2015	2014	2013	2012
FOR THE YEAR (IN HK$ MILLION)					
Net interest income	**2,637**	2,481	2,518	2,206	1,925
Other operating income	**1,222**	1,147	980	1,144	1,061
Operating expenses	**1,428**	1,277	1,182	1,143	992
Operating profit	**2,410**	2,346	2,302	2,182	2,034
Profit before other comprehensive income attributable to equity holders	**1,909**	1,899	1,896	1,785	1,648
Dividend	**940**	940	940	880	820
AT YEAR END (IN HK$ MILLION)					
Shareholders' funds	**24,308**	22,572	21,679	20,438	19,251
Total assets	**169,369**	159,613	152,469	143,071	137,187
Total deposits	**136,884**	129,205	121,393	113,641	110,682
Total loans and advances	**64,804**	64,376	67,457	62,371	53,977
FINANCIAL RATIOS (IN PERCENTAGE%)					
Capital adequacy ratio*	**18.7**	19.9	19.0	19.6	18.0
Average liquidity maintenance ratio/liquidity ratio**	**49.3**	53.1	46.0	55.3	60.7
Loan to deposit ratio	**47.3**	49.8	55.6	54.9	48.8
Dividend payout ratio	**49.2**	49.5	49.6	49.3	49.7
Return on average assets	**1.2**	1.2	1.3	1.3	1.2

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

** Average liquidity maintenance ratios for 2016 and 2015 were calculated in accordance with the Banking (Liquidity) Rules effective from 1st January 2015. The liquidity ratios for Year 2012 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-sixth Annual General Meeting of the Members of the Bank will be held at its Registered Office, Shanghai Commercial Bank Tower, 12 Queen's Road Central, Hong Kong on Thursday, 13th April 2017 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 2016;
(2) To declare Dividend in respect of the year 2016;
(3) To re-elect Directors;
(4) To approve the payment of Directors' fees for the year ended 31st December 2016;
(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 Thursday, 6th April 2017 to Thursday, 13th April 2017, both days inclusive.

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

Hong Kong, 17th January 2017

BOARD OF DIRECTORS



Front row from left to right

Mr. John Van Antwerp RINDLAUB, Mr. Richard Jason Lloyd YORKE, Mr. Stephen Ching Yen LEE, Mr. Hung-ching YUNG, Madam DAI Lanfang, Mr. JIN Yu

Back row from left to right

Mr. E. Michael FUNG, Mr. Johnson Mou Daid CHA, Dr. Richard LEE, Mr. David Sek-chi KWOK, Mr. CHEN Yih Pin, Mr. Gordon Che Keung KWONG, Mr. John Con-sing YUNG

# Stephen Ching Yen LEE Chairman & Non-executive Director	(elected Chairman on 20th April 2016)
^ David Sek-chi KWOK, *FHKIB, FCIB* Managing Director & Chief Executive	
# Hung-ching YUNG, *JP*	
# Lincoln Chu Kuen YUNG, *JP, FHKIB*	(retired on 20th April 2016)
*** Dr. Richard LEE**	
*** Johnson Mou Daid CHA** (Dr. LAM Chat Yu, Alternate)	(resigned on 1st March 2017)
# CHEN Yih Pin (John Con-sing YUNG, Alternate)	(resigned on 5th May 2016)
*** Gordon Che Keung KWONG, *FCA***	
# Richard Jason Lloyd YORKE (CHANG Hwa Ping, Alternate)	
# 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)	
# DAI Lanfang (YE Jun, Alternate)	
*** E. Michael FUNG**	
# JIN Yu (HUANG Tao, Alternate)	(appointed on 20th January 2016) (appointed on 4th July 2016)
# John Con-sing YUNG	(appointed on 5th May 2016)

^ Executive Director

* 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	Wendy Li-chien WENG Ricky Chi-wai CHAN Edmund Kin-sang LAI Annie Yuen-lin MA Mong-ting CHONG Michael Yiu-wing FUNG Jerome Chee-keong GOH Timothy Wai-tai LAW Clara Chor-hing FUNG
Senior Vice Presidents	Stephen Wing-hing LAI Jenny Chui-yeung CHAU Johnny Chung-pun CHOY Christopher Leung-yuen YEONG Patrick Shu-fun LUI Ka-shing YEUNG

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

DIRECTORS

MR. STEPHEN CHING YEN LEE

Aged 70. Chairman and Non-executive Director. Mr. Lee was appointed a Director of the Bank since June 2004 and was elected Chairman in April 2016. He is the Managing Director of The Shanghai Commercial & Savings Bank, Ltd. since 1979. Mr. Lee has extensive experience in aviation industry, finance, banking and investment. He is also the Chairman of SIA Engineering Company and NTUC Income Insurance Co-operative Limited, Managing Director of Great Malaysia Textile Investments Private Limited, and a Director of CapitaLand Limited and China National Petroleum Corporation.

MR. DAVID SEK-CHI KWOK, FHKIB, FCIB

Aged 63. 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 94. Appointed a Director of the Bank in March 1973. Managing Director of Nanyang Holdings Limited. Chairman of The Shanghai Commercial & Savings Bank, Ltd. and Paofoong Insurance Company (Hong Kong) Limited. A Director of The Wing On Enterprises, Limited.

DR. RICHARD LEE

Aged 79. 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 65. Appointed a Director of the Bank in September 2001. Director of Mingly Corporation, HKR International Limited, Hanison Construction Holdings Limited, China International Capital Corporation Limited and C.M. Capital Advisors (HK) Limited. A board member of the trustee of Qiu Shi Science & Technologies Foundation, a founding member of Moral Education Concern Group and a member of the Finance Committee and of the Council of The University of Science and Technology.

MR. CHEN YIH PIN

Aged 77. 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 67. 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, COSCO SHIPPING Holdings Co., Ltd., and FSE Engineering Holdings Limited.

MR. RICHARD JASON LLOYD YORKE

Aged 49. 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 72. 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. A Director of Cardinal International Leasing, LLC.

MADAM DAI LANFANG

Aged 62. 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 60. Appointed a Director of the Bank in December 2015. Chairman and Principal of SouthBay Investment Advisors Limited. A member of the Financial Services Development Council, Hong Kong from 17 January 2013 to 16 January 2017.

MR. JIN YU

Aged 52. Appointed a Director of the Bank in January 2016. Chairman of Bank of Shanghai and Bank of Shanghai (Hong Kong) Limited. A Director of Shanghai United International Investment Limited.

MR. JOHN CON-SING YUNG

Aged 48. Appointed a Director of the Bank in May 2016 and had served as an Alternate Director of the Bank from March 2013 to May 2016. Director, Executive Vice President and Chief Information Officer of The Shanghai Commercial & Savings Bank, Ltd. A Director of Nanyang Holdings Limited.

MR. IGNATIUS WOOI-KEAN CHOONG

Aged 55. 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.

MR. YE JUN

Aged 44. Served as an Alternate Director of the Bank since July 2009. Appointed an Alternate Director to Madam DAI Lanfang in September 2015. A Director of Bank of Shanghai, Shanghai United International Investment Limited and Sino-US United MetLife Insurance Company Limited.

MR. CHANG HWA PING

Aged 54. 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.

MR. HUANG TAO

Aged 45. Appointed an Alternate Director to Mr. JIN Yu in July 2016. Vice President and Chief Risk Officer of Bank of Shanghai. A Director of Bank of Shanghai (Hong Kong) Limited and Shanghai United International Investment Ltd. Chairman of BOSC International Company Limited.

SENIOR MANAGEMENT

MR. DAVID SEK-CHI KWOK

(Biographical details are set out on page 8)

MR. NAI-PAN TANG

Aged 55. Deputy Chief Executive, Chief Risk Officer of the Bank. Joined the Bank in September 2015.

MR. BURTON CHI-SHAN CHENG

Aged 55. Alternate Chief Executive, Chief of Information Technology & Operations of the Bank. Rejoined the Bank in August 1996.

MS. WENDY LI-CHIEN WENG

Aged 47. Executive Vice President, Chief Financial Controller of the Bank. Joined the Bank in May 2012.

MR. RICKY CHI-WAI CHAN

Aged 45. Executive Vice President, Chief of Product Development of the Bank. Joined the Bank in February 2014.

MR. EDMUND KIN-SANG LAI

Aged 56. Executive Vice President, Chief of Treasury of the Bank. Joined the Bank in December 2014.

MS. ANNIE YUEN-LIN MA

Aged 50. Executive Vice President, Chief of Consumer Banking of the Bank. Joined the Bank in February 2015.

MR. MONG-TING CHONG

Aged 54. Executive Vice President, Chief of Corporate Banking & China Business. Joined the Bank in October 2015.

MR. MICHAEL YIU-WING FUNG

Aged 59. Executive Vice President, Chief Auditor of the Bank. Joined the Bank in September 1982.

MR. JEROME CHEE-KEONG GOH

Aged 44. Executive Vice President, Chief of Property Development of the Bank. Joined the Bank in November 2013.

MR. TIMOTHY WAI-TAI LAW

Aged 40. Executive Vice President, Chief of Legal & Compliance of the Bank. Joined the Bank in May 2016.

MS. CLARA CHOR-HING FUNG

Aged 55. Executive Vice President, Chief of Human Resources of the Bank. Joined the Bank in August 2016.

Grand Opening of the Shanghai Commercial Bank Tower
上海商業銀行大廈隆重開幕

The Bank celebrated the Grand Opening of its newly redeveloped headquarters, the Shanghai Commercial Bank Tower ('SCBT'), 12 Queen's Road Central, on 27 October 2016. The event was well attended by government officials, business leaders and valued customers, and also raised funds for Po Leung Kuk to support their charity programmes and community outreach initiatives.

Standing tall in the heart of Hong Kong's central business district, the SCBT is a testament to the Bank's vision and dedication to providing its customers with the best in personalized banking services. Designed by the acclaimed architectural company, Rocco Design Architects Limited, the 28-storey, state-of-the-art headquarters with over 140,000 sq.ft. in gross floor area was awarded the BEAM Plus "Provisional Gold" Rating.

本銀行位於中環皇后大道中 12 號之新總部大樓上海商業銀行大廈，於 2016 年 10 月 27 日舉行開幕典禮。出席嘉賓包括政府官員、商界領袖及尊貴客戶。大廈開幕典禮亦為保良局籌得款項，以支持其慈善活動及社區外展項目。

座落於香港商業中心的核心地段，上海商業銀行大廈標誌著本銀行為客戶提供最貼心和優質銀行服務的願景及承諾。由著名建築公司許李嚴建築師事務有限公司設計，擁有高端設計元素的總部大樓樓高 28 層，總建築面積超過 140,000 平方呎，並榮獲綠建環評「暫定金級」認證標準。






Shanghai Commercial Bank Tower
Grand Opening Cocktail Reception
27.10.2016


Shanghai Commercia
Grand Opening Cockt







The 17th Tripartite Partnership Conference
第十七屆滬港台‘上海銀行’業務研討會

In October 2016, the Bank hosted the 17th Tripartite Partnership Conference in Hong Kong to foster a closer strategic alliance and collaboration with the Bank of Shanghai in Mainland China and The Shanghai Commercial and Savings Bank in Taiwan. The three banks will continue to leverage on the strategic tri-bank platform to explore new business opportunities and provide customers with smart, personalized cross-strait banking and financial services. In the CEO Forum held at the Conference, the presidents of the three banks pledged a dedicated focus on new challenges, opportunities and innovative strategies going forward.

2016 年 10 月，本銀行於香港主辦第十七屆滬港台‘上海銀行’業務研討會，以促進與國內上海銀行及台灣上海商業儲蓄銀行之策略聯盟及合作關係。三家銀行繼續憑藉已建立的策略夥伴平台，共同開拓新機遇，以及為客戶提供優質及切合個人需要的兩岸三地銀行及金融服務。三行領導於業務研討會當中的 CEO 論壇，更集中聚焦於探討未來的新挑戰與機遇，以及創新策略。

融和開通　多元網路　傳承創新





Enhancing Tripartite Collaboration
加強三行合作範疇

三地上銀　一心為您

The Bank organized workshops for front-line and supporting units during the year to reinforce knowledge sharing and business collaboration with Bank of Shanghai and The Shanghai Commercial and Savings Bank.

本銀行於 2016 年舉辦了前線及中後台業務交流會，以加強與上海銀行及上海商業儲蓄銀行的知識互享及業務合作。



CEO Forum
CEO 論壇



Corporate Banking Workshop
公司金融業務交流會議



Workshop for Support Units
中後台板塊人員交流會議

2016 AT A GLANCE

New Branch Openings
設立新服務據點

The Bank's Retail Banking Operations – Central returned to the new Shanghai Commercial Bank Tower, in October 2016. The contemporary open style reflects the exuberance and openness to provide customers with an extraordinary banking experience. The Bank also opened its new Connaught Road Branch in Central to provide a wide range of personalized wealth management services to high net worth customers in May 2016.

本銀行中區營業部於 2016 年 10 月遷往新總部大樓上海商業銀行大廈，其全新現代化及開放式的分行設計充分展現銀行活力、開放一面，為客戶帶來非凡的銀行體驗。位於中環的干諾道分行亦於 2016 年 5 月投入服務，為高端客戶提供多元化的貼身財富管理服務。



Premium banking centre of Retail Banking Operations
中區營業部之理財中心



Banking hall of Retail Banking Operations in Central
中區營業部大堂



Connaught Road Branch
干諾道分行

KCC Office in Operations
九龍貿易中心辦公室正式運作

Various backend and support units have been relocated to our self-owned premises at Kowloon Commerce Centre, Kwai Chung which offers a more efficient and harmonious work environment.

不同的後勤及支援部門已遷入本銀行位於葵涌九龍貿易中心的自置物業。此新辦公據點為員工提供更具效率及融和的工作環境。





Product and Service Enhancement
產品及服務提升

In 2016, the Bank launched the innovative, first-in-town My Smart Card, a 3-in-1 card combining functions of a security device credit card and ATM card, allowing SMART Banking customers to enjoy both secure online banking services and appealing credit card offers. The Bank also further enhanced its service capability by introducing a wide range of products and services, including SCB JETCO Pay, Shenzhen-Hong Kong Connect A-shares trading, a cash rebate plan for the Reverse Mortgage Programme, and more to cater for the diverse needs of its customers.

本銀行於 2016 年推出嶄新及全港首創，結合了保安編碼器、信用卡及提款卡三項功能於一身的 My Smart Card，讓慧通理財客戶同時享有安全的網上銀行服務及優越的信用卡優惠。本銀行亦推出多類型產品及服務，以進一步提升服務水平，當中包括上海商業JETCO Pay、深股通股票買賣服務、安老按揭計劃現金回贈等等，以滿足客戶的不同需要。



To enhance customers' understanding of the Reverse Mortgage Programme, in 2016, the Bank cooperated with The Hong Kong Mortgage Corporation Limited and implemented a series of promotional activities including two educational seminars.
為讓客戶進一步了解安老按揭計劃，本銀行與香港按揭證券公司於 2016 年合作並推出一系列宣傳活動，其中包括兩場教育講座。



2016 AT A GLANCE

2016 Hong Kong Life Top Producers Convention
2016 香港人壽傑出業務代表會議

The Bank received the Distinguished Bank of the Year – One Star Honor Award and the colleagues for their outstanding sales performance in May 2016 at the Hong Kong Life Top Producers Convention in Lucerne, Switzerland.

2016 年 5 月，本銀行於瑞士琉森舉行的香港人壽傑出業務代表會議中榮獲全年最優秀銀行大獎之一星榮譽大獎，並表揚同事們傑出的銷售表現。



HKIB Outstanding Financial Management Planners Awards 2016
香港銀行學會「2016 傑出財富管理師大獎」

Two colleagues were recognised for their excellent achievements in financial planning with a Gold and a Bronze award at the Outstanding Financial Planners Awards 2016, organized by The Hong Kong Institute of Bankers.

本銀行兩位員工於香港銀行學會主辦的「2016 傑出財富管理師大獎」中，分別獲頒金獎及銅獎，以表揚他們於財富管理上的卓越表現。



Awards and Recognitions
獎項及榮譽



'2016 Best SME's Partner Award' (for the sixth consecutive year) – The Hong Kong General Chamber of Small and Medium Business
「2016 中小企業最佳拍檔獎」(連續 6 年) – 香港中小型企業總商會



'Hong Kong Leaders' Choice 2016 – Excellent Brand of Cross-Border Banking Services Award' (for the third consecutive year) – Metro Finance
「香港企業領袖品牌 2016 – 卓越跨境銀行服務品牌獎」(連續三年) – 新城財經台及新城數碼財經台



'Diversified and Outstanding Securities Services – Gold Award' (for the second consecutive year) – Wen Wei Po
「多元化證券買賣服務金獎」(連續兩年) – 《文匯報》



'Internet Finance Award – Merit Winner in the Financial Institution Category' – Internet Professional Association
「互聯網金融大獎 – 財經服務界優異獎」– 互聯網專業協會



'First World Mastercard Display Card Program (Hong Kong) – My Smart Card' – Mastercard
「首張 World 萬事達顯示卡項目(香港) – My Smart Card」
– 萬事達卡



'Outstanding Digital Brand Award 2016 – Innovative Credit Card Token Generator' – The Chamber of Hong Kong Computer Industry & Metro Broadcast
「香港傑出數碼品牌大獎 2016 –傑出創新保安編碼信用卡」
– 香港電腦商會及新城電台

The Bank reported a consolidated net profit after tax of HK$1,913 million for 2016, an increase of HK$11 million from 2015, which we attributed to the solid performance of the overseas branches in the United States and United Kingdom. Total comprehensive income attributable to equity holders for the year ended 31st December 2016 amounted to HK$2,676 million, representing HK$843 million or 46% over that for the previous year, mainly due to the considerable mark-to-market gain on the shares of Bank of Shanghai following its successful initial public offering in November 2016.

On a year-on-year basis, total loans and advances increased slightly by 0.7% while total customer deposits continued to grow, rising by 5.9%. Our loan-to-deposit ratio dropped from 49.8% to 47.3%. Net interest income increased by 6.3% and net interest margin rose by 5 basis points to 1.69%. Net fee and commission income decreased by 13.7%, with reduced securities brokerage fees partly offset by higher life insurance commission income. Furthermore, during the past year, the Bank gained HK$109 million when we disposed of our equity investment in Preferred Bank, California.

In 2016, the cost-to-income ratio edged higher to 37% against the 2015 yearly average of 35.2%. Operating expenses increased by 11.8% from the prior year, mainly due to premises related expenditures for streamlining our back-end support operations and our continued focus on strengthening manpower resources.

Drawing on robust asset and liability management, the capital and liquidity levels of the Bank continued to stay strong with capital adequacy ratio maintained at 18.7%, and liquidity maintenance ratio averaged at 49.3% for 2016. Returns on average total assets and average equity for the year were 1.2% and 8.1% respectively.

The Bank remains firmly anchored to its motto, 'For Personalized Services', to provide exemplary industry-leading service for all our customers. Technology has also transformed the banking industry. To maintain our ability to provide superlative service, we continue to innovate so that banking with us remains secure, convenient and efficient. In 2016, we were the first bank in Hong Kong to introduce 'My Smart Card', a three-in-one card product that combines a credit card, an ATM card and a security token. We also debuted 'SCB JETCO Pay', a user-friendly peer-to-peer money transfer service, 'Mobile Futures Trading', a reliable and convenient trading platform offering competitive rates, and 'Straight Through Processing' for our general insurance products and securities account opening. In the coming months, we plan to roll out additional initiatives to further enhance our customers online and mobile banking experience. Apart from broadening the revenue stream, we also gear up to reinforce a robust and effective 'Three Lines of Defence' control system to combat and safeguard against anti-money laundering, cybersecurity threats, and to protect confidential customer data, and etc.

In 2016, the Bank celebrated the grand opening of the Shanghai Commercial Bank Tower in Central, a 28-storey building that features contemporary design with an eye forward environmental sustainability, marking a key milestone in the Bank's development since its establishment in Hong Kong in 1950. While we relocated our head office into the tower, we moved the back-end support operations and data centre to Kowloon Commerce Centre (KCC) in Kwai Chung in order to optimize our resources. In addition, we continued to leverage our unique strategic alliance with The Shanghai Commercial & Savings Bank, Ltd. in Taiwan and the Bank of Shanghai in China, to provide our customers with convenient cross-strait banking and financial services. And as in years past, our longtime presence in United States and United Kingdom places us in an ideal position with strong competitive advantage to provide our customers with solutions tailored to their needs globally.

Corporate social responsibility and environmental sustainability are core tenets of our Bank. We continue to engage in various charitable initiatives; we provide donations to charities and non-governmental organizations; we provide scholarships and internship opportunities to students of local universities and tertiary institutions; we engage over one-third of our staff to volunteer services in helping the needy and promoting sustainable development and live green. We are proud to note that the Shanghai Commercial Bank Tower recently received the BEAM Plus "Provisional Gold" rating from the Hong Kong Green Building Council and our Mongkok Building has been awarded the Wastewi$e Certificate Label by the Environmental Campaign Committee.

Mr. Lincoln Chu Kuen Yung, the former Non-executive Chairman of the Bank, retired on 20th April 2016 upon conclusion of the Sixty-fifth Annual General Meeting. In recognition of his significant contributions during his tenure as Director from September 1998 to April 2016, he was appointed as the Honorary Chairman for two years.

As the United Kingdom continues down the path of formally exiting the European Union and the global economy adjusts to a new U.S. president, 2017 is certain to produce additional uncertainties, which may affect business and consumer confidence. We will continue to monitor the global marketplace in order to best withstand possible volatile market conditions. We note that interest rate hikes are widely expected, which would give the Bank the opportunity to improve its net interest margin and interest income. We also have a number of initiatives that will diversify and differentiate our product and service offerings as well as enhance our fees and commission income, and we plan to debut additional technology-enabled solutions and service platforms to grasp new business opportunities. We also look to continue our emphases on branch rationalization, leveraging our unique international capabilities, and strengthening our business coverage and network in Mainland China. In addition, we plan to further streamline our operations to build manpower competency and comply with regulatory and compliance obligations.

We wish to express our gratitude to our fellow Directors for their wise counsel, to all staff members for their dedication and hard work, and to our customers and shareholders for their continuing support and confidence in the Bank.

Stephen Ching Yen LEE
Chairman

David Sek-chi KWOK
Managing Director & Chief Executive

Hong Kong, 15th March 2017

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 2016.

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. The principal activities of the Bank's subsidiaries are set out in Note 25A to the consolidated financial statements.

Business review

A review of the business of the Group for the year ended 31st December 2016 and a discussion on the Group's future business development are set out in the sections headed 'Five-Year Financial Summary', '2016 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.

In addition, discussions on the Group's environmental policies and relationships with the key stakeholders and compliance with relevant laws and regulations which have significant impact on the Group can be found in separate sections under 'Corporate Governance Report' and 'Message to Shareholders' included in this Annual Report.

Results and appropriations

The profits of the Group for the year ended 31st December 2016 are set out in the consolidated statement of profit or loss on page 42 of this Annual Report.

The Directors recommend the payment of a final dividend of HK$47 (2015: HK$47) per ordinary share totalling HK$940,000,000 (2015: 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 33 to the consolidated financial statements.

Equity-linked agreements

For the year ended 31st December 2016, 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$9,739,000 (2015: HK$4,704,000).

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	(retired on 20th April 2016)
*** Dr. Richard LEE**	
*** Johnson Mou Daid CHA**	
(Dr. LAM Chat Yu, Alternate)	(resigned on 1st March 2017)
^ David Sek-chi KWOK	
# Stephen Ching Yen LEE	
# CHEN Yih Pin	
(John Con-sing YUNG, Alternate)	(resigned on 5th May 2016)
*** Gordon Che Keung KWONG**	
# Richard Jason Lloyd YORKE	
(CHANG Hwa Ping, Alternate)	
# 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)	
# DAI Lanfang	
(YE Jun, Alternate)	
*** E. Michael FUNG**	
# JIN Yu	(appointed on 20th January 2016)
(HUANG Tao, Alternate)	(appointed on 4th July 2016)
# John Con-sing YUNG	(appointed on 5th May 2016)

^ Executive Director

* Independent Non-executive Directors

Non-executive Directors

In accordance with Article 104(A) of the Bank's Articles of Association, Mr. Hung-ching YUNG, Mr. Stephen Ching Yen LEE, Mr. CHEN Yih Pin and Mr. John Van Antwerp RINDLAUB 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, Mr. John Con-sing YUNG shall retire at the forthcoming Annual General Meeting and, being eligible, offer himself for re-election.

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.

Mr. Lincoln Chu Kuen YUNG retired as a Non-executive Director of the Bank upon conclusion of the Sixty-fifth Annual General Meeting on 20th April 2016. Mr. YUNG 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.

Dr. LAM Chat Yu resigned on 1st March 2017 as an Alternate Director to Mr. Johnson Mou Daid CHA. Dr. LAM 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 names of all directors who 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:

Natural Person

Hung-ching YUNG, David Sek-chi KWOK, Lincoln Chu Kuen YUNG*, Ricky Chi-wai CHAN, Timothy Kam-tim CHAN, CHAN Pak Cheung, Burton Chi-shan CHENG, CHENG Ming Ho, CHIOU Yi-jen, Jerome Chee-keong GOH, Eric Wing-hong KO, Jason Chin-keung LAW, Matthew Wai-hung LAW, Philip She-hoi LEE, LI Yiu Ki, Viene Oi-na KO*, Brenda Fen LEE, Joysse Yuk-ling MO*, Riggs Kwok-ching TAM, Wendy Li-chien WENG, Philip Wing-cheong WONG, Sammy Tak-keung WONG, William Wai-leung WONG, Amanda Lai-yun YIU*

*He/ She has resigned as a director of the relevant subsidiary of the Bank.

Body Corporation

Right Honour Investments Limited, Shanghai Commercial Bank Limited

Directors' interests

At no time during the year were the Bank, its subsidiaries, its fellow subsidiaries or its holding companies a 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' 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 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 Hong Kong Monetary Authority ('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 that are relevant to the Bank.

Auditor

The consolidated financial statements have been audited by PricewaterhouseCoopers who will retire at the forthcoming Annual General Meeting of the Bank and, being eligible, offer themselves for re-appointment.

On behalf of the Board
Stephen Ching Yen LEE
Chairman

Hong Kong, 15th March 2017

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 (the 'CG Code') as stated in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the 'Listing Rules'). 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 CG Code that are relevant to the Bank.

The Bank which is an authorized institution supervised by the Hong Kong Monetary Authority ('HKMA') under the Banking Ordinance is also subject to, and during the year has complied with, Supervisory Policy Manual CG-1 on Corporate Governance of Locally Incorporated Authorized Institutions ('SPM CG-1') issued by the HKMA on 3rd August 2012 except for the required number of Independent Non-executive Directors.

Board of Directors

The Board is ultimately responsible for the operations and financial soundness of the Bank and all Directors have acted bona fide in the best 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 ('Articles'), and the Board should adhere to the standards set out in the CG Code, and to follow the guidelines as may from time to time be issued by the HKMA. The Board has established Board-level specialized committees with clear delegation of authority and formal terms of reference setting out the authorities, responsibilities and membership for the oversight of certain major functional areas. Each Board-level specialized committee, including Executive Committee, Audit Committee, Nomination Committee, Remuneration Committee and Risk Management Committee are provided with sufficient resources to perform its duties.

Chairman and Chief Executive

The roles of Chairman of Board and Chief Executive are separate. The Chairman, Mr. Stephen Ching Yen LEE who is a Non-executive Director, is responsible for leading the Board and monitoring the overall effective functioning of the Board while also ensuring all key and appropriate issues are discussed by the Board in a timely manner. The Chief Executive, Mr. David Sek-chi KWOK who is an Executive Director, provides leadership to senior management to perform day-to-day operations of the Bank for delivering various business strategies and policies as established by the Board. The Chief Executive also chairs the Executive Committee.

Board Composition

The Board comprises male and female Directors with diverse backgrounds and/or extensive expertise in the Bank's businesses. The Board also has a well-balanced composition of Executive Director, Non-executive Directors and Independent Non-executive Directors to ensure sufficient independence and appropriate given its size, complexity, risk appetite, nature and scope of activities. The Board currently comprises thirteen Directors, including eight Non-executive Directors, one Executive Director and four Independent Non-executive Directors whose biographical details are individually set out in the 'Biographical Details of Directors and Senior Management' section in this Annual Report. The Bank is working towards having one-third of Board members as Independent Non-executive Directors as required under SPM CG-1. Mr. Hung-ching YUNG is the grandfather of Mr. John Con-sing YUNG who is currently a Non-executive Director of the Bank since 5th May 2016 when he resigned as alternate director to Mr. CHEN Yih Pin. The Bank on its website (www.shacombank.com.hk) maintains an updated List of Directors identifying their roles and functions.

The Bank has received confirmation in writing of independence from each of the Independent Non-executive Directors and considers them to be independent of the management and free of any relationship that could materially interfere with the exercise of their independent judgement. The Board considers that each of the Non-executive Directors and Independent Non-executive Directors has contributed to the Board with his/her own relevant expertise.

Re-election of Directors

The Board is empowered under the Articles to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board. All new Directors appointed by the Board are subject to re-election by shareholders of the Bank at the next following annual general meeting after their appointments have become effective. There is no specified term of appointment for all Directors. However, the Articles stipulates that at each annual general meeting one-third of the Directors (excluding the Executive Director holding the office as Chief Executive) who have been longest in office since their last election shall retire and are eligible for re-election.

Board Process

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. During the year, the Board had approved the 5-year strategic plan of the Bank for the years from 2017-2021.

The Bank has arranged director's and officer's liability insurance to indemnify the Directors and officers against any potential liability arising from the Bank's business activities which such Directors and officers may be held liable.

Attendance Record at Board Meeting and Annual General Meeting

The attendance of the individual Director at the meetings of the Board and Annual General Meeting ('AGM') during the year ended 31st December 2016 is set out in the following table:

	No. of meetings attended/No. of meetings held	
Non-executive Directors	Board	AGM
Mr. Stephen Ching Yen LEE – Chairman of the Board, elected on 20th April 2016	5/5	1/1
Mr. Lincoln Chu Kuen YUNG – Chairman of the Board, retired on 20th April 2016	1/1	1/1
Mr. Hung-ching YUNG	5/5	1/1
Mr. CHEN Yih Pin (Mr. John Con-sing YUNG, Alternate who resigned on 5th May 2016)	5/5	1/1
Mr. Richard Jason Lloyd YORKE (Mr. CHANG Hwa Ping, Alternate)	5/5 *(Note 1)*	1/1
Mr. FAN Yifei (Mr. LI Jian Guo, Alternate), resigned on 20th January 2016	N/A	N/A
Mr. John Van Antwerp RINDLAUB (Mr. Ignatius Wooi-kean CHOONG, Alternate)	5/5 *(Note 2)*	1/1
Madam DAI Lanfang (Mr. YE Jun, Alternate)	5/5 *(Note 3)*	1/1
Mr. JIN Yu (Mr. HUANG Tao, Alternate with effect from 4th July 2016), appointed on 20th January 2016	4/5 *(Note 4)*	1/1
Mr. John Con-sing YUNG, appointed on 5th May 2016	3/3	1/1
Executive Director		
Mr. David Sek-chi KWOK – Managing Director & Chief Executive	5/5	1/1
Independent Non-Executive Directors		
Dr. Richard LEE	5/5	1/1
Mr. Johnson Mou Daid CHA (Dr. LAM Chat Yu, Alternate who resigned on 1st March 2017)	5/5 *(Note 5)*	1/1
Mr. Gordon Che Keung KWONG	5/5	1/1
Mr. E. Michael FUNG	5/5	1/1

Attendance Record at Board Meeting and Annual General Meeting (Continued)

The Board has not adopted Code provision A.6.6 in relation to the Directors' disclosure of time involved in public companies or organizations and other significant commitments 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. Richard Jason Lloyd YORKE attended one Board Meeting.*
2. *The alternate director to Mr. John Van Antwerp RINDLAUB attended one Board Meeting.*
3. *The alternate director to Madam DAI Lanfang attended one Board Meeting.*
4. *The alternate director to Mr. JIN Yu attended three Board Meetings.*
5. *The alternate director to Mr. Johnson Mou Daid CHA attended one Board Meeting.*

Board-level Specialized Committees

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 provides regular updates to the Board on the business performance of the Bank by way of presenting quarterly reports on financial performance and half-yearly progress reports on business plans and budgets at its meetings for discussion. To facilitate other Board members to make an informed assessment of financial and other information put before them for approval, minutes of monthly meetings of the Executive Committee are sent to all Directors for their records.

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 2016. Attendance of individual Directors is listed below:

	No. of meetings attended/No. of meetings held
Mr. David Sek-chi KWOK – Chairman	12/12
Mr. Hung-ching YUNG	12/12
Mr. John Van Antwerp RINDLAUB (Mr. Ignatius Wooi-kean CHOONG, Alternate)	12/12 *(Note 1)*
Madam DAI Lanfang (Mr. YE Jun, Alternate)	12/12 *(Note 2)*

Notes

1. *The alternate director to Mr. John Van Antwerp RINDLAUB attended four Executive Committee Meetings.*
2. *The alternate director to Madam DAI Lanfang attended one Executive Committee Meeting.*

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 2016. Attendance of individual Directors is listed below:

	No. of meetings attended/No. of meetings held
Mr. Gordon Che Keung KWONG - Chairman	4/4
Mr. Lincoln Chu Kuen YUNG, retired on 20th April 2016	1/1
Dr. Richard LEE	4/4
Mr. John Con-sing YUNG, appointed with effect from 5th May 2016	3/3

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 policy of the Group is reviewed by the Remuneration Committee and approved by the Board. Details of remuneration for senior management and key personnel of the Group during the year are disclosed in Section 9 of Supplementary Financial Information of this Annual Report in accordance with Supervisory Policy Manual CG-5 Guideline on a Sound Remuneration System issued by the HKMA whereas such details of remuneration for senior management are not disclosed by band which deviates from Code provision B.1.5 as the Board considers it is not appropriate to the Bank for the time being but the matter would be evaluated whenever necessary.

The Remuneration Committee consists of one Non-executive Director and two Independent Non-executive Directors.

The Remuneration Committee met twice in 2016. Attendance of individual Directors is listed below:

	No. of meetings attended/No. of meetings held
Mr. Hung-ching YUNG – Chairman	2/2
Dr. Richard LEE	2/2
Mr. Johnson Mou Daid CHA (Dr. LAM Chat Yu, Alternate who resigned on 1st March 2017)	2/2

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 consistent with the Bank's business strategies.

The Nomination Committee consists of one Non-executive Director and two Independent Non-executive Directors.

The Nomination Committee met twice in 2016. Attendance of individual Directors is listed below:

	No. of meetings attended/No. of meetings held
Mr. Stephen Ching Yen LEE – Chairman, appointed with effect from 20th April 2016	1/1
Mr. Lincoln Chu Kuen YUNG – Chairman, retired on 20th April 2016	1/1
Dr. Richard LEE	2/2
Mr. Johnson Mou Daid CHA (Dr. LAM Chat Yu, Alternate who resigned on 1st March 2017)	2/2

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 three Independent Non-executive Directors.

The Risk Management Committee met four times in 2016. Attendance of individual Directors is listed below:

	No. of meetings attended/No. of meetings held
Mr. Lincoln Chu Kuen YUNG – Chairman, retired on 20th April 2016	0/1
Mr. Johnson Mou Daid CHA (Dr. LAM Chat Yu, Alternate who resigned on 1st March 2017) – Chairman, appointed on 20th April 2016	4/4
Mr. Gordon Che Keung KWONG	4/4
Mr. E. Michael FUNG	4/4

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 management-level 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 Directors for review.

Information on these committees is set out below:

Asset and Liability Committee

The Asset and Liability Committee meets at least monthly to oversee the Bank's operations, in particular, interest rate risk and liquidity risk to ensure that the Bank has adequate funds to meet its obligations in liquidity management and capital planning. The Asset and Liability Committee reports directly to the Executive Committee and Risk Management Committee.

The members of the Asset and Liability Committee are the Chief Executive (Chairman), the Deputy/Alternate Chief Executive(s), Chief Risk Officer, the division chiefs/heads responsible for compliance, risk management, financial control, treasury operations, local and overseas branches administration, consumer banking, corporate banking, product development and human resources of the Bank.

Credit Committee

The Credit Committee meets at least monthly to ensure that the governing policies of the Bank related to lending and credit risk exposure are adequate and credit related operations 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 Credit Committee reports directly to the Executive Committee and Risk Management Committee.

The members of the Credit Committee are the Chief Executive (Chairman), the Deputy/Alternate Chief Executive(s), Chief Risk Officer, Head of Credit, Head of Credit Appraisal, Head of Credit Control, the division chiefs/heads responsible for treasury, corporate banking, consumer banking, Mainland and overseas branches administration of the Bank.

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 Operational Risk Management Committee reports directly to the Executive Committee and Risk Management Committee.

The members of the Operational Risk Management Committee are the Chief Executive (Chairman), the Deputy/Alternate Chief Executive(s), Chief Risk Officer, the division chiefs/heads responsible for legal, compliance, risk management, treasury operations, local and overseas branches administration, consumer banking, corporate banking, information technology, operations centres, product development, human resources and property development of the Bank.

Directors' Securities Transactions

The Board has not adopted provision A.6.4 of the CG 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.

Directors' Induction and Continuous Professional Development

Each newly appointed Director receives an information package on the scope of duties and obligations to be observed by a Director. Further, to enable the Directors to have a proper understanding of the Bank's operation and business, their responsibilities under applicable laws and regulations as well as the development trends in the industry, the Bank arranges and provides trainings and timely information to Directors on corporate structure and profile, board composition, senior management profile, anti-money laundering, legal, regulatory and compliance updates, changes in accounting standards, and etc. as necessary.

In 2016, presentations were arranged for Directors on topics covering Anti-money Laundering, Cybersecurity, International Financial Reporting Standard 9 'Financial Instruments' and Common Reporting Standard (CRS). Directors are also informed and encouraged to attend outside talks, trainings, seminars organized by professional bodies at the Bank's expenses to enrich their knowledge in discharging their duties as a director. The relative attendance records of the Directors during the year are received and maintained by the company secretary and a summary detailing the key areas of training of each Director of the Bank not covered in this Corporate Governance Report will be provided from 2017 onwards.

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 2016, Directors of the Bank 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 overseeing risk management and internal control systems including financial, operational and compliance controls, 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 for ensuring effective checks and balances; managing the risk of falling behind business objectives; safeguarding assets against unauthorized use or disposition; maintaining proper accounting records; and ensuring the reliability of financial information used within the business or for publication. The procedures, providing reasonable but not absolute assurance against material errors, losses or fraud, are designed to ensure compliance with applicable laws, rules and regulations.

The Group has set up specialized committees and relative departments which 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, Credit Committee and Operational Risk Management Committee, and ultimately to the Board for monitoring 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.

During the year 2016, no major risk management or internal control issues were noted but areas for improvement have been identified and appropriate measures have been 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.

Risk Management and Internal Controls (Continued)

Given that banking is one of the highly regulated industries in Hong Kong and is subject to various laws and regulations including but not limited to Banking Ordinance, Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance, Personal Data (Privacy) Ordinance, Foreign Account Tax Compliance Act and Common Reporting Standard on Automatic Exchange of Financial Account Information in Tax Matters, the Group has put in place a robust control framework to ensure compliance with applicable laws, rules, regulations and supervisory standards. Latest regulatory requirements are timely communicated with responsible units from time to time with revised guidelines and advices delivered for their prompt implementation and strict adherence. Key compliance alerts and information are being regularly reported to the senior management and the Board to ensure they are fully informed. Sufficient resources have also been allocated to ensure that legal and regulatory compliance is functioning properly.

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 and which could compromise the interests of the customers, staff, shareholders, the public and/or the Group's image and reputation. All information received are being treated confidentially and the identity and interests of all whistle-blowers are protected.

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. It has unfettered access to senior management for seeking information and explanation on audit matters. The Chief Auditor of the Bank who leads a team of professional expertise reports directly to the Audit Committee.

The Internal Audit function adopts a risk-based approach in its auditing activities. It sets its internal audit plan annually based on risk assessment methodology which assists in prioritizing audit resources and focusing on higher risk areas. The review results 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 2017 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 2016, fees payable to the external auditor of the Group amounted to HK$15,920,000 (2015: HK$12,136,000), of which HK$7,283,000 (2015: HK$6,476,000) was for general audit and HK$8,637,000 (2015: HK$5,660,000) 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 is an employee of the Bank who provides support to the Board by ensuring timely information flow and proper procedures are being followed, while also responsible for advising the Board on governance matters and also facilitating the induction and professional development of Directors.

During the year, the company secretary took over 15 hours of relevant professional training.

Employees

As of 31st December 2016, the total headcount of the Group was 1,770.

Staff members are regarded by the Bank as the most important and valuable asset, and the key to its success. As a caring employer, the Bank strives to build an engaged workforce through maintaining the well-being of individuals as well as their families. In addition to offering competitive remuneration package, recognition and career advancement, the Bank introduced various family-friendly initiatives including organizing/ sponsoring recreational activities and corporate social responsibility events which help promote a healthy work-life balance.

On the training side, comprehensive induction programmes are provided to staff to understand the Bank's history, vision, mission, values, related regulatory requirement and procedural guidelines, and etc. as well as functional trainings in operations, compliance, credit and risk areas which covering general banking knowledge and operations, introduction of new products and services, selling skills and communication, regulatory updates, compliance and risk management, anti-money laundering, and etc. Education sponsorship is also available to support the staff in acquiring relevant professional/academic qualifications.

Shareholders' Rights and Investor Relations

The Chairman of the Board is committed to maintaining a constant communication with the shareholders to ensure that they have fair and timely access to the Bank's information. All announcements, regulatory disclosures, annual/interim reports and press releases of the Bank are available on the corporate website (www.shacombank.com.hk). Press conference is held to disseminate half-yearly and annual financial results of the Bank. As the Bank is a private company and the four shareholders meet and communicate regularly, the Board considers it is not applicable for the time being to adopt Code provision E.1.4 but the matter would be evaluated whenever necessary.

Hong Kong, 15th March 2017

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

(Incorporated in Hong Kong with limited liability)

Opinion

What we have audited

The consolidated financial statements of Shanghai Commercial Bank Limited (the 'Bank') and its subsidiaries (the 'Group') set out on pages 42 to 127, which comprise:

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

Our opinion

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

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ('HKSAs') issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

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

Key Audit Matters

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

The key audit matter identified in our audit is related to the impairment of loans and advances to customers.

Impairment of loans and advances to customers

As at 31st December 2016, the Group recorded loan impairment allowances of HK$284 million, with HK$26 million as individual impairment allowances and HK$258 million as collective impairment allowances in respect of the total gross loan balance of HK$64,804 million.

Key Audit Matters (Continued)

For individual impairment allowances, management judgement is required to help determine when an impairment event has occurred and to determine reliably measurable future cashflows from realisation of collaterals and/or other operating cashflows using appropriate discounted factors.

For collective impairment allowances, the management is required to establish a methodology which is based on historical loss experience and adjustment required to reflect current economic conditions through relevant economic judgmental factors. Management judgement is applied to select the major economic variables that correlate with the Group's loss history, and to determine key assumptions in the impairment calculation.

The audit focused on loan impairment allowances due to the materiality of the balances and the significant management judgement and accounting estimates inherent in the identification of impairment events and the underlying variables within the calculations for both individual and collective impairment allowances.

Refer to note 19 to the consolidated financial statements.

How our audit addressed the Key Audit Matter

We tested the key controls that management has established to support their individual and collective impairment calculations:

- For individual impairment allowances, this included
  - Credit Committee's oversight and regular monitoring of the overall credit quality;
  - regular reviews of the credit facilities by monitoring units which are independent from the loan initiation units;
  - evaluation of the potential impact of economic environmental changes on the credit quality of the loan portfolio with particular focus on key risk indicators including higher risk industries;
  - controls over timely identification of non-performing loans and maintenance of key data for impairment calculation (including collateral value); and
  - controls over the approval of significant individual impairment allowances.

- For collective impairment allowances, this included controls over the appropriateness of methodology used for calculation of impairment allowances, management oversight in determining the key assumptions and economic judgmental factors as well as the scoping of loans to be included within the calculation; and

- Independent assessment of the criteria established by the management for determining when an impairment event has occurred with reference to regulatory requirements and industry practice.

We tested, on a sample basis, the discounted cash flow calculation of individual impairment allowances by challenging management's assumptions in deriving the future cashflows based on the borrowers' circumstances, objective evidence of inputs for impairment calculation (including valuation of collateral) and our industry knowledge.

We assessed the appropriateness of the methodology used for the collective impairment allowances and the consistency of the methodology as compared to the prior period. This included challenging the key assumptions and economic judgmental factors adopted based on our industry knowledge, macroeconomic data, and market practices.

Based on the results of the above testing, management's identification of impairment events and the variables used in the impairment calculation for loans and advances to customers are supported with the evidence we obtained.

Other Information

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

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

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

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

Responsibilities of Directors and the Audit Committee for the Consolidated Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

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

The engagement partner on the audit resulting in this independent auditor's report is Mr Poon Tak Cheong, Raymond.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 15th March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(All amounts in HK dollar thousands unless otherwise stated)

		Year ended 31st December	
	Note	2016	2015
Interest income	6	3,694,969	3,686,787
Interest expense	6	(1,058,139)	(1,205,669)
Net interest income		2,636,830	2,481,118
Fee and commission income	7	695,571	802,184
Fee and commission expense	7	(38,330)	(40,531)
Net fee and commission income		657,241	761,653
Dividend income	8	12,029	51,646
Net trading income	9	242,985	138,929
Net losses from disposal of equipment		(1,854)	(96)
Net gains from disposal of available-for-sale investments		181,639	94,238
Other operating income	10	110,480	72,010
Net earned insurance premium	11	43,336	47,185
Net insurance claims incurred and movement in policyholders' liabilities	11	(24,182)	(18,821)
Operating expenses	12	(1,427,688)	(1,277,342)
Charge of impairment losses on loans and advances to customers	14	(20,431)	(4,820)
Operating profit		2,410,385	2,345,700
Share of net profits of joint ventures	25B	33,564	35,141
Profit before income tax		2,443,949	2,380,841
Income tax expense	15	(530,971)	(478,506)
Profit for the year		1,912,978	1,902,335
Attributable to:			
Equity holders of the Bank		1,909,158	1,898,585
Non-controlling interests		3,820	3,750
		1,912,978	1,902,335

The notes on pages 49 to 127 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 2016	2015
Profit for the year		**1,912,978**	1,902,335
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		**(98,020)**	(97,451)
Net gains/(losses) on available-for-sale investments			
Fair value changes on available-for-sale investments taken to equity		**1,269,147**	110,196
Exchange differences on translation of available-for-sale investments		**(32,685)**	(13,516)
Fair value changes transferred to statement of profit or loss on disposal of available-for-sale investments		**(181,639)**	(94,238)
Deferred income tax	32	**(174,046)**	4
Share of reserves of joint ventures	34	**(16,283)**	30,141
Other comprehensive income for the year, net of tax		**766,474**	(64,864)
Total comprehensive income for the year		**2,679,452**	1,837,471
Attributable to:			
Equity holders of the Bank		**2,675,932**	1,833,305
Non-controlling interests		**3,520**	4,166
Total comprehensive income for the year		**2,679,452**	1,837,471

The notes on pages 49 to 127 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 2016	2015
ASSETS			
Cash and balances with banks	17	**24,620,495**	34,840,728
Placements with and loans and advances to banks	18	**26,562,967**	14,268,484
Loans and advances to customers	19	**64,519,998**	64,100,702
Financial assets held for trading	20	**526,401**	432,655
Derivative financial instruments	21	**239,247**	224,712
Available-for-sale investments	22	**45,462,697**	38,557,109
Held-to-maturity investments	23	**2,515,363**	2,508,464
Properties for sale	24	**358,788**	–
Investments in joint ventures	25B	**303,571**	304,440
Properties and equipment	26	**2,336,588**	2,637,660
Investment properties	27	**1,027,780**	995,610
Deferred income tax assets	32	**55,860**	47,571
Other assets	28	**839,515**	695,147
TOTAL ASSETS		**169,369,270**	159,613,282
LIABILITIES			
Deposits and balances from banks		**5,901,152**	5,988,205
Deposits from customers	29	**136,884,334**	129,204,911
Derivative financial instruments	21	**221,120**	226,614
Other liabilities	30	**1,372,306**	1,072,347
Provisions	31	**94,612**	96,049
Current income tax liabilities		**39,177**	92,263
Deferred income tax liabilities	32	**476,878**	292,254
TOTAL LIABILITIES		**144,989,579**	136,972,643
EQUITY			
CAPITAL AND RESERVES ATTRIBUTABLE TO THE EQUITY HOLDERS			
Share capital	33	**2,000,000**	2,000,000
Retained earnings		**11,950,747**	11,003,984
Reserves	34	**10,357,664**	9,568,495
		24,308,411	22,572,479
Non-controlling interests in equity		**71,280**	68,160
TOTAL EQUITY		**24,379,691**	22,640,639
TOTAL EQUITY AND LIABILITIES		**169,369,270**	159,613,282

Approved and authorised for issue by the Board of Directors on 15th March 2017.

Stephen Ching Yen LEE
Chairman

Hung-ching YUNG
Director

Gordon Che Keung KWONG
Director

David Sek-chi KWOK
Managing Director & Chief Executive

The notes on pages 49 to 127 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 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	34	–	109,784	–	416	110,200
Currency translation differences	34	–	(97,702)	(13,265)	–	(110,967)
Share of reserves of joint ventures	34	–	30,141	–	–	30,141
Realised on disposal of available-for-sale investments	34	–	(94,238)	–	–	(94,238)
Total other comprehensive income		–	(52,015)	(13,265)	416	(64,864)
Transfer from retained earnings	34	–	–	–	–	–
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

	Note	Attributable to equity holders			Non-controlling interests	Total equity
		Share capital	Reserves	Retained earnings (including proposed dividends)		
As at 1st January 2016		**2,000,000**	**9,568,495**	**11,003,984**	**68,160**	**22,640,639**
Profit for the year		–	–	1,909,158	3,820	1,912,978
Other comprehensive income						
Fair value gains, net of tax:						
– available-for-sale investments	34	–	1,095,401	–	(300)	1,095,101
Currency translation differences	34	–	(117,718)	(12,987)	–	(130,705)
Share of reserves of joint ventures	34	–	(16,283)	–	–	(16,283)
Realised on disposal of available-for-sale investments	34	–	(181,639)	–	–	(181,639)
Total other comprehensive income		–	779,761	(12,987)	(300)	766,474
Transfer from retained earnings	34	–	9,408	(9,408)	–	–
Payment of dividend relating to 2015		–	–	(940,000)	(400)	(940,400)
As at 31st December 2016		**2,000,000**	**10,357,664**	**11,950,747**	**71,280**	**24,379,691**

	Year ended 31st December	
	2016	2015
Proposed dividend included in retained earnings	**940,000**	940,000

The notes on pages 49 to 127 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	
	2016	2015
Cash flows from operating activities		
Profit before income tax	2,443,949	2,380,841
Share of net profits of joint ventures	(33,564)	(35,141)
Charge of impairment losses on loans and advances to customers	20,431	4,820
Depreciation expenses	100,751	75,837
Net losses from disposal of equipment	1,854	96
Net gains from disposal of available-for-sale investments	(181,639)	(94,238)
Interest income on held-to-maturity and available-for-sale investments	(1,015,279)	(773,747)
Dividend income	(12,029)	(51,646)
Hong Kong profits tax paid	(363,100)	(280,274)
Overseas tax paid	(219,860)	(198,629)
Cash flows from operating activities before changes in operating assets and liabilities	741,514	1,027,919
Changes in operating assets and liabilities:		
– Net decrease/(increase) in cash and balances with banks with original maturity beyond three months	177,721	(745,173)
– Net (increase)/decrease in placements with and loans and advances to banks with original maturity beyond three months	(12,665,774)	9,718,613
– Net increase in financial assets held for trading	(93,746)	(11,895)
– Net (increase)/decrease in derivative financial instruments	(20,029)	21,618
– Net (increase)/decrease in loans and advances to customers	(436,631)	3,065,092
– Net (increase)/decrease in other assets	(141,397)	350,831
– Net decrease in deposits and balances from banks	(87,053)	(1,330,602)
– Net increase in deposits from customers	7,679,423	7,811,429
– Net increase/(decrease) in other liabilities and provisions	298,522	(380,386)
Net cash flows from operating activities	(4,547,450)	19,527,446

	Note	Year ended 31st December 2016	2015
Cash flows from investing activities			
Acquisition of subsidiaries		–	(722,560)
Interest received on held-to-maturity and available-for-sale investments		996,867	682,738
Dividends received on available-for-sale investments		11,489	50,351
Dividends received from joint ventures		18,150	20,470
Purchases of properties and equipment		(146,353)	(326,918)
Purchases of investment properties		(50,528)	–
Proceeds from sale of equipment		16	48
Purchases of available-for-sale investments		(14,716,473)	(22,243,448)
Purchases of held-to-maturity investments		(2,194,810)	(800,494)
Proceeds from sale and redemption of available-for-sale investments		8,819,882	8,547,015
Proceeds from redemption of held-to-maturity investments		2,181,734	748,017
Net cash flows from investing activities		(5,080,026)	(14,044,781)
Cash flows from financing activities			
Dividend paid to equity holders		(940,000)	(940,000)
Dividend paid to non-controlling interests		(400)	(400)
Net cash flows from financing activities		(940,400)	(940,400)
Net (decrease)/increase in cash and cash equivalents		(10,567,876)	4,542,265
Cash and cash equivalents at beginning of the year		34,663,066	29,404,515
Effect of exchange rate changes on cash and cash equivalents		387,820	716,286
Cash and cash equivalents at end of the year	35	24,483,010	34,663,066
Cash flows from operating activities and investing activities included:			
Interest received		3,643,109	3,654,623
Interest paid		(1,083,373)	(1,254,394)

The notes on pages 49 to 127 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 Shanghai Commercial Bank Tower, 12 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 2017.

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, unless otherwise stated.

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') and the requirements of the Hong Kong Companies Ordinance (Cap. 622). The consolidated financial statements 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, which are carried 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 2016, are relevant to the Group:

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.

Amendments to HKAS 1 'Presentation of financial statements' - Disclosure initiative
Amendments to HKAS 1 'Disclosure initiative' are effective for the accounting period beginning on or after 1st January 2016. The amendments clarify guidance in HKAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The amendments do not have material impact on the Group's financial statements as the Group has been disclosing all material information and disaggregated all line items that are material or useful to the users of financial statements.

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 2016

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

	Effective for accounting periods beginning on or after
Amendments to HKAS 7 'Statement of cash flows' - Disclosure initiative	1st January 2017
Amendments to HKAS 12 'Income taxes' - Recognition of deferred tax assets for unrealised losses	1st January 2017
HKFRS 15 'Revenue from contracts with customers'	1st January 2018
HKFRS 9 'Financial instruments'	1st January 2018
HKFRS 16 'Leases'	1st January 2019
Amendments to HKFRS 10 and HKAS 28 'Sale or contribution of assets between an investor and its associate or joint venture'	To be determined

The Group is assessing the financial impacts of the amendments, new standards and interpretations and the timing of their 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:

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. 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 statement of profit or loss, 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 preparing for the implementation of the standard by its effective date.

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 2016 (Continued)

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.

HKFRS 16 'Leases'

HKFRS 16 'Leases' is effective for the accounting period beginning on or after 1st January 2019. The standard will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the lease item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly changed. The standard will affect primarily the accounting for the Group's operating leases.

As at the reporting date, the group has non-cancellable operating lease commitments of HK$216,031,000, see Note 36(b). However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows. Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16. At this stage, the Group does not intend to adopt the standard before its effective date.

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 2016.

(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 statement of profit or loss.

All foreign exchange gains and losses recognised in the statement of profit or loss are presented net in the statement of profit or loss 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 statement of profit or loss 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 statement of profit or loss 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 statement of profit or loss 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 Rental income

Rental income from investment properties is recognised in the consolidated statement of profit or loss on a straight-line basis over the terms of the leases.

2.7 Dividend income

Dividends are recognised in the statement of profit or loss when the entity's right to receive payment is established.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 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 statement of profit or loss 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.

2.9 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. Depreciation of furniture, fittings and equipment are calculated to write off the costs of the assets over their estimated useful lives on a straight line basis over 4 to 10 years.

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 statement of profit or loss 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 2.9(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 2.24). 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 statement of profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 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. It also includes properties that are being constructed or developed for future use as investment properties. 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.

2.11 Properties for sale

Properties for sale are carried at the lower of cost and net realisable value. Net realisable value takes into account the price ultimately expected to be realised and the anticipated costs to completion.

2.12 Financial assets

2.12.1 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 statement of profit or loss. Gains and losses arising from changes in fair value are included directly in the statement of profit or loss 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)

2.12 Financial assets (Continued)

2.12.1 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 statement of profit or loss 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 statement of profit or loss 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 statement of profit or loss 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 statement of profit or loss 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 statement of profit or loss. However, interest calculated using the effective interest method on monetary assets classified as available-for-sale investments is recognised in the statement of profit or loss. Dividends on available-for-sale equity instruments are recognised in the statement of profit or loss as 'Dividend income' when the Group's right to receive payment is established.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Financial assets (Continued)

2.12.2 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.

2.12.3 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 statement of profit or loss. 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 statement of profit or loss 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 statement of profit or loss.

2.13 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)

2.14 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 statement of profit or loss. 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)

2.14 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 statement of profit or loss.

(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 statement of profit or loss - is removed from equity and recognised in the statement of profit or loss.

Impairment losses recognised in the statement of profit or loss on equity instruments are not reversed through the statement of profit or loss. 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 statement of profit or loss, the impairment loss is reversed through the statement of profit or loss.

2.15 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 statement of profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 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 statement of profit or loss.

(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 statement of profit or loss over the period of the other financial liabilities using the effective interest method.

2.16 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)

2.16 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.

2.17 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.

2.18 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of profit or loss, 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 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)

2.18 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 statement of profit or loss together with the deferred gain or loss upon disposal.

2.19 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 statement of profit or loss. During the year, the defined contribution scheme had been terminated effective 31st August 2016.

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 statement of profit or loss 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)

2.20 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.

2.21 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.

2.22 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.

2.23 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.

2.24 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)

2.25 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.

2.26 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 statement of profit or loss 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:

	2016		2015	
	Loans and advances (%)	Impairment allowances (%)	Loans and advances (%)	Impairment allowances (%)
1 – pass	89.04	0.41	94.40	0.41
2 – special mention	9.93	0.33	4.82	0.28
3 – sub-standard	0.84	2.09	0.72	0.73
4 – doubtful	0.17	6.58	0.01	36.31
5 – loss	0.02	60.50	0.05	44.44
	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	
	2016	2015
Credit risk exposures relating to on-balance sheet assets are as follows:		
Balances with central banks and Hong Kong Monetary Authority	**7,322,108**	14,859,526
Balances with banks	**16,938,910**	19,663,287
Placements with and loans and advances to banks	**26,562,967**	14,268,484
Loans and advances to customers	**64,519,998**	64,100,702
Financial assets held for trading: debt securities	**401,748**	365,570
Derivative financial instruments	**239,247**	224,712
Available-for-sale investments: debt securities	**41,153,492**	35,366,937
Held-to-maturity investments	**2,515,363**	2,508,464
Other assets	**822,635**	691,297
Credit risk exposures relating to off-balance sheet items are as follows:		
– Financial guarantees	**2,405,324**	2,239,438
– Off-balance sheet commitments and other credit related contingent liabilities	**42,074,356**	42,192,548
As at 31st December	**204,956,148**	196,480,965

The above table represents a worst case scenario of credit risk exposures to the Group as at 31st December 2016 and 2015, 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 2016, the collateral coverage of advances to customers is 85% (2015: 87%). As at 31st December 2016, 69% (2015: 77%) 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 36. 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 2016

			Non-bank private sector		
	Banks	Official sector	Non-bank financial institutions	Non-financial private sector	Total
Developed countries	21,286,000	167,000	985,000	1,056,000	23,494,000
Offshore centres	4,745,000	–	1,394,000	12,889,000	19,028,000
– of which Hong Kong	4,272,000	–	1,034,000	10,637,000	15,943,000
Developing Asia-Pacific	51,327,000	37,000	73,000	3,250,000	54,687,000
– of which China	43,158,000	37,000	73,000	2,051,000	45,319,000
– of which Chinese Taipei	6,455,000	–	–	1,177,000	7,632,000

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

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (Continued)

3.1.5 Loans and advances

Loans and advances are summarised as follows:

	2016	2015
Neither past due nor impaired	62,070,038	63,195,494
Past due but not impaired	2,065,183	678,880
Impaired	668,553	501,548
Gross loans and advances	64,803,774	64,375,922
Less: impairment allowances	(283,776)	(275,220)
Net loans and advances	64,519,998	64,100,702

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 2016

	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	516,793	231,220	5,185,781	7,684,621	37,669,666	4,640,043	55,928,124
2 – special mention	135,996	6,570	436,137	757,162	3,614,552	1,191,497	6,141,914
Total	652,789	237,790	5,621,918	8,441,783	41,284,218	5,831,540	62,070,038

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

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 2016	Individuals				
	Overdrafts	Credit cards	Term loans and others	Mortgages	Total
Past due up to 1 month	–	2,798	30,620	105,181	138,599
Past due over 1 month but less than 2 months	–	409	104	8,982	9,495
Past due over 2 months but less than 3 months	–	–	188	354	542
Past due over 3 months	–	–	–	2,145	2,145
Total	–	3,207	30,912	116,662	150,781

	Corporate entities		
	Large corporate customers and others	SME	Total
Past due up to 1 month	1,658,119	66,472	1,724,591
Past due over 1 month but less than 2 months	68,826	3,115	71,941
Past due over 2 months but less than 3 months	12,916	67,756	80,672
Past due over 3 months	37,198	–	37,198
Total	1,777,059	137,343	1,914,402

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 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)

(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').

	2016		2015	
	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	3,936,278	50%	3,541,664	49%
– Property investment	7,922,262	98%	9,229,089	95%
– Financial concerns	746,663	91%	991,029	100%
– Stockbrokers	528,887	90%	37,288	100%
– Wholesale and retail trade	980,769	91%	1,004,119	89%
– Manufacturing	1,771,106	78%	2,277,647	77%
– Transport and transport equipment	507,175	91%	717,464	92%
– Recreational activities	181,661	92%	182,455	69%
– Information technology - telecommunication	4,045	90%	90,085	99%
– Hotels, boarding houses and catering	1,284,830	97%	813,823	96%
– Others	3,998,898	81%	4,330,653	92%
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	107,512	100%	133,099	100%
– Loans for the purchase of other residential properties	4,312,877	100%	4,710,363	100%
– Credit card advances	217,802	0%	229,251	0%
– Others	6,003,960	93%	6,443,416	92%
Trade finance	5,622,332	75%	5,762,436	74%
Loans for use outside Hong Kong	26,003,137	83%	22,909,443	89%
Total	64,130,194	85%	63,403,324	87%

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:

	2016			
	Impaired loans and advances	Loans and advances overdue for over three months	Individual impairment allowances	Collective impairment allowances
Industrial, commercial and financial				
– Property investment	21,122	18,982	538	31,674

	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

	2016		
	New provisions	Loans written off as uncollectible	Recoveries of advances written off in previous years
Industrial, commercial and financial			
– Property investment	455	–	2

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

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 guarateed by a party in a country which is different from that of the customers.

As at 31st December 2016

	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	42,137,319	637,053	126,641	18,997	168,854
Mainland China	4,168,594	21,783	21,784	7,000	15,399
United States	15,219,994	7,994	7,994	32	60,870
Others	3,277,867	1,723	37,197	–	12,624
	64,803,774	668,553	193,616	26,029	257,747
% of total loans and advances to customers		1.03			
Fair value of collateral		1,552,500			

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			

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

	2016		2015	
		% 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	63,264	0.10	16,145	0.03
– one year or less but over six months	10,885	0.02	83,410	0.13
– over one year	119,467	0.18	79,160	0.12
	193,616	0.30	178,715	0.28
Current market value of collateral	355,625		315,960	
Covered portion by collateral	174,311		156,933	
Uncovered portion by collateral	19,305		21,782	
Individually assessed impairment allowances	18,552		15,914	

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

	2016		2015	
		% of gross loans and advances to customers		% of gross loans and advances to customers
Rescheduled loans and advances	23,803	0.04	19,565	0.03

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	
	2016	2015
Nature of assets		
Industrial property	6,100	3,850
Residential property	8,280	–
Commercial property	2,500	–
	16,880	3,850

As at 31st December 2016, the fair value of the repossessed assets amounted to HK$16,880,000 (2015: HK$3,850,000).

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 28.

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 2016	Financial assets held for trading	Available-for-sale investments	Held-to-maturity investments	Total
AAA	–	–	2,048,889	2,048,889
AA- to AA+	397,095	12,449,385	311,046	13,157,526
A- to A+	–	20,682,860	77,714	20,760,574
BBB- to BBB+	–	5,443,973	77,714	5,521,687
Unrated	4,653	2,577,274	–	2,581,927
Total	401,748	41,153,492	2,515,363	44,070,603

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

There were no overdue debt securities in the year of 2016 (2015: 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 and equity 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 2016 and 2015

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 2016, if market interest rates had been 100 basis points higher (2015: 100 basis points higher) with other variables held constant, profit before tax for the year would have been HK$38,557,000 lower (2015: HK$6,254,000 lower). Available-for-sale investments revaluation gain shown as other comprehensive income would have been reduced by HK$234,410,000 (2015: reduced by HK$521,016,000).

Foreign exchange risk

As at 31st December 2016, over 91% (2015: over 89%) 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 Risk Management Division, 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 2016	HKD	USD	RMB	Other	Total
Assets					
Cash and balances with banks	8,870,180	10,540,206	1,717,249	3,492,860	24,620,495
Placements with and loans and advances to banks	11,914,872	11,376,549	1,484,153	1,787,393	26,562,967
Loans and advances to customers	35,880,273	24,008,006	2,329,044	2,302,675	64,519,998
Financial assets held for trading	124,547	401,854	–	–	526,401
Derivative financial instruments	–	4,016	201,587	33,644	239,247
Available-for-sale investments	20,439,926	13,558,014	8,541,573	2,923,184	45,462,697
Held-to-maturity investments	2,048,890	466,473	–	–	2,515,363
Other assets	765,838	65,833	2,709	5,135	839,515
Total	80,044,526	60,420,951	14,276,315	10,544,891	165,286,683
Liabilities					
Deposits and balances from banks	684,644	3,812,141	755,733	648,634	5,901,152
Deposits from customers	66,966,962	48,769,115	11,872,397	9,275,860	136,884,334
Derivative financial instruments	–	10,019	189,809	21,292	221,120
Other liabilities	993,670	300,661	37,940	40,035	1,372,306
Total	68,645,276	52,891,936	12,855,879	9,985,821	144,378,912
Net on-balance sheet position	11,399,250	7,529,015	1,420,436	559,070	20,907,771
Credit commitments	25,532,673	16,770,569	1,619,257	557,181	44,479,680

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Market risk (Continued)

3.2.3 Foreign exchange risk (Continued)

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

3.2.4 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 2016	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	15,550,341	–	–	–	–	9,070,154	24,620,495
Placements with and loans and advances to banks	–	9,234,806	17,211,693	–	–	116,468	26,562,967
Loans and advances to customers	55,541,540	6,503,829	1,482,366	755,382	–	236,881	64,519,998
Financial assets held for trading	–	–	20,316	29,333	49,291	427,461	526,401
Derivative financial instruments	–	–	–	–	–	239,247	239,247
Available-for-sale investments	4,598,982	12,020,108	4,002,333	20,671,053	239,501	3,930,720	45,462,697
Held-to-maturity investments	–	1,019,188	791,820	702,124	–	2,231	2,515,363
Properties for sale	–	–	–	–	–	358,788	358,788
Investments in joint ventures	–	–	–	–	–	303,571	303,571
Properties and equipment	–	–	–	–	–	2,336,588	2,336,588
Investment properties	–	–	–	–	–	1,027,780	1,027,780
Deferred income tax assets	–	–	–	–	–	55,860	55,860
Other assets	2,287	–	177,657	–	–	659,571	839,515
Total assets	75,693,150	28,777,931	23,686,185	22,157,892	288,792	18,765,320	169,369,270
Liabilities							
Deposits and balances from banks	3,370,256	937,150	514,768	–	–	1,078,978	5,901,152
Deposits from customers	73,691,922	30,064,280	17,971,802	137,413	5,022	15,013,895	136,884,334
Derivative financial instruments	–	–	–	–	–	221,120	221,120
Other liabilities	134,411	–	–	–	–	1,237,895	1,372,306
Provisions	–	–	–	–	–	94,612	94,612
Current income tax liabilities	–	–	–	–	–	39,177	39,177
Deferred income tax liabilities	–	–	–	–	–	476,878	476,878
Total liabilities	77,196,589	31,001,430	18,486,570	137,413	5,022	18,162,555	144,989,579
Total interest repricing gap	(1,503,439)	(2,223,499)	5,199,615	22,020,479	283,770	602,765	24,379,691

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Market risk (Continued)

3.2.4 Interest rate risk (Continued)

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	–	180,712	–	–	487,393	695,147
Total assets	75,790,677	24,362,766	15,985,284	19,083,231	466,674	23,924,650	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)	(3,636,647)	18,354,819	461,652	8,269,638	22,640,639

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 2016	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	9,935,968	14,684,527	–	–	–	–	–	24,620,495
Placements with and loans and advances to banks	–	–	9,275,481	17,287,486	–	–	–	26,562,967
Loans and advances to customers	9,852,976	3,690,506	4,803,884	8,604,866	17,556,488	19,136,575	874,703	64,519,998
Financial assets held for trading	–	226	226	30,259	90,389	280,648	124,653	526,401
Derivative financial instruments	–	59,347	63,777	116,123	–	–	–	239,247
Available-for-sale investments	–	716,086	1,098,519	8,774,922	29,837,652	723,439	4,312,079	45,462,697
Held-to-maturity investments	–	–	1,019,474	792,695	703,194	–	–	2,515,363
Properties for sale	–	–	–	–	–	–	358,788	358,788
Investments in joint ventures	–	–	–	–	–	–	303,571	303,571
Properties and equipment	–	–	–	–	–	–	2,336,588	2,336,588
Investment properties	–	–	–	–	–	–	1,027,780	1,027,780
Deferred income tax assets	–	–	–	–	–	–	55,860	55,860
Other assets	30,255	672,260	4,137	36,699	92,045	–	4,119	839,515
Total assets	19,819,199	19,822,952	16,265,498	35,643,050	48,279,768	20,140,662	9,398,141	169,369,270
Liabilities								
Deposits and balances from banks	1,038,215	3,409,039	515,480	938,418	–	–	–	5,901,152
Deposits from customers	59,272,247	29,279,409	30,120,247	18,069,761	142,670	–	–	136,884,334
Derivative financial instruments	–	60,551	51,578	108,991	–	–	–	221,120
Other liabilities	32,715	1,131,756	37,602	170,233	–	–	–	1,372,306
Provisions	–	81,432	6,978	–	6,091	111	–	94,612
Current income tax liabilities	–	–	–	39,177	–	–	–	39,177
Deferred income tax liabilities	–	–	–	–	–	–	476,878	476,878
Total liabilities	60,343,177	33,962,187	30,731,885	19,326,580	148,761	111	476,878	144,989,579
Net liquidity gap	(40,523,978)	(14,139,235)	(14,466,387)	16,316,470	48,131,007	20,140,551	8,921,263	24,379,691
Of which certificates of deposit included in: Available-for-sale investments	–	437,058	590,900	6,645,297	10,987,443	485,191	–	19,145,889

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Liquidity risk (Continued)

3.3.2 Maturity analysis (Continued)

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	–	–	–	–	–	–	2,637,660	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	50,862,781	19,504,180	7,910,618	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	1,165,807	150	292,254	136,972,643
Net liquidity gap	(29,822,401)	(12,686,442)	(16,480,549)	4,810,663	49,696,974	19,504,030	7,618,364	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

3.3.3 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 2016	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities						
Deposits and balances from banks	4,450,058	521,253	974,313	–	–	5,945,624
Deposits from customers	88,614,325	30,225,308	18,344,838	152,087	–	137,336,558
Other liabilities	1,164,471	37,602	170,233	–	–	1,372,306
Total	94,228,854	30,784,163	19,489,384	152,087	–	144,654,488
Assets held for managing liquidity risk	39,230,995	16,915,675	37,295,050	53,444,928	31,030,185	177,916,833

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

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 2016

	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	30,915,376	6,455,935	6,470,451	–	–	43,841,762
– Inflow	30,917,200	6,463,202	6,476,943	–	–	43,857,345

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

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 36(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 36(b), are summarised in the table below.

(d) Capital commitments

Capital commitments for the acquisition of properties and equipment (Note 36(a)) are summarised in the table below.

As at 31st December 2016

	No later than 1 year	1-5 years	Over 5 years	Total
Loan and other commitments	33,515,281	5,718,053	312,638	39,545,972
Forward forward deposits placed	376,558	–	–	376,558
Guarantees, acceptances and other financial facilities				
– Acceptances	330,560	–	–	330,560
– Guarantees and standby letters of credit	2,158,759	238,474	8,091	2,405,324
– Documentary and commercial letters of credit	1,821,266	–	–	1,821,266
Operating lease commitments	94,688	102,135	19,208	216,031
Capital commitments	270,282	23,920	–	294,202
Total	38,567,394	6,082,582	339,937	44,989,913

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

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 (2016: HK$2,360,571,000, 2015: HK$2,365,937,000) and Level 2 (2016: HK$155,198,000, 2015: HK$155,253,000) 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 will 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 2016	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
Debt securities	184,579	217,169	–	401,748
Equity securities	120,449	–	–	120,449
Funds	4,099	–	–	4,099
Others	105	–	–	105
Derivative financial instruments				
Exchange rate contracts	–	239,247	–	239,247
Available-for-sale investments				
Debt securities	9,506,218	31,644,400	2,874	41,153,492
Equity securities	4,201,554	73,961	33,690	4,309,205
Total Assets	14,017,004	32,174,777	36,564	46,228,345
Derivative financial instruments				
Exchange rate contracts	–	221,120	–	221,120
Total Liabilities	–	221,120	–	221,120

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

Equity securities of HK$2,822,377,000 had been transferred from level 3 to level 1 fair value hierarchy classifications as they were listed during the year.

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 securities 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 and debentures are stated at cost which is considered to be a reasonable approximation of the fair value.

The following table presents the changes in level 3 instruments for the years ended 31st December 2015 and 2016 respectively.

	Available-for-sale investments		
	Equity securities	Debt securities	Total
As at 1st January 2015	2,558,510	2,874	2,561,384
Total gains			
– Profit	–	–	–
– 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
As at 1st January 2016	**2,939,273**	**2,874**	**2,942,147**
Total losses			
– Loss	**(1,004)**	**–**	**(1,004)**
– Other comprehensive income	**–**	**–**	**–**
Purchases	**–**	**–**	**–**
Settlements	**–**	**–**	**–**
Transfer to Level 1	**(2,822,377)**	**–**	**(2,822,377)**
Exchange adjustments	**(82,202)**	**–**	**(82,202)**
As at 31st December 2016	**33,690**	**2,874**	**36,564**

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.

	2016	2015
CET1 capital ratio	**18.0%**	19.1%
Tier 1 capital ratio	**18.0%**	19.1%
Total capital ratio	**18.7%**	19.9%

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 statement of profit or loss, 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.

2016	Retail and corporate banking	Trade finance	Treasury	Others	Total
Net interest income	1,671,783	77,045	788,904	99,098	2,636,830
Net fee and commission income	168,835	90,290	10,095	388,021	657,241
Net trading income	–	–	242,985	–	242,985
Net gains from disposal of available-for-sale investments	–	–	72,639	109,000	181,639
Profit before income tax	1,145,459	102,935	1,031,908	163,647	2,443,949
Operating assets	63,418,449	3,417,187	100,008,898	2,524,736	169,369,270
Charge/ (reversal) of impairment losses on loans and advances	21,871	(1,440)	–	–	20,431

5 BUSINESS ACTIVITIES ANALYSIS (CONTINUED)

(a) By business activities (Continued)

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

(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.

2016

	Total assets	Total liabilities	Contingent liabilities and commitments	Total operating income	Profit before income tax	Capital expenditure
Hong Kong & Mainland China	150,242,694	132,283,289	37,507,881	3,253,294	1,968,761	196,377
United States	16,769,116	10,670,212	6,935,251	551,962	439,371	459
United Kingdom	2,357,460	2,036,078	36,548	53,248	35,817	45
Total	169,369,270	144,989,579	44,479,680	3,858,504	2,443,949	196,881

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

6 NET INTEREST INCOME

Interest income	2016	2015
Cash and balances with banks	481,928	689,944
Held-to-maturity and available-for-sale investments	1,015,279	773,747
Loans and advances to customers	2,190,274	2,216,201
Others	7,488	6,895
Interest income on financial assets that are not at fair value through profit or loss	3,694,969	3,686,787

Included within interest income		
Interest income accrued on impaired financial assets	571	11,356

Interest expense		
Deposits and balances from banks	65,516	89,221
Deposits from customers	990,174	1,113,933
Others	2,449	2,515
Interest expense on financial liabilities that are not at fair value through profit or loss	1,058,139	1,205,669

7 NET FEE AND COMMISSION INCOME

Fee and commission income

	2016	2015
Bills	88,542	101,164
Nominees, custodian and securities brokerage	167,181	285,343
Wealth management products	104,019	101,991
Remittance	55,534	66,505
Facility fees	115,882	105,062
Credit cards	43,682	45,899
Retail banking	44,116	44,615
Insurance	66,934	42,149
Loans and advances	6,016	4,779
Trust and other commissions	3,665	4,677
	695,571	802,184

Fee and commission expense

Bills	5,097	4,358
Nominees, custodian and securities brokerage	14,376	17,892
Retail banking	18,668	18,110
Credit cards	91	91
Remittance	98	80
	38,330	40,531
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	254,122	256,904
– fee and commission expense	5,188	4,449
Net fee and commission income on trust and other fiduciary activities		
– fee and commission income	25,220	22,395

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

	2016	2015
Dividend income from available-for-sale investments		
– listed investments	2,274	2,318
– unlisted investments	9,755	49,328
	12,029	51,646

9 NET TRADING INCOME

	2016	2015
Foreign exchange	245,515	138,668
Interest rate instruments	1,272	(1,317)
Equities	(4,680)	302
Other trading income	878	1,276
	242,985	138,929

'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.

10 OTHER OPERATING INCOME

	2016	2015
Gross rental income from investment properties	40,026	882
Others	70,454	71,128
	110,480	72,010

11 NET EARNED INSURANCE PREMIUM

	2016	2015
Insurance premium revenue	57,768	60,497
Insurance premium ceded to reinsurers	(14,432)	(13,312)
	43,336	47,185

The related net insurance claims incurred and movement in policyholders' liabilities of HK$24,182,000 (2015: HK$18,821,000) were shown after being netted off with the insurance claims and loss adjustment expenses recovered from reinsurers of HK$1,936,000 (2015: HK$2,933,000).

12 OPERATING EXPENSES

	2016	2015
Auditor's remuneration		
Statutory audit services	7,283	6,476
Non-statutory audit and other services (Note a)	8,637	5,660
Advertising costs	24,677	10,185
Depreciation expenses	100,751	75,837
Employee benefit expenses		
Wages and salaries and other costs (Note b)	781,928	727,588
Pension costs - defined contribution schemes	56,860	51,276
Pension costs - defined benefit schemes	12	45
Premises and equipment expenses, excluding depreciation		
Rental of premises	147,780	148,295
Building expenses (Note c)	34,138	12,815
Building management fee	16,330	14,498
Other operating expenses		
Computer rental and licence	18,230	14,599
Credit card business promotion	30,942	28,608
Credit card service fee	10,496	10,427
Insurance	3,774	6,902
Legal and consultancy	14,903	5,994
Postage	14,566	14,764
Printing and stationery	9,384	9,399
Repair and maintenance	19,118	18,305
Telephone and communications	29,259	26,777
Travelling and transportation	6,523	5,484
Water, heat and light	16,505	15,318
Others	75,592	68,090
	1,427,688	1,277,342

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.

Note c:

Included in building expenses are direct operating expenses of HK$12,098,000 (2015: Nil) arising from investment properties, of which HK$696,000 (2015: Nil) are related to investment properties that do not generate rental income.

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 (Cap. 622G) were set out below:

	2016	2015
Fees	6,067	5,625
Basic salaries, allowances and bonus	21,757	25,803
Contributions to retirement benefits schemes	1,262	1,371
	29,086	32,799

14 CHARGE OF IMPAIRMENT LOSSES ON LOANS AND ADVANCES TO CUSTOMERS

	2016	2015
Trade bills	135	(337)
Loans and advances to customers	20,296	5,157
	20,431	4,820
Net charge/ (reversal) of impairment losses		
– Individually assessed (Note 19(b))	15,750	9,150
– Collectively assessed (Note 19(b))	4,681	(4,330)
	20,431	4,820
Of which		
– new allowances	64,589	35,558
– releases	(38,981)	(27,022)
– recoveries	(5,177)	(3,716)
Net charge to statement of profit or loss	20,431	4,820

15 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 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 statement of profit or loss represents:

	2016	2015
Current income tax:		
– Hong Kong profits tax	311,683	293,290
– Overseas taxation	224,752	200,276
– Over provisions in respect of prior years	(7,377)	(14,534)
Total current income tax	529,058	479,032
Deferred income tax:		
– Hong Kong deferred tax	10,570	3,190
– Overseas deferred tax	(8,657)	(3,716)
Total deferred income tax	1,913	(526)
Income tax expense	530,971	478,506

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:

	2016	2015
Profit before tax	2,443,949	2,380,841
Tax calculated at domestic tax rates applicable to profits in the respective countries	529,263	508,279
Tax effects of:		
Income not subject to tax	(13,249)	(21,672)
Expenses not deductible for tax purposes	22,565	6,912
Net effect of investments in partnerships	(231)	(479)
Over provisions in respect of prior years	(7,377)	(14,534)
Income tax expense	530,971	478,506

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 2016, the unamortised carrying cost of the investments in such partnerships, which was included in 'Other assets', amounted to HK$179,405,000 (2015: HK$181,029,000). 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 2016 and 2015 were HK$940,000,000 (HK$47 per share) for both years. A dividend in respect of the year ended 31st December 2016 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 13th April 2017. These financial statements do not reflect this dividend payable.

	2016	2015
Proposed final dividend of HK$47 (2015: HK$47) per ordinary share	940,000	940,000

17 CASH AND BALANCES WITH BANKS

	2016	2015
Cash in hand	359,477	317,915
Balances with central banks and Hong Kong Monetary Authority	7,322,108	14,859,526
Balances with banks	16,938,910	19,663,287
	24,620,495	34,840,728

As at 31st December 2016, HK$1,500,000 (2015: 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 2016, there were HK$254,178,000 (2015: HK$153,294,000) 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$101,205,000 (2015: HK$74,067,000) were deposited with designated banks in the People's Republic of China as at 31st December 2016, to comply with the local statutory requirement.

18 PLACEMENTS WITH AND LOANS AND ADVANCES TO BANKS

	2016	2015
Placements with banks maturing between 1 and 12 months	26,485,410	14,210,961
Loans and advances to banks maturing between 1 and 12 months	77,557	57,523
	26,562,967	14,268,484

Included in the above amounts, HK$364,233,000 (2015: HK$303,503,000) were deposited with designated banks in the People's Republic of China as at 31st December 2016, 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

	2016	2015
Loans and advances to individuals		
– Overdrafts	657,224	665,501
– Credit cards	242,990	255,306
– Term loans and others	5,664,033	6,295,049
– Mortgages	8,598,110	8,668,772
Loans and advances to corporate entities		
– Large corporate customers and others	43,608,898	42,539,208
– SME	6,032,519	5,952,086
Gross loans and advances to customers	64,803,774	64,375,922
Less: impairment allowances		
– Individually assessed	(26,029)	(19,424)
– Collectively assessed	(257,747)	(255,796)
	64,519,998	64,100,702
Gross trade bills and other eligible bills, included within loans and advances to customers	673,580	972,598
Less: impairment allowances on trade bills		
– Collectively assessed	(912)	(777)
	672,668	971,821

The Group accepted listed securities at fair value of HK$3,364,389,000 (2015: HK$2,881,252,000) as collateral for shares financing facilities. These securities are permitted to be sold or re-pledged in the event of default by the borrowers.

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 2016	1	661	307	100	1,069
Charge/ (write-back) of impairment losses (Note 14)	295	3,467	487	(201)	4,048
Loans written off as uncollectible	–	(4,395)	(680)	–	(5,075)
Recoveries of advances written off in previous years	–	962	151	279	1,392
As at 31st December 2016	296	695	265	178	1,434
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

	Impairment allowances for loans and advances to corporate entities – Individual assessment		
	Large corporate customers and others	SME	Total
As at 1st January 2016	12,171	6,184	18,355
Charge of impairment losses (Note 14)	6,657	5,045	11,702
Loans written off as uncollectible	(5,214)	(3,667)	(8,881)
Recoveries of advances written off in previous years	2,489	1,296	3,785
Exchange adjustments	(75)	(291)	(366)
As at 31st December 2016	16,028	8,567	24,595
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

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 2016	2,565	3,828	25,443	34,516	66,352
Charge/ (write-back) of impairment losses (Note 14)	11	(103)	(2,486)	743	(1,835)
Exchange adjustments	–	–	(97)	(902)	(999)
As at 31st December 2016	2,576	3,725	22,860	34,357	63,518
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

	Impairment allowances for loans and advances to corporate entities – Collective assessment		
	Large corporate customers and others	SME	Total
As at 1st January 2016	165,924	23,520	189,444
Charge of impairment losses (Note 14)	6,138	378	6,516
Exchange adjustments	(1,261)	(470)	(1,731)
As at 31st December 2016	170,801	23,428	194,229
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

20 FINANCIAL ASSETS HELD FOR TRADING

	2016	2015
Debt securities		
Listed outside Hong Kong	95,684	166,664
Unlisted	306,064	198,906
Total debt securities	401,748	365,570
Equity securities		
Listed in Hong Kong	120,449	32,531
Total equity securities	120,449	32,531
Funds		
Listed in Hong Kong	4,099	6,359
Unlisted	–	27,341
Total funds	4,099	33,700
Other financial assets held for trading	105	854
Total financial assets held for trading	526,401	432,655
Included within debt securities are:		
Government notes and bonds	99,301	169,753
Other debt securities	302,447	195,817
	401,748	365,570
Financial assets held for trading are analysed by type of issuer as follows:		
Sovereigns	99,301	169,753
Banks	22,264	12,854
Corporates	404,836	250,048
	526,401	432,655

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 2016

	Contract amount	Fair values	
		Assets	Liabilities
Derivatives held for trading			
Exchange rate contracts			
Forwards and swaps	**43,857,345**	**239,247**	**(221,120)**
Total recognised derivative assets/ (liabilities)		**239,247**	**(221,120)**

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)

	Credit risk weighted amount	
	2016	2015
Exchange rate contracts	**243,247**	308,654

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 2016 and 2015 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

	2016	2015
Debt securities		
Listed in Hong Kong	3,979,239	4,147,983
Listed outside Hong Kong	5,526,978	3,374,671
Unlisted	31,647,275	27,844,283
Total debt securities	41,153,492	35,366,937
Equity securities		
Listed outside Hong Kong	4,201,554	169,469
Unlisted	107,651	3,020,703
Total equity securities	4,309,205	3,190,172
	45,462,697	38,557,109
Included within debt securities are:		
Certificates of deposit held	19,145,889	18,293,420
Other debt securities	22,007,603	17,073,517
	41,153,492	35,366,937
Available-for-sale investments are analysed by type of issuer as follows:		
Public sector entities	–	36,990
Banks	38,004,686	32,097,684
Corporates	7,458,011	6,422,435
	45,462,697	38,557,109

Note: Included in the equity securities listed outside Hong Kong balance was the Bank's investment in Bank of Shanghai, China with fair value of HK$4,201,554,000 (2015: HK$2,904,598,000 under unlisted equity securities balance).

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

	2016	2015
As at 1st January	38,557,109	25,273,309
Additions	14,949,437	22,447,507
Gains from changes in fair value	1,269,147	110,196
Disposals and redemptions	(8,819,882)	(8,547,015)
Amortisation	(22,591)	(23,061)
Exchange adjustments	(518,281)	(827,422)
Others	47,758	123,595
As at 31st December	45,462,697	38,557,109

23 HELD-TO-MATURITY INVESTMENTS

	2016	2015
Debt securities		
Listed in Hong Kong	799,108	1,871,557
Listed outside Hong Kong	326,927	311,439
Unlisted	1,389,328	325,468
	2,515,363	2,508,464
Market value of listed securities	1,127,575	2,195,776
Included within debt securities are:		
Government bills, notes and bonds	2,344,055	2,336,926
Other debt securities	171,308	171,538
	2,515,363	2,508,464
Held-to-maturity investments are analysed by type of issuer as follows:		
Sovereigns	2,344,055	2,336,926
Banks	171,308	171,538
	2,515,363	2,508,464

As at 31st December 2016, certain of the Bank's branches in the United States have pledged held-to-maturity investments amounting to HK$311,046,000 (2015: HK$295,155,000) 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 2016, listed and unlisted debt securities at amortised cost of HK$2,033,009,000 (2015: HK$2,041,771,000) 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:

	2016	2015
As at 1st January	2,508,464	2,465,840
Additions	2,194,810	800,494
Redemptions	(2,181,734)	(748,017)
Amortisation	(4,506)	(10,152)
Exchange adjustments	259	(328)
Others	(1,930)	627
As at 31st December	2,515,363	2,508,464

24 PROPERTIES FOR SALE

	2016	2015
Property development		
Leasehold land held for development for sale	358,788	–

25A SUBSIDIARIES

The following is a list of the subsidiaries as at 31st December 2016:

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Percentage of ordinary share capital held	2016		2015	
					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%	14,991	14,786	15,368	15,042
Shacom Futures Limited	Hong Kong	Commodities trading Hong Kong	100,000 ordinary shares	[1]100%	40,389	7,938	20,085	7,819
Shacom Investment Limited	Hong Kong	Investment in Exchange Fund Bills and Notes Hong Kong	10,000 ordinary shares	[1]100%	2,467,346	1,443	2,287,052	1,247
Shacom Property Holdings (BVI) Limited	British Virgin Islands	Property holding United Kingdom	2 ordinary shares of US$1 each	[1]100%	32,560	(203)	38,214	(1,288)
Shacom Property (NY) Inc.	United States of America	Property holding United States of America	10 ordinary shares of US$1 each	[1]100%	5,685	5,685	5,736	5,736
Shacom Property (CA) Inc.	United States of America	Property holding United States of America	10 ordinary shares of US$1 each	[1]100%	2,738	2,738	2,754	2,754
Shacom Assets Investments Limited	Hong Kong	Investment in notes and bonds Hong Kong	10,000 ordinary shares	[1]100%	1,011,987	66	997,185	65
Infinite Financial Solutions Limited	Hong Kong	I.T. application services provider Hong Kong	500,000 ordinary shares	[1]100%	25,537	17,734	24,907	17,132
Shacom Insurance Brokers Limited	Hong Kong	Insurance broker Hong Kong	1,000,000 ordinary shares	[1]100%	2,856	1,228	4,088	1,283
Shacom Securities Limited	Hong Kong	Securities brokerage services Hong Kong	1,000,000 ordinary shares	[1]100%	227,324	159,157	191,858	158,663
Hai Kwang Property Management Company Limited	Hong Kong	Property management Hong Kong	2 ordinary shares	[1]100%	697	461	734	444
Paofoong Insurance Company (Hong Kong) Limited	Hong Kong	Insurance Hong Kong	500,000 ordinary shares	[2]60%	264,331	163,414	247,284	155,357
Right Honour Investments Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary shares of US$1 each	[1]100%	–	(98)	–	(83)
Glory Step Investments Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary shares of US$1 each	100%	192,680	(2,333)	192,973	(2,063)
Silver Wisdom Investments Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary shares of US$1 each	100%	287,190	(2,532)	287,640	(2,127)
KCC 23F Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary shares of HK$1 each	[1]100%	292,684	92,974	245,885	45,071
KCC 25F Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary shares of HK$1 each	[1]100%	294,666	94,869	247,869	46,868
KCC 26F Limited	British Virgin Islands	Property holding Hong Kong	1 ordinary shares of HK$1 each	[1]100%	296,657	96,985	249,866	49,091

[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.

The carrying amounts of loans to subsidiaries are HK$4,590,875,000 (2015: HK$4,402,672,000) which approximate their fair values. Of which HK$3,974,623,000 (2015: HK$3,782,285,000) are secured, interest free and have no fixed term of repayment, while HK$616,252,000 (2015: HK$620,387,000) are secured, interest-bearing with fixed term of repayment.

25B INVESTMENTS IN JOINT VENTURES

	2016	2015
As at 1st January	304,440	259,628
Share of profits, net of tax	33,564	35,141
Dividends paid	(18,150)	(20,470)
Other equity movement	(16,283)	30,141
As at 31st December	303,571	304,440

The Group's interests in its joint ventures for the years ended 2016 and 2015, 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 (Note b)	Hong Kong	50%

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

2016

Name	Assets	Liabilities	Revenue	Profit/ (loss)	Other compre-hensive income	Total compre-hensive income	Dividends received from joint ventures
Joint Electronic Teller Services Limited	512,169	123,342	147,246	29,162	–	29,162	700
Bank Consortium Holding Limited	726,629	60,852	541,047	142,251	59	142,310	14,300
BC Reinsurance Limited	831,429	429,361	164,042	43,354	73,784	117,138	3,150
Hong Kong Life Insurance Limited	15,647,229	15,066,365	3,536,847	29,798	(190,718)	(160,920)	–
i-Tech Solutions Limited	5,375	139	2,238	(625)	–	(625)	–
	17,722,831	15,680,059	4,391,420	243,940	(116,875)	127,065	18,150

2015

Name	Assets	Liabilities	Revenue	Profit	Other compre-hensive income	Total compre-hensive 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

Note a: The balances with the joint ventures arise from normal business transactions and are included in Note 39.

Note b: i-Tech Solutions Limited commenced members' voluntary liquidation as at 30th September 2016.

26 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 2015						
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 from investment properties (Note 27)						
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
Year ended December 2016						
Opening net book amount	**1,106,868**	**562,572**	**79,530**	**648,185**	**240,505**	**2,637,660**
Additions	**–**	**17,968**	**100,813**	**–**	**27,572**	**146,353**
Transfers						
Cost	**654,449**	**268,077**	**–**	**(654,449)**	**(268,077)**	**–**
Accumulated depreciation	**(6,459)**	**–**	**–**	**6,459**	**–**	**–**
Transfers from investment properties (Note 27)						
Cost	**7,778**	**5,304**	**–**	**–**	**–**	**13,082**
Accumulated depreciation	**(341)**	**(1,389)**	**–**	**–**	**–**	**(1,730)**
Transfers to properties for sale (Note 24)						
Cost	**(360,733)**	**–**	**–**	**–**	**–**	**(360,733)**
Accumulated depreciation	**1,945**	**–**	**–**	**–**	**–**	**1,945**
Disposals/ write-off						
Cost	**–**	**(3,522)**	**(34,601)**	**–**	**–**	**(38,123)**
Accumulated depreciation	**–**	**3,522**	**32,731**	**–**	**–**	**36,253**
Depreciation charge	**(17,757)**	**(41,698)**	**(34,095)**	**(195)**	**–**	**(93,745)**
Exchange adjustments	**–**	**(4,150)**	**(224)**	**–**	**–**	**(4,374)**
Closing net book amount	**1,385,750**	**806,684**	**144,154**	**–**	**–**	**2,336,588**
As at 31st December 2016						
Cost	**1,512,311**	**1,094,481**	**707,532**	**–**	**–**	**3,314,324**
Accumulated depreciation	**(126,561)**	**(287,797)**	**(563,378)**	**–**	**–**	**(977,736)**
Net book amount	**1,385,750**	**806,684**	**144,154**	**–**	**–**	**2,336,588**

In 2015, property under development represented the related costs paid for the re-development of the Bank's new Head Office building in Central, Hong Kong. As at 31st December 2016, the carrying amounts have been transferred to leasehold land and buildings as a result of the completion of the re-development project during the year.

As at 31st December 2016, interests in freehold land outside Hong Kong amounted to HK$33,029,000 (2015: HK$35,918,000) are included as bank premises above.

27 INVESTMENT PROPERTIES

			Property under development		
	Leasehold land	Buildings	Leasehold land	Buildings	Total
As at 1st January 2015					
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 26)					
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
Year ended December 2016					
Opening net book amount	**2,942**	**2,123**	**722,475**	**268,070**	**995,610**
Additions	**–**	**19,796**	**–**	**30,732**	**50,528**
Transfers					
Cost	**729,457**	**298,802**	**(729,457)**	**(298,802)**	**–**
Accumulated depreciation	**(7,200)**	**–**	**7,200**	**–**	**–**
Transfers to properties and equipment (Note 26)					
Cost	**(7,778)**	**(5,304)**	**–**	**–**	**(13,082)**
Accumulated depreciation	**341**	**1,389**	**–**	**–**	**1,730**
Depreciation charge	**(676)**	**(6,112)**	**(218)**	**–**	**(7,006)**
Closing net book amount	**717,086**	**310,694**	**–**	**–**	**1,027,780**
As at 31st December 2016					
Cost	**724,890**	**316,712**	**–**	**–**	**1,041,602**
Accumulated depreciation	**(7,804)**	**(6,018)**	**–**	**–**	**(13,822)**
Net book amount	**717,086**	**310,694**	**–**	**–**	**1,027,780**

In 2015, property under development represented the related costs paid for the re-development of the Bank's new Head Office building in Central, Hong Kong. As at 31st December 2016, the carrying amounts have been transferred to leasehold land and buildings as a result of the completion of the re-development project during the year.

As at 31st December 2016, the Group's investment properties were valued at HK$3,326,000,000 by an independent firm of chartered surveyors, DTZ Cushman & Wakefield 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. The valuations were performed on an open market value basis. As at 31st December 2015, the Group's investment properties at the Bank's new Head Office building in Central at HK$3,437,600,000 were valued by Savills Valuation and Professional Services Limited, while the other investment properties of HK$27,787,000 were valued by the Directors with reference to other valuation agents.

28 OTHER ASSETS

	2016	2015
Repossessed assets	16,880	3,850
Accounts receivable and prepayments (Note)	606,089	584,862
Others	216,546	106,435
	839,515	695,147

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

29 DEPOSITS FROM CUSTOMERS

	2016			
	Large corporate customers and others	SME	Individuals	Total
Demand deposits and current accounts	8,146,235	2,186,875	4,791,617	15,124,727
Savings deposits	14,081,655	2,158,167	26,702,845	42,942,667
Time, call and notice deposits	32,436,252	1,896,879	44,095,618	78,428,749
Deposits from Hong Kong Government Exchange Fund	388,191	–	–	388,191
	55,052,333	6,241,921	75,590,080	136,884,334

	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

Deposits amounting to HK$78,739,222,000 (2015: HK$78,535,377,000) are at fixed interest rates, HK$58,067,394,000 (2015: HK$50,566,696,000) are at managed interest rates and all other deposits, amounting to HK$77,718,000 (2015: HK$102,838,000) are at variable rates.

30 OTHER LIABILITIES

	2016	2015
Margin deposits	170,952	274,795
Accounts payable and accruals	419,967	309,080
Liabilities for insurance contracts (Note)	96,326	87,635
Others	685,061	400,837
	1,372,306	1,072,347

Note: Amounts recoverable from reinsurance of liabilities under insurance contracts issued amounting to HK$3,569,000 (2015: HK$3,654,000) are included in 'Other assets' in Note 28.

31 PROVISIONS

	2016	2015
As at 1st January	96,049	95,132
Additional provisions charged to statement of profit or loss	139,223	136,456
Utilised during the year	(140,660)	(135,539)
As at 31st December	94,612	96,049
Current	88,410	91,632
Non-current	6,202	4,417

Majority of the 2016 and 2015 balances represent provision for staff bonus.

32 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 2015	37,700	(7,983)	64	14,339	44,120
Credited/ (charged) to statement of profit or loss	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
Credited/ (charged) to statement of profit or loss	**5,674**	**(150)**	**–**	**3,133**	**8,657**
Exchange adjustments	**(1,478)**	**1,184**	**–**	**(82)**	**(376)**
Charged to equity	**–**	**–**	**–**	**–**	**–**
Reclassified from deferred income tax liabilities	**–**	**–**	**8**	**–**	**8**
As at 31st December 2016	**44,377**	**(6,711)**	**39**	**18,155**	**55,860**

Deferred income tax liabilities

	Impairment allowances	Accelerated tax depreciation	Fair value gains on available-for-sale investments	Others	Total
As at 1st January 2015	32,490	(9,312)	(311,276)	(1,076)	(289,174)
Charged to statement of profit or loss	(1,856)	(1,182)	–	(79)	(3,117)
Credit 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)
Charged to statement of profit or loss	**(673)**	**(9,859)**	**–**	**(38)**	**(10,570)**
Charged to equity	**–**	**–**	**(174,046)**	**–**	**(174,046)**
Reclassified to deferred income tax assets	**–**	**–**	**(8)**	**–**	**(8)**
As at 31st December 2016	**29,961**	**(20,353)**	**(485,293)**	**(1,193)**	**(476,878)**

33 SHARE CAPITAL

	2016	2015
Issued and fully paid: 20,000,000 shares	2,000,000	2,000,000

34 RESERVES ATTRIBUTABLE TO EQUITY HOLDERS

	Regulatory reserve	Available-for-sale investments revaluation reserve	General and other reserves	Total
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 reserve of joint ventures	–	(1,121)	31,262	30,141
Transfer from retained earnings	–	–	–	–
As at 31st December 2015	696,550	1,574,971	7,296,974	9,568,495
As at 1st January 2016	696,550	1,574,971	7,296,974	9,568,495
Change in fair value of available-for-sale investments	–	1,269,506	–	1,269,506
Realised on disposal of available-for-sale investments	–	(181,639)	–	(181,639)
Effect of deferred taxation	–	(174,105)	–	(174,105)
Currency translation differences	(1,856)	(32,685)	(83,177)	(117,718)
Share of reserves of joint ventures	–	14,125	(30,408)	(16,283)
Transfer from retained earnings	9,408	–	–	9,408
As at 31st December 2016	704,102	2,470,173	7,183,389	10,357,664

34 RESERVES ATTRIBUTABLE TO EQUITY HOLDERS (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 HKMA.

(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 2.12, Note 2.14 and Note 2.16)

(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.

35 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.

	2016	2015
Cash and balances with banks	21,481,136	31,523,648
Placements with and loans and advances to banks	2,768,127	3,139,418
Certificates of deposit	233,747	–
	24,483,010	34,663,066

36 CONTINGENT LIABILITIES AND COMMITMENTS

(a) Capital commitments

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

	2016	2015
Properties and equipment		
Contracted but not provided for	178,851	268,030
Authorised but not contracted for	115,351	78,635
	294,202	346,665

(b) Operating lease commitments

(i) As lessee

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

	2016	2015
No later than 1 year	94,688	138,176
Later than 1 year and no later than 5 years	102,135	100,105
Later than 5 years	19,208	2,260
	216,031	240,541

(ii) As lessor

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

	2016	2015
No later than 1 year	83,640	700
Later than 1 year and no later than 5 years	195,926	225
	279,566	925

The Group leases its investment properties (Note 27) under operating lease arrangements, with leases typically for a period from 3 to 5 years. The terms of the leases generally require the tenants to pay security deposits and provide for rent adjustments according to the prevailing market conditions at the expiration of the lease.

(c) Credit commitments

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

	2016	2015
Direct credit substitutes	2,402,064	2,224,270
Trade-related contingencies	2,155,086	1,898,734
Forward forward deposits placed	376,558	1,005,099
Other commitments with an original maturity of:		
– under 1 year	343,116	285,427
– 1 year and over	7,205,384	3,921,157
– unconditionally cancellable	31,997,472	35,097,299
	44,479,680	44,431,986

The credit risk weighted amount of credit commitments is HK$6,266,622,000 (2015: HK$4,630,828,000).

36 CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

(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.

37 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 2016

	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amounts
				Financial instruments	Cash collateral received	
Assets						
Derivative financial instruments	168,525	–	168,525	(99,751)	–	68,774
Other assets	236,610	(161,539)	75,071	–	–	75,071
Total	405,135	(161,539)	243,596	(99,751)	–	143,845

	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	163,704	–	163,704	(99,751)	(16,210)	47,743
Other liabilities	203,259	(161,539)	41,720	–	–	41,720
Total	366,963	(161,539)	205,424	(99,751)	(16,210)	89,463

37 OFFSETTING FINANCIAL INSTRUMENTS (CONTINUED)

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

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.

	2016	2015
Assets		
Net amounts of derivative financial instruments after offsetting as stated above	168,525	165,453
Derivative financial instruments not in scope of offsetting disclosures	70,722	59,259
Total derivative financial instruments	239,247	224,712
Net amounts of other assets after offsetting as stated above	75,071	13,244
Other assets not in scope of offsetting disclosures	764,444	681,903
Total other assets	839,515	695,147
Liabilities		
Net amounts of derivative financial instruments after offsetting as stated above	163,704	189,888
Derivative financial instruments not in scope of offsetting disclosures	57,416	36,726
Total derivative financial instruments	221,120	226,614
Net amounts of other liabilities after offsetting as stated above	41,720	18,594
Other liabilities not in scope of offsetting disclosures	1,330,586	1,053,753
Total other liabilities	1,372,306	1,072,347

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

Balances below 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	
	2016	2015	2016	2015
Aggregate amount outstanding in respect of principal and interest	111,283	112,051	117,411	230,051

39 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 at the reporting date, and related expense and income for the year are as follows:

2016	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	–	16,368	146,956	–	163,324
– Cash and balances with banks	445,335	–	–	22,947	468,282
– Deposits and balances from banks and customers	677,375	247,325	1,378,200	1,299,970	3,602,870
– Available-for-sale investments	73,961	–	–	470,409	544,370
– Collectively assessed impairment allowances	–	65	611	–	676
– Contingent liabilities and other commitments	7,769	195,632	821,032	–	1,024,433
Interest income received from related parties	278	24	4,469	48	4,819
Interest expenses paid to related parties	2,511	2,415	27,741	15,315	47,982

39 RELATED PARTY TRANSACTIONS (CONTINUED)

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

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 personnel or Directors.

Key management personnel compensation

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

	2016	2015
Salaries and other short-term employee benefits	85,414	75,209

40 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE BANK

(a) Statement of Financial Position of the Bank

	As at 31st December	
	2016	2015
ASSETS		
Cash and balances with banks	24,616,688	34,838,164
Placements with and loans and advances to banks	26,562,967	14,268,484
Loans and advances to customers	64,519,998	64,100,702
Financial assets held for trading	494,370	400,010
Derivative financial instruments	239,247	224,712
Available-for-sale investments	45,370,130	38,442,147
Held-to-maturity investments	466,474	450,408
Investments in joint ventures	116,000	116,000
Investments in and loans to subsidiaries	3,118,817	3,193,437
Properties and equipment	1,500,966	1,413,587
Investment properties	1,055,514	1,023,724
Deferred income tax assets	55,852	47,571
Other assets	779,346	649,809
TOTAL ASSETS	168,896,369	159,168,755
LIABILITIES		
Deposits and balances from banks	5,901,152	5,988,205
Deposits from customers	136,884,334	129,204,911
Derivative financial instruments	221,120	226,614
Other liabilities	1,227,697	961,307
Provisions	92,806	94,246
Current income tax liabilities	38,800	92,104
Deferred income tax liabilities	476,850	292,081
TOTAL LIABILITIES	144,842,759	136,859,468
EQUITY		
CAPITAL AND RESERVES ATTRIBUTABLE TO THE EQUITY HOLDERS		
Share capital	2,000,000	2,000,000
Retained earnings	11,711,236	10,772,905
Reserves	10,342,374	9,536,382
	24,053,610	22,309,287
TOTAL EQUITY AND LIABILITIES	168,896,369	159,168,755

Approved and authorised for issue by the Board of Directors on 15th March 2017.

Stephen Ching Yen LEE
Chairman

Hung-ching YUNG
Director

Gordon Che Keung KWONG
Director

David Sek-chi KWOK
Managing Director & Chief Executive

40 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 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)
Transfer from retained earnings	–	–	–	–
As at 31st December 2015	696,550	1,574,178	7,265,654	9,536,382
As at 1st January 2016	**696,550**	**1,574,178**	**7,265,654**	**9,536,382**
Change in fair value of available-for-sale investments	**–**	**1,270,044**	**–**	**1,270,044**
Realised on disposal of available-for-sale investments	**–**	**(181,639)**	**–**	**(181,639)**
Effect of deferred taxation	**–**	**(174,194)**	**–**	**(174,194)**
Currency translation differences	**(1,856)**	**(32,685)**	**(83,086)**	**(117,627)**
Transfer from retained earnings	**9,408**	**–**	**–**	**9,408**
As at 31st December 2016	**704,102**	**2,455,704**	**7,182,568**	**10,342,374**

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

	2016	2015
Liquidity maintenance ratio ('LMR')	49.3%	53.1%

The LMR is calculated as the simple average of each calendar month's average LMR for 2016 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.

2 Capital structure and adequacy

The calculation of the capital adequacy ratios as at 31st December 2016 and 2015 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. 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 2016.

	Balance sheet as in published financial statements	Under regulatory scope of consolidation
Assets		
Cash and balances with banks	24,620,495	24,616,688
Placements with and loans and advances to banks	26,562,967	26,562,967
Loans and advances to customers	64,519,998	64,519,998
Financial assets held for trading	526,401	494,370
Derivative financial instruments	239,247	239,247
Available-for-sale investments	45,462,697	45,370,130
Held-to-maturity investments	2,515,363	2,515,363
Properties for sale	358,788	358,788
Investments in joint ventures	303,571	116,000
Investments in and amounts due from subsidiaries	–	187,206
Properties and equipment	2,336,588	2,317,695
Investment properties	1,027,780	1,055,514
Deferred income tax assets	55,860	55,852
Other assets	839,515	788,860
Total assets	169,369,270	169,198,678
Liabilities		
Deposits and balances from banks	5,901,152	5,901,152
Deposits from customers	136,884,334	136,884,334
Derivatives financial instruments	221,120	221,120
Amounts due to subsidiaries	–	329,588
Other liabilities	1,372,306	1,229,813
Provisions	94,612	92,806
Current income tax liabilities	39,177	38,800
Deferred income tax liabilities	476,878	476,850
Total liabilities	144,989,579	145,174,463
Equity		
Share capital	2,000,000	2,000,000
Retained earnings	11,950,747	11,681,933
Reserves	10,357,664	10,342,282
Non-controlling interests	71,280	–
Total equity	24,379,691	24,024,215
Total equity and liabilities	169,369,270	169,198,678

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 2016.

	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	24,620,495	24,616,688	
Placements with and loans and advances to banks	26,562,967	26,562,967	
Loans and advances to customers	64,519,998	64,519,998	
of which: collective impairment allowances reflected in regulatory capital		*257,747*	(1)
Financial assets held for trading	526,401	494,370	
of which: insignificant capital investments in financial sector entities exceeding 10% threshold		*5,411*	(2)
Derivative financial instruments	239,247	239,247	
Available-for-sale investments	45,462,697	45,370,130	
of which: insignificant capital investments in financial sector entities exceeding 10% threshold		*2,147,144*	(3)
Held-to-maturity investments	2,515,363	2,515,363	
Properties for sale	358,788	358,788	
Investments in joint ventures	303,571	116,000	
Investments in and amounts due from subsidiaries	–	187,206	
Properties and equipment	2,336,588	2,317,695	
Investment properties	1,027,780	1,055,514	
Deferred income tax assets	55,860	55,852	(4)
Other assets	839,515	788,860	
Total assets	169,369,270	169,198,678	
Liabilities			
Deposits and balances from banks	5,901,152	5,901,152	
Deposits from customers	136,884,334	136,884,334	
Derivatives financial instruments	221,120	221,120	
Amounts due to subsidiaries	–	329,588	
Other liabilities	1,372,306	1,229,813	
Provisions	94,612	92,806	
Current income tax liabilities	39,177	38,800	
Deferred income tax liabilities	476,878	476,850	
Total liabilities	144,989,579	145,174,463	
Equity			
Share capital	2,000,000	2,000,000	
of which: paid-in share capital		*2,000,000*	(5)
Retained earnings	11,950,747	11,681,933	
of which: retained earnings		*11,681,933*	(6)
Reserves	10,357,664	10,342,282	
of which: accumulated other comprehensive income (loss), other than regulatory reserve		*9,638,180*	(7)
regulatory reserve		*704,102*	(8)
Non-controlling interests	71,280	–	
Total equity	24,379,691	24,024,215	
Total equity and liabilities	169,369,270	169,198,678	

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 2016 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	11,681,933	(6)
3	Disclosed reserves	10,342,282	(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**	**24,024,215**	
	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	55,852	(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)	2,040,829	(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	704,102	
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	704,102	(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**	**2,800,783**	
29	**CET1 capital**	**21,223,432**	

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)**	**21,223,432**	
	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	961,849	(1) + (8)
51	**Tier 2 capital before regulatory deductions**	**961,849**	
	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)	111,726	(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**	**111,726**	
58	**Tier 2 capital**	**850,123**	
59	**Total capital (Total capital = Tier 1 + Tier 2)**	**22,073,555**	
60	**Total risk weighted assets**	**118,217,415**	

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	18.0%	
62	Tier 1 capital ratio	18.0%	
63	Total capital ratio	18.7%	
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)	5.5%	
65	of which: capital conservation buffer requirement	0.625%	
66	of which: bank specific countercyclical buffer requirement	0.4%	
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	13.5%	
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	2,326,426	
73	Significant capital investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	371,240	
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)	961,849	
77	Cap on inclusion of provisions in Tier 2 under the basic approach and the standardised (credit risk) approach	1,357,461	
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')**	**55,852**	–
	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 authorized 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 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 authorized 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 2016 and 2015 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 temporary 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 Countercyclical Capital Buffer (CCyB) Ratio

CCyB ratio is calculated as the weighted average of the applicable jurisdictional CCyB ('JCCyB') ratio effective at the date for which the determination is made, in respect of the jurisdictions (including Hong Kong) where the Bank has private sector credit exposures. The weight to be attributed to a given jurisdiction's applicable CCyB ratio is the ratio of the Bank's aggregate risk-weighted amounts ('RWA') for its private sector credit exposures (in both the banking book and the trading book) in that jurisdiction where the location of the exposures is determined as far as possible on an ultimate risk basis to the sum of the Bank's aggregate RWA across all jurisdictions in which the Bank has private sector credit exposures.

Key drivers for the changes in exposure amounts include asset quality, credit growth and credit portfolio. The applicable JCCyB ratio for Hong Kong is determined by the Hong Kong Monetary Authority ('HKMA') based on the Initial Reference Calculator that is transparently calculated and made public, while the applicable JCCyB ratio in respect of a given jurisdiction outside Hong Kong may differ from the JCCyB ratio as determined by the relevant authority in that jurisdiction if the HKMA has determined and announced the application of a higher or lower rate.

The following table shows the CCyB ratio, the geographical breakdown of the RWA in relation to private sector credit exposures that are relevant to the calculation of CCyB ratio and the applicable JCCyB ratio corresponding to each jurisdiction for calculating CCyB ratio as at 31st December 2016.

	Jurisdiction	Applicable JCCyB ratio in effect	Total RWA used in computation of CCyB ratio of AI	CCyB ratio of AI	CCyB amount of AI
		%	HK$'000	%	HK$'000
1	Hong Kong	0.625%	44,959,418		
2	Mainland China	0.000%	4,321,643		
3	Australia	0.000%	6,778		
4	Belgium	0.000%	436		
5	Bermuda	0.000%	576,497		
6	Brazil	0.000%	26		
7	Cambodia	0.000%	246		
8	Canada	0.000%	45,323		
9	Cayman Islands	0.000%	1,137,553		
10	Chile	0.000%	70		
11	Dominican Republic	0.000%	17		
12	Finland	0.000%	474		
13	France	0.000%	14,890		
14	Germany	0.000%	330		
15	India	0.000%	1,162		
16	Indonesia	0.000%	2,394		
17	Italy	0.000%	2,577		
18	Japan	0.000%	107,161		
19	Macao	0.000%	50,256		
20	Madagascar	0.000%	1,490		
21	Malaysia	0.000%	7		
22	New Zealand	0.000%	33,435		
23	Philippines	0.000%	2,208		
24	Portugal	0.000%	85		
25	Singapore	0.000%	17,022		
26	South Africa	0.000%	2,722		
27	South Korea	0.000%	3		
28	Sweden	1.500%	99		
29	Switzerland	0.000%	817		
30	Chinese Taipei	0.000%	1,141,279		
31	Thailand	0.000%	10,702		
32	United Kingdom	0.000%	427,172		
33	United States	0.000%	17,734,240		
34	West Indies UK	0.000%	2,676,320		
	Total		73,274,852	0.38%	280,997

4 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

	2016	2015
Sovereign exposures	3,650	2,241
Public Sector Entity exposures	–	592
Bank exposures	2,611,725	2,122,823
Securities Firm exposures	20,675	1,492
Corporate exposures	3,652,529	3,363,945
Cash items	8,106	5,970
Regulatory Retail exposures	299,109	308,890
Residential Mortgage Loans	463,816	502,260
Other exposures which are not past due exposures	1,090,742	1,077,860
Past due exposures	16,610	18,305
Total capital charge for on-balance sheet exposures	8,166,962	7,404,378
Direct credit substitutes	189,060	173,734
Trade-related contingencies	33,931	30,030
Forward forward deposits placed	6,025	16,082
Other commitments	272,314	150,620
Exchange rate contracts	19,460	24,692
Total capital charge for off-balance sheet exposures	520,790	395,158
Credit valuation adjustment	7,205	13,051
Total capital charge for credit risk	8,694,957	7,812,587

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

	2016	2015
Interest rate exposures (non-securitisation)	41,310	40,034
Equity exposures	13,936	4,650
Foreign exchange exposures	173,280	177,760
Capital charge for market risk	228,526	222,444

The Group uses the Standardised Approach for calculating market risk.

(c) Capital charge for operational risk

	2016	2015
Capital charge for operational risk	533,910	509,455

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

5 Risk management

(a) Credit risk

(i) Credit risk exposures

Standard & Poor's Ratings Services, Moody's Investors Service, Fitch Ratings 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 2016

	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	9,671,218	9,671,218	–	45,630	–	45,630
2 Public Sector Entity	–	–	–	–	–	–
3 Multilateral Development Bank	15,881	15,881	–	–	–	–
4 Bank	77,723,410	75,916,364	2,320,720	32,177,639	468,929	32,646,568
5 Securities Firm	516,869	–	516,869	–	258,435	258,435
6 Corporate	49,452,908	5,568,250	42,327,558	3,329,054	42,327,558	45,656,612
7 Cash Items	373,475	–	1,442,820	–	101,327	101,327
8 Regulatory Retail	4,997,153	–	4,985,159	–	3,738,869	3,738,869
9 Residential Mortgage Loans	10,495,308	–	10,488,467	–	5,797,701	5,797,701
10 Other exposures which are not Past Due Exposures	13,084,493	2,303,078	10,774,331	2,303,078	11,331,191	13,634,269
11 Past Due Exposures	205,082	–	205,082	–	207,622	207,622
B. Off-balance Sheet						
1 Off-balance sheet exposures other than OTC derivative transactions	6,880,954	804,889	6,076,065	268,086	5,998,536	6,266,622
2 OTC derivative transactions	671,091	637,160	33,931	209,520	33,727	243,247

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 2016, the credit risk to corporate and past due exposures are covered by recognised collateral of HK$1,069,345,000 (2015: HK$1,047,974,000) and HK$197,814,000 (2015: HK$90,114,000) respectively.

As at 31st December 2016, 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$1,237,874,000 (2015: HK$2,397,965,000), HK$11,994,000 (2015: HK$19,435,000), HK$6,841,000 (2015: HK$6,836,000), HK$7,084,000 (2015: HK$7,084,000) and HK$428,330,000 (2015: HK$150,000,000) respectively.

5 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:

	2016	2015
OTC derivatives:		
Gross total positive fair value	236,497	224,414
Credit equivalent amounts	671,091	711,092
Risk weighted amounts	243,247	308,654

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

	2016	2015
Notional amounts:		
– Banks	41,057,864	47,124,024
– Corporates	2,164,650	1,327,137
– Others	236,869	170,195
	43,459,383	48,621,356
Credit equivalent amounts:		
– Banks	619,223	679,818
– Corporates	40,598	29,344
– Others	11,270	1,930
	671,091	711,092
Risk-weighted amounts:		
– Banks	200,552	278,793
– Corporates	31,436	27,964
– Others	11,259	1,897
	243,247	308,654

As at 31st December 2016, the default risk exposure, capital charge and risk-weighted amount under the standardised credit valuation adjustment method are HK$671,091,000, HK$7,205,000 and HK$90,063,000 respectively (2015: HK$708,589,000, HK$13,051,000 and HK$163,138,000 respectively).

5 Risk management (Continued)

(b) Asset securitisation

There are no such exposures for the years ended 31st December 2016 and 2015.

(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 related to equity exposures are as follows:

	2016	2015
Realised gains from sales during the year	108,506	–
Unrealised revaluation gains at year ended:		
– Amount included in reserves but not through statement of profit or loss	3,184,137	2,025,578

(d) Interest rate exposures in banking book

2016

	Currency				
Equivalent in Hong Kong Dollars	HKD	USD	RMB	Others	Total
Interest rate risk shock (200 basis points upward) Increase/ (decline) in earnings	(381,973)	458,441	(81,860)	(33,165)	(38,557)

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)

For 2016 and 2015, 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 HKMA in the completion instructions for the 'Return of Interest Rate Risk Exposure' which is compiled on a quarterly basis.

6 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 2016 and 2015.

		Leverage ratio framework	
	Item	**2016**	2015
1	Total consolidated assets as per published financial statements	**169,369,270**	159,613,282
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	**(170,592)**	(185,990)
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	**434,594**	534,655
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)	**10,080,701**	9,136,510
7	Other adjustments	**(2,543,036)**	(1,602,788)
8	Leverage ratio exposure	**177,170,937**	167,495,669

The Leverage Ratio Common Disclosure Template as at 31st December 2016 and 2015 is shown below:

		Leverage ratio framework	
	Item	**2016**	2015
	On-balance sheet exposures		
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	**169,217,178**	159,458,376
2	Less: Asset amounts deducted in determining Basel III Tier 1 capital (reported as negative amounts)	**(2,800,783)**	(1,858,584)
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	**166,416,395**	157,599,792
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	**239,247**	224,712
5	Add-on amounts for PFE associated with all derivatives transactions	**434,594**	534,655
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)	**673,841**	759,367
	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)	**–**	–

6 Leverage ratio (Continued)

		Leverage ratio framework	
	Item	**2016**	2015
	Other off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	**44,479,680**	44,431,986
18	Less: Adjustments for conversion to credit equivalent amounts (reported as negative amounts)	**(34,398,979)**	(35,295,476)
19	Off-balance sheet items (sum of lines 17 and 18)	**10,080,701**	9,136,510
	Capital and total exposures		
20	Tier 1 capital	**21,223,432**	20,432,487
21	Total exposures (sum of lines 3, 11, 16 and 19)	**177,170,937**	167,495,669
	Leverage ratio		
22	Basel III leverage ratio	**11.98%**	12.20%

Abbreviations:

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

7 Non-bank mainland exposures

The Bank

	2016			2015		
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	**2,198,317**	**69,333**	**2,267,650**	1,999,232	29,681	2,028,913
2. Local governments, local government-owned entities and their subsidiaries and joint ventures	**24,877**	**420,916**	**445,793**	–	–	–
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and joint ventures	**3,216,168**	**868,132**	**4,084,300**	2,666,392	788,832	3,455,224
4. Other entities of central government not reported in item 1 above	**554,779**	**–**	**554,779**	626,137	–	626,137
5. Other entities of local governments not reported in item 2 above	**67,506**	**–**	**67,506**	–	–	–
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	**5,127,081**	**1,213,967**	**6,341,048**	3,872,365	762,751	4,635,116
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	**635,540**	**5**	**635,545**	513,103	88	513,191
Total	**11,824,268**	**2,572,353**	**14,396,621**	9,677,229	1,581,352	11,258,581
Total assets after provision	**159,110,699**			149,656,291		
On-balance sheet exposures as percentage of total assets	**7.43%**			6.47%		

8 Currency concentrations

Equivalent in Hong Kong dollars	2016 Spot assets	Spot liabilities	Forward purchases	Forward sales	Net long/ (short) position	Net structural position
US Dollars	62,144,000	(58,355,000)	49,340,000	(25,307,000)	27,822,000	7,067,000
Pound Sterling	3,050,000	(2,953,000)	491,000	(594,000)	(6,000)	28,000
Renminbi	13,933,000	(13,014,000)	5,748,000	(5,861,000)	806,000	1,539,000
Canadian Dollars	1,729,000	(1,725,000)	20,000	(24,000)	–	–
Australian Dollars	3,847,000	(3,810,000)	703,000	(726,000)	14,000	–
Other currencies and gold	2,956,000	(2,856,000)	2,216,000	(2,286,000)	30,000	–
	87,659,000	(82,713,000)	58,518,000	(34,798,000)	28,666,000	8,634,000

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

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.

9 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 2016, the Committee held two meetings. The review covered the composition and changes in the senior management team, the changes in 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 departments, committees or independent consultant as appropriate when conducting the review. In 2016, the Committee has engaged PwC International Assignment Services (Hong Kong) Limited to conduct an independent review on the remuneration system of the Bank and to assess the extent to which the operation of the remuneration system is consistent with risk management framework and the long term interests of the Bank.

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, senior management and key personnel, 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.

9 Disclosure on Remuneration (Continued)

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 2016. 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.

DEFERRAL ARRANGEMENTS

In view of the Bank's existing business model and organisation structure, a portion of the discretionary bonus payment of senior management and key personnel is subject to deferment arrangements as determined by the Committee 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.

9 Disclosure on Remuneration (Continued)

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:

	2016		2015	
Total value of remuneration awards for the current financial year	Non-deferred	Deferred	Non-deferred	Deferred
Fixed remuneration				
Number of Beneficiaries	18		17	
• Cash-based	47,186	Nil	38,984	Nil
Variable remuneration				
Number of Beneficiaries	17		14	
• Cash-based	20,309	4,136	21,691	2,092
Deferred remuneration				
• Vested cash	–	1,962	–	2,250
• Unvested cash	–	6,091	–	4,267

Notes:

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

(ii) Senior management refers to those executives who are also key personnel of the Bank includes the Chief Executive and division heads of major businesses and operations at the rank of Executive Vice President or above. Key personnel other than those senior management described refers to employees whose duties or activities in the course of the employment involve the assumption of material risk or the taking on of material exposures on behalf of the Bank. In 2016, there are 16 employees categorised as senior management (2015: 17) and 2 employees specifically categorised as key personnel (2015: Nil). No senior management or key personnel has been awarded or paid guaranteed bonus or severance payment during the years of 2016 and 2015.

(iii) The remuneration awards of senior management and key personnel are aggregated due to the small number of key personnel.

(iv) The unvested deferred remuneration relates to the 2014, 2015 and 2016 variable remuneration.

(v) No deferred variable remuneration had been reduced through performance adjustments or due to ex post explicit or implicit adjustments in 2016 and 2015.

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

Shanghai Commercial Bank Tower, 12 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	Lobby Floor, Shanghai Commercial Bank Tower, 12 Queen's Road Central
Aberdeen Branch	118 Aberdeen Main Road, Aberdeen
Causeway Bay Branch	18 Pennington Street, Causeway Bay
Connaught Road Branch	G/F & 1/F Southland Building, 48 Connaught Road Central, Central
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	Shop 2, G/F, 57-61 Belcher's 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 N117, 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	Shops 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

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