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2015 FINAL RESULTS

RESULTS FOR THE YEAR ENDED 31 DECEMBER 2015

Highlights

- Operating profit before impairment allowances amounted to HK\$1,167 million and showed an improvement of 35% year on year
- Profit attributable to equity owners amounted to HK\$1,193 million, an increase of 51% over that for last year after excluding the profit from Chong Hing Bank Centre in 2014, translating into return on shareholders' equity of 10.43% and earnings per share of HK\$2.06
- Net interest income at HK\$1,779 million was 30% higher than last year, although net interest margin narrowed 5 basis points year on year to 1.53%, total assets grew by 18% to HK\$127,838 million with advances to customers increasing by 12% and investments in securities increasing by 90%
- Net fee and commission income rose 36% to HK\$306 million mainly because of the 32% increase in fees and commission income arising from securities dealings to HK\$178 million
- After a review of the asset portfolio, certain assets which were not considered essential to the core business lines had been sold with reasonable profits recorded in the year
- Total loans and advances to customers increased by 12% or HK\$6,675 million to HK\$63,600 million, with loans for use in Hong Kong increased by HK\$4,637 million, trade finance reduced by HK\$3,116 million and loans for use outside Hong Kong increased by HK\$5,154 million. With careful management on the exposure to credit risk, asset quality of loans and advances continued to be good with impaired loan ratio at 0.04%
- Total capital ratio increased from 15.94% in December 2014 to 17.73% in December 2015 after the rights issue exercise, the Tier 1 capital ratio was at 15.22% and the Common Equity Tier 1 capital ratio was at 12.60%
- The Bank's core business lines and financial health are strong, asset quality sound, impaired loan ratio low, provision coverage high, and capital adequacy and liquidity ratios well above the relevant statutory requirements
- Total dividends for the financial year of 2015, including the interim cash dividend of HK\$0.21 per share paid in September 2015, amounted to HK\$0.58 per share (2014 total dividends: HK\$0.60 per share). The Bank's total dividends payout for the year as a percentage of an adjusted profit attributable to equity owners less the distribution paid on the additional equity instruments will be 39.5%

The Board of Directors of Chong Hing Bank Limited (the “Bank”) are pleased to announce the consolidated results of the Bank and its subsidiaries (the “Group”) for the year ended 31 December 2015, together with the comparative figures for the corresponding year in 2014. The financial information in this announcement is based on the audited consolidated financial statements of the Group and does not constitute the Group’s statutory accounts for the year ended 31 December 2015.

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2015

	Notes	2015 HK\$'000	2014 HK\$'000	Variance %
Interest income		3,018,604	2,135,992	+41.32
Interest expense		(1,239,769)	(764,245)	+62.22
Net interest income	4	1,778,835	1,371,747	+29.68
Fee and commission income		387,444	300,830	+28.79
Fee and commission expenses		(81,427)	(76,059)	+7.06
Net fee and commission income	5	306,017	224,771	+36.15
Net trading income	6	52,901	99,123	-46.63
Other operating income	7	143,247	134,114	+6.81
Operating expenses	8	(1,113,757)	(965,731)	+15.33
Operating profit before impairment allowances		1,167,243	864,024	+35.09
Net (charge) reversal of impairment allowances on loans and advances	16	(22,748)	32,344	-170.33
Operating profit after impairment allowances		1,144,495	896,368	+27.68
Net gains on disposal of assets held for sale		52,154	1,960,732	-97.34
Net gains (losses) on disposal of property and equipment		3,359	(5,976)	+156.21
Net gains on disposal of available-for-sale securities		81,018	15,179	+433.75
Net gains on disposal of and fair value adjustments on investment properties	18	106,737	3,100	+3,343.13
Impairment loss on available-for-sale securities		(200)	—	—
Share of profits of associates		31,827	38,688	-17.73
Profit before taxation		1,419,390	2,908,091	-51.19
Taxation	9	(226,254)	(165,687)	+36.56
Profit for the year				
- Attributable to equity owners of the Bank		1,193,136	2,742,404	-56.49
Earnings per share - basic and diluted	11	HK\$2.06	HK\$6.09	-66.17
Dividends				
- Special interim dividend declared	10	—	1,965,983	-100.00
- Interim dividend declared	10	91,350	82,650	+10.53
- Final dividend proposed after the end of reporting period	10	241,425	178,350	+35.37
		332,775	2,226,983	-85.06

The notes on pages 9 to 42 form an integral part of these consolidated financial information.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2015

	2015 HK\$'000	2014 HK\$'000
Profit for the year	<u>1,193,136</u>	<u>2,742,404</u>
Other comprehensive income		
Items that may not be reclassified subsequently to profit or loss:		
Surplus on transfer of land and buildings to investment properties	11,371	146,647
Surplus on remeasurement of retirement benefit	–	10,893
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation	(45,385)	(13,903)
Income tax charge relating to retirement benefit	–	(1,798)
Fair value (losses) gains of available-for-sale securities arising during the year	(41,665)	71,960
Amount reclassified to the profit or loss upon impairment of available-for-sale securities	200	–
Amount reclassified to the profit or loss upon disposal of available-for-sale securities	(81,018)	(15,179)
Income tax effect relating to disposal of available-for-sale securities	13,368	2,505
Income tax effect relating to fair value change of available-for-sale securities	5,933	(12,594)
Share of other comprehensive income of associates	<u>13,435</u>	<u>904</u>
Other comprehensive (expense) income for the year (net of tax)	<u>(123,761)</u>	<u>189,435</u>
Total comprehensive income for the year	<u><u>1,069,375</u></u>	<u><u>2,931,839</u></u>
Total comprehensive income attributable to:		
Equity owners of the Bank	<u><u>1,069,375</u></u>	<u><u>2,931,839</u></u>

The notes on pages 9 to 42 form an integral part of these consolidated financial information.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2015

	Notes	2015 HK\$'000	2014 HK\$'000	Variance %
Assets				
Cash and short-term funds	12	21,431,894	26,032,182	-17.67
Placements with banks maturing between one to twelve months		7,751,110	5,568,433	+39.20
Derivative financial instruments	13	577,651	142,162	+306.33
Financial assets at fair value through profit or loss	14	271	287	-5.57
Available-for-sale securities	14	22,800,023	7,874,920	+189.53
Held-to-maturity securities	14	8,686,530	8,663,136	+0.27
Advances and other accounts	16	65,386,648	58,584,607	+11.61
Assets held for sale	17	–	1,718	-100.00
Interests in associates		247,901	222,309	+11.51
Investment properties	18	264,222	288,413	-8.39
Property and equipment	19	627,777	609,956	+2.92
Prepaid lease payments for land	20	2,269	2,336	-2.87
Deferred tax assets	27	10,744	4,697	+128.74
Goodwill	28	50,606	50,606	–
Total assets		127,837,646	108,045,762	+18.32
Liabilities				
Deposits and balances of banks		5,728,313	4,413,861	+29.78
Financial assets sold under repurchase agreements	21	3,322,683	4,948,764	-32.86
Deposits from customers	22	99,392,364	82,133,391	+21.01
Certificates of deposit	23	351,962	2,108,136	-83.30
Derivative financial instruments	13	844,778	415,122	+103.50
Other accounts and accruals		1,124,688	1,360,613	-17.34
Current tax liabilities		135,457	43,109	+214.22
Loan capital	24	1,819,591	1,815,563	+0.22
Deferred tax liabilities	27	10,069	23,551	-57.25
Total liabilities		112,729,905	97,262,110	+15.91
Equity attributable to owners of the Bank				
Share capital	25	5,435,904	1,760,317	+208.80
Additional equity instruments	26	2,312,030	2,312,030	–
Reserves		7,359,807	6,711,305	+9.66
Total equity		15,107,741	10,783,652	+40.10
Total liabilities and equity		127,837,646	108,045,762	+18.32

The notes on pages 9 to 42 form an integral part of these consolidated financial information.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2015

		Share capital	Additional equity instruments	Goodwill	Investment revaluation reserve	Land and building revaluation reserve	General reserve	Translation reserve	Regulatory reserve	Retained profits	Total
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2015		1,760,317	2,312,030	(182)	230,519	146,647	1,388,500	30,355	573,000	4,342,466	10,783,652
Profit for the year		-	-	-	-	-	-	-	-	1,193,136	1,193,136
Exchange differences arising on translation		-	-	-	-	-	-	(45,385)	-	-	(45,385)
Surplus on transfer of land and buildings to investment properties		-	-	-	-	11,371	-	-	-	-	11,371
Fair value losses of available-for-sale securities arising during the year		-	-	-	(41,665)	-	-	-	-	-	(41,665)
Amount reclassified to the profit or loss upon impairment of available-for-sale securities		-	-	-	200	-	-	-	-	-	200
Amount reclassified to the profit or loss upon disposal of available-for-sale securities		-	-	-	(81,018)	-	-	-	-	-	(81,018)
Income tax effect relating to disposal of available-for-sale securities		-	-	-	13,368	-	-	-	-	-	13,368
Income tax effect relating to fair value change of available-for-sale securities		-	-	-	5,933	-	-	-	-	-	5,933
Share of other comprehensive income of associates		-	-	-	13,435	-	-	-	-	-	13,435
Other comprehensive (expense) income		-	-	-	(89,747)	11,371	-	(45,385)	-	-	(123,761)
Total comprehensive (expense) income for the year		-	-	-	(89,747)	11,371	-	(45,385)	-	1,193,136	1,069,375
Issue of share capital		3,675,587	-	-	-	-	-	-	-	-	3,675,587
Distribution payment for additional equity instruments		-	(151,173)	-	-	-	-	-	-	-	(151,173)
Transfer from retained profits		-	151,173	-	-	-	-	-	-	(151,173)	-
Interim dividend paid	10	-	-	-	-	-	-	-	-	(91,350)	(91,350)
Final dividend paid	10	-	-	-	-	-	-	-	-	(178,350)	(178,350)
Earmark of retained profits as regulatory reserve		-	-	-	-	-	-	-	90,000	(90,000)	-
At 31 December 2015		5,435,904	2,312,030	(182)	140,772	158,018	1,388,500	(15,030)	663,000	5,024,729	15,107,741

The notes on pages 9 to 42 form an integral part of these consolidated financial information.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2015

		Share capital	Share premium	Additional equity instruments	Goodwill	Investment revaluation reserve	Land and building revaluation reserve	General reserve	Translation reserve	Regulatory reserve	Retained profits	Total
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2014		217,500	1,542,817	–	(182)	182,923	–	1,388,500	44,258	441,000	3,915,150	7,731,966
Profit for the year		–	–	–	–	–	–	–	–	–	2,742,404	2,742,404
Exchange differences arising on translation		–	–	–	–	–	–	–	(13,903)	–	–	(13,903)
Surplus on transfer of land and buildings to investment properties		–	–	–	–	–	146,647	–	–	–	–	146,647
Surplus on remeasurement of retirement benefit		–	–	–	–	–	–	–	–	–	10,893	10,893
Income tax charge relating to retirement benefit		–	–	–	–	–	–	–	–	–	(1,798)	(1,798)
Fair value gains of available-for-sale securities arising during the year		–	–	–	–	71,960	–	–	–	–	–	71,960
Amount reclassified to the profit or loss upon disposal of available-for-sale securities		–	–	–	–	(15,179)	–	–	–	–	–	(15,179)
Income tax effect relating to disposal of available-for-sale securities		–	–	–	–	2,505	–	–	–	–	–	2,505
Income tax effect relating to fair value change of available-for-sale securities		–	–	–	–	(12,594)	–	–	–	–	–	(12,594)
Share of other comprehensive income of associates		–	–	–	–	904	–	–	–	–	–	904
Other comprehensive income		–	–	–	–	47,596	146,647	–	(13,903)	–	9,095	189,435
Total comprehensive income for the year		–	–	–	–	47,596	146,647	–	(13,903)	–	2,751,499	2,931,839
Issue of additional equity instruments		–	–	2,312,030	–	–	–	–	–	–	–	2,312,030
Transition no-par value regime on 3 March 2014		1,542,817	(1,542,817)	–	–	–	–	–	–	–	–	–
Special interim dividend paid		–	–	–	–	–	–	–	–	–	(1,965,983)	(1,965,983)
Interim dividend paid	10	–	–	–	–	–	–	–	–	–	(82,650)	(82,650)
Final dividend paid	10	–	–	–	–	–	–	–	–	–	(143,550)	(143,550)
Earmark of retained profits as regulatory reserve		–	–	–	–	–	–	–	–	132,000	(132,000)	–
At 31 December 2014		<u>1,760,317</u>	<u>–</u>	<u>2,312,030</u>	<u>(182)</u>	<u>230,519</u>	<u>146,647</u>	<u>1,388,500</u>	<u>30,355</u>	<u>573,000</u>	<u>4,342,466</u>	<u>10,783,652</u>

The retained profits of the Group included retained profits of HK\$116,692,000 (2014: retained profits of HK\$104,535,000) retained by the associates of the Group.

The regulatory reserve is set up in compliance with the Hong Kong Monetary Authority's requirements and is distributable to shareholders of the Bank subject to consultation with the Hong Kong Monetary Authority (the "HKMA").

The general reserve comprises transfers from previous years' retained profits.

The notes on pages 9 to 42 form an integral part of these consolidated financial information.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2015

	2015 HK\$'000	2014 HK\$'000
OPERATING ACTIVITIES		
Profit before taxation	1,419,390	2,908,091
Adjustments for:		
Net interest income	(1,778,835)	(1,371,747)
Net charge (reversal) of impairment allowances on loans and advances	22,748	(32,344)
Net gains on disposal of assets held for sale	(52,154)	(1,960,732)
Net (gains) losses on disposal of property and equipment	(3,359)	5,976
Net gains on disposal of available-for-sale securities	(81,018)	(15,179)
Net gains on disposal of and fair value adjustments on investment properties	(106,737)	(3,100)
Share of profits of associates	(31,827)	(38,688)
Net gains on financial instruments at fair value through profit or loss	–	(59,821)
Net losses on fair value hedge	2,369	185
Dividend received from investments	(11,605)	(12,068)
Depreciation	52,105	47,653
Release of prepaid lease payments for land	66	66
Impairment loss on available-for-sale securities	200	–
Exchange adjustments	(45,883)	(13,530)
Operating cash flows before movements in operating assets and liabilities	(614,540)	(545,238)
(Increase) decrease in operating assets:		
Money at call and short notice with original maturity over three months	(263,808)	1,759,012
Exchange fund bills with original maturity over three months	(740,216)	(650,503)
Placements with banks with original maturity over three months	(2,302,973)	1,646,858
Financial assets at fair value through profit or loss	16	91,892
Advances to customers	(6,681,164)	(11,718,051)
Other accounts	36,304	(951,376)
Increase (decrease) in operating liabilities:		
Deposits and balances of banks with original maturity over three months	1,314,452	2,739,630
Financial assets sold under repurchase agreements	(1,626,081)	3,692,107
Deposits from customers	17,258,973	10,968,487
Certificates of deposit	(1,756,174)	1,545,133
Derivative financial instruments	3,987	261,549
Other accounts and accruals	(369,922)	438,608
Cash generated from operations	4,258,854	9,278,108
Hong Kong Profits Tax paid	(78,275)	(158,566)
Overseas tax paid	(55,176)	(32,447)
Interest received	2,281,984	1,750,373
Interest paid	(1,042,198)	(631,597)
NET CASH GENERATED FROM OPERATING ACTIVITIES	5,365,189	10,205,871

CONSOLIDATED STATEMENT OF CASH FLOWS - continued

for the year ended 31 December 2015

	2015 HK\$'000	2014 HK\$'000
INVESTING ACTIVITIES		
Interest received from available-for-sale securities and held-to-maturity securities	556,037	295,206
Dividends received on investments	11,605	12,068
Dividends received from associates	19,670	16,720
Purchase of held-to-maturity securities	(5,035,378)	(8,169,989)
Purchase of available-for-sale securities	(17,442,189)	(2,263,110)
Purchase of property and equipment	(72,185)	(33,896)
Proceeds from redemption of held-to-maturity securities	5,013,542	7,811,538
Proceeds from sale and redemption of available-for-sale securities	2,466,870	80,859
Proceeds from disposal of assets held for sale	195,826	2,230,000
Proceeds from disposal of property and equipment	3,526	2,138
NET CASH USED IN INVESTING ACTIVITIES	(14,282,676)	(18,466)
FINANCING ACTIVITIES		
Net proceeds from issue of share capital	3,675,587	–
Interest paid on loan capital	(61,835)	(61,366)
Net proceeds from issue of share capital instruments	–	2,312,030
Dividends paid	(269,700)	(2,192,183)
Distribution paid on additional equity instruments	(151,173)	–
NET CASH GENERATED FROM FINANCING ACTIVITIES	3,192,879	58,481
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(5,724,608)	10,245,886
CASH AND CASH EQUIVALENTS AT 1 JANUARY	24,746,835	14,500,949
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	19,022,227	24,746,835
Represented by:		
Cash and balances with central bank and banks	5,639,475	3,097,135
Money at call and short notice with original maturity of three months or less	11,331,885	20,578,463
Exchange fund bills with original maturity of three months or less	1,099,926	–
Placements with banks maturing between one to twelve months with original maturity of less than three months	950,941	1,071,237
	19,022,227	24,746,835

The notes on pages 9 to 42 form an integral part of these consolidated financial information.

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2015

1. GENERAL

The financial information relating to the years ended 31 December 2015 and 2014 included in this announcement of 2015 final results do not constitute the Group's statutory annual consolidated financial statements for those years but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The Bank has delivered the financial statements for the year ended 31 December 2014 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance and will deliver the financial statements for the year ended 31 December 2015 in due course.

The Bank's auditor has reported on the financial statements of the Group for both years. The independent auditor's reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

Chong Hing Bank Limited (the "Bank") is a public limited company incorporated in Hong Kong and its shares are listed on the Stock Exchange of Hong Kong Limited.

The Bank is engaged in the provision of banking and related financial services. The address of the registered office of the Bank is Ground Floor, Chong Hing Bank Centre, 24 Des Voeux Road Central, Hong Kong.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2015 and are relevant to the Group:

- "Annual Improvements to HKFRSs 2010 - 2012 Cycle" and "Annual Improvements to HKFRSs 2011 - 2013 Cycle", effective for the accounting period on or after 1 July 2014, include a number of amendments to various HKFRSs. None of the amendments are expected to have an impact to the Group except for amendments to HKFRS 8 "Operating segment" and amendments to HKFRS 13 "Fair value measurement". The impact of these two amendments are summarized below:
- The amendments to HKFRS 8 (i) require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have "similar economic characteristics"; and (ii) clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker. The amendments do not have material impact to the Group.
- The amendments to HKFRS 13 clarify that the issue of HKFRS 13 and consequential amendments to HKAS "Financial Instruments: Recognition and Measurement" do not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial. The amendments do not have material impact to the Group.

There are also amendments to a standard effective for the accounting period beginning on or after 1 January 2015 but do not have material financial impact. Therefore, these amendments are not analysed in details.

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

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2015

3. SEGMENT INFORMATION

(a) Operating segments

The Group's operating segments, which are also the reportable segments, based on information regularly reviewed by the chief operating decision maker (Executive Committee of the Group) for the purpose of allocating resources to segments and assessing their performance on business divisions of the Group, are as follows:

The corporate and retail banking services provided by the Group are principally lending and trade finance facilities, auto financing, consumer financing, overdraft facilities, mandatory provident fund services, provision of fixed deposits, current and savings accounts, credit cards and personal wealth management services. The Group also provides automated telephone and internet banking services to its customers. Other banking services offered include remittance and money exchange, safe deposit boxes, autopay and direct debit services.

Financial markets activities mainly comprise inter-bank placement and deposit transactions, management of overall interest rate risk and liquidity of the Group and centralised cash management. Income from foreign exchange activities is generated from services provided to customers in the form of foreign exchange trading and forward contracts, and from the Bank's cash management activities through foreign currency funding swaps.

Securities dealing activities of the Group include securities trading, stockbroking and futures broking.

Others comprise investment holding, insurance, other investment advisory services and property investments.

No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2015

3. SEGMENT INFORMATION - continued

(a) Operating segments - continued

(i) Operating segment information for the year ended 31 December 2015 is presented below:

Operating segment revenues and results

	Corporate and retail banking HK\$'000	Financial markets activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Interest income from external customers	1,845,858	1,163,309	8,139	1,298	–	3,018,604
Interest expense to external customers	(1,034,069)	(205,700)	–	–	–	(1,239,769)
Inter-segment interest income (Note 1)	522,865	–	–	–	(522,865)	–
Inter-segment interest expense (Note 1)	–	(522,865)	–	–	522,865	–
Net interest income	1,334,654	434,744	8,139	1,298	–	1,778,835
Fee and commission income	209,226	–	178,218	–	–	387,444
Fee and commission expenses	(81,226)	–	(201)	–	–	(81,427)
Net trading income	936	53,280	–	(1,315)	–	52,901
Other operating income	111,436	–	–	31,811	–	143,247
Segment revenue						
Total operating income	1,575,026	488,024	186,156	31,794	–	2,281,000
Comprising:						
- Segment revenue from external customers	1,052,161	1,010,889	186,156	31,794		
- Inter-segment transactions	522,865	(522,865)	–	–		
Operating expenses (Note 2)	(706,227)	(50,995)	(73,717)	(25,523)	–	(856,462)
Impairment allowances on loans and advances	(22,748)	–	–	–	–	(22,748)
Net gains on disposal of assets held for sale	–	–	–	52,154	–	52,154
Net gains on disposal of property and equipment	3,356	–	3	–	–	3,359
Net gains on disposal of available-for-sale securities	–	10,715	–	70,303	–	81,018
Net gains on disposal of and fair value adjustments on investment properties	–	–	–	106,737	–	106,737
Impairment loss on available-for-sale securities	–	–	–	(200)	–	(200)
Segment profit	849,407	447,744	112,442	235,265	–	1,644,858
Unallocated corporate expenses						(257,295)
Share of profits of associates						31,827
Profit before taxation						1,419,390

Notes: 1. Inter-segment pricing for funding transactions is charged at prevailing customer deposits interest rates.

2. The difference between the operating expenses in the consolidated income statement and the operating expenses in the operating segments is the unallocated corporate expenses.

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2015

3. SEGMENT INFORMATION - continued

(a) Operating segments - continued

(i) Operating segment information for the year ended 31 December 2015 is presented below: - continued

Operating segment assets and liabilities as at 31 December 2015

	Corporate and retail banking HK\$'000	Financial markets activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Consolidated HK\$'000
Assets					
Segment assets	70,307,318	56,156,693	268,686	582,142	127,314,839
Interests in associates					247,901
Unallocated corporate assets					274,906
Consolidated total assets					<u>127,837,646</u>
Liabilities					
Segment liabilities	100,094,959	12,128,623	106,770	104,524	112,434,876
Unallocated corporate liabilities					295,029
Consolidated total liabilities					<u>112,729,905</u>

Other information - amounts included in the measure of segment results and segment assets

	Corporate and retail banking HK\$'000	Financial markets activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Capital expenditure during the year	45,161	4,129	1,255	92	21,548	72,185
Depreciation	36,195	921	1,936	471	12,582	52,105
Release of prepaid lease payments for land	<u>66</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>66</u>

The accounting policies of the operating segments are the same as the Group's accounting policies.

All direct costs incurred by different segments are grouped under respective segments. Indirect costs and support functions' costs are allocated to various segments and products based on effort and time spent while segments' other operating income is allocated depending on the nature of costs incurred. Indirect costs and support functions' costs and income related to corporate activities that cannot be reasonably allocated to segments or products are grouped as unallocated corporate expenses and unallocated corporate income respectively. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of performance.

There is no operating income with a single external customer amounting to or exceeding 10% of the Group's and the Bank's total operating income.

Assets and liabilities related to corporate activities that cannot be reasonably allocated to segments, products and support functions are grouped as unallocated corporate assets and liabilities. All direct segment assets and liabilities are grouped under respective segments.

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2015

3. SEGMENT INFORMATION - continued

(a) Operating segments - continued

(ii) Operating segment information for the year ended 31 December 2014 is presented below:

Operating segment revenues and results

	Corporate and retail banking HK\$'000	Financial markets activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Interest income from external customers	1,325,933	804,757	4,750	552	–	2,135,992
Interest expense to external customers	(643,990)	(120,255)	–	–	–	(764,245)
Inter-segment interest income (Note 1)	292,937	–	–	–	(292,937)	–
Inter-segment interest expense (Note 1)	–	(292,937)	–	–	292,937	–
Net interest income	974,880	391,565	4,750	552	–	1,371,747
Fee and commission income	166,083	–	134,747	–	–	300,830
Fee and commission expenses	(75,945)	–	(114)	–	–	(76,059)
Net trading income	1,416	97,658	–	49	–	99,123
Other operating income	98,006	–	–	36,108	–	134,114
Segment revenue						
Total operating income	1,164,440	489,223	139,383	36,709	–	1,829,755
Comprising:						
- Segment revenue from external customers	871,503	782,160	139,383	36,709		
- Inter-segment transactions	292,937	(292,937)	–	–		
Operating expenses (Note 2)	(509,350)	(31,014)	(65,897)	(14,591)	–	(620,852)
Reversal of impairment allowances on						
loans and advances	32,344	–	–	–	–	32,344
Net losses on disposal of property and equipment	(5,976)	–	–	–	–	(5,976)
Net gains on disposal of available-for-sale securities	–	–	–	15,179	–	15,179
Net gains on disposal of and fair value adjustments						
on investment properties	–	–	–	3,100	–	3,100
Segment profit	681,458	458,209	73,486	40,397	–	1,253,550
Unallocated corporate expenses						(344,879)
						908,671
Net gains on disposal of assets held for sale						1,960,732
Share of profits of associates						38,688
Profit before taxation						2,908,091

Notes: 1. Inter-segment pricing for funding transactions is charged at prevailing customer deposits interest rates.

2. The difference between the operating expenses in the consolidated income statement and the operating expenses in the operating segments is the unallocated corporate expenses.

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2015

3. SEGMENT INFORMATION - continued

(a) Operating segments - continued

(ii) Operating segment information for the year ended 31 December 2014 is presented below: - continued

Operating segment assets and liabilities as at 31 December 2014

	Corporate and retail banking HK\$'000	Financial markets activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Consolidated HK\$'000
Assets					
Segment assets	61,147,810	45,041,500	392,603	667,151	107,249,064
Interests in associates					222,309
Unallocated corporate assets					574,389
Consolidated total assets					<u>108,045,762</u>
Liabilities					
Segment liabilities	82,811,059	13,800,809	327,744	106,108	97,045,720
Unallocated corporate liabilities					216,390
Consolidated total liabilities					<u>97,262,110</u>

Other information - amounts included in the measure of segment results and segment assets

	Corporate and retail banking HK\$'000	Financial markets activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Capital expenditure during the year	23,207	80	3,250	205	7,154	33,896
Depreciation	33,547	619	2,100	203	11,184	47,653
Release of prepaid lease payments for land	<u>66</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>66</u>

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2015

3. SEGMENT INFORMATION - continued

(b) Geographical information

Geographical information (including geographical analysis of total segment revenue) is analysed by the Group based on the locations of the principal operations of the branches and subsidiaries which are responsible for reporting the results or booking the assets. Non-current assets presented below are based on the location of the entities' country of domicile which is the same as the location of the non-current assets.

Details of geographical information are set out below:

	2015						
	Total operating income HK\$'000	Profit before taxation HK\$'000	Total assets HK\$'000	Total liabilities HK\$'000	Total contingent liabilities and commitments HK\$'000	Non-current assets HK\$'000	Capital expenditure during the year HK\$'000
Hong Kong	2,038,797	1,267,117	117,852,280	106,488,708	17,490,015	1,136,419	39,422
Macau and Mainland China	227,118	138,218	9,965,208	6,241,021	1,148,114	56,008	32,763
America	15,085	14,055	20,158	176	1,353	282	–
Total	<u>2,281,000</u>	<u>1,419,390</u>	<u>127,837,646</u>	<u>112,729,905</u>	<u>18,639,482</u>	<u>1,192,709</u>	<u>72,185</u>

	2014						
	Total operating income HK\$'000	Profit before taxation HK\$'000	Total assets HK\$'000	Total liabilities HK\$'000	Total contingent liabilities and commitments HK\$'000	Non-current assets HK\$'000	Capital expenditure during the year HK\$'000
Hong Kong	1,562,424	2,691,164	98,930,729	89,930,872	18,983,914	1,145,177	20,728
Macau and Mainland China	247,767	204,557	8,395,665	7,271,517	1,067,739	27,964	13,158
America	19,564	12,370	719,368	59,721	9,538	413	10
Total	<u>1,829,755</u>	<u>2,908,091</u>	<u>108,045,762</u>	<u>97,262,110</u>	<u>20,061,191</u>	<u>1,173,554</u>	<u>33,896</u>

Note: Total operating income consists of net interest income, net fee and commission income, net trading income and other operating income.

Non-current assets consist of interests in associates, investment properties, property and equipment, prepaid lease payments for land (non-current portion) and goodwill.

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2015

4. NET INTEREST INCOME

	2015 HK\$'000	2014 HK\$'000
Interest income		
Balances and placements with central bank and banks	521,044	464,510
Investments in securities	642,338	352,696
Loans and advances	1,844,979	1,316,473
Interest rate swaps	10,243	2,313
	<u>3,018,604</u>	<u>2,135,992</u>
Interest expense		
Deposits and balances of banks	(51,778)	(15,249)
Deposits from customers	(1,033,923)	(643,870)
Financial assets sold under repurchase agreements	(40,575)	(16,364)
Certificates of deposit	(37,141)	(23,867)
Loan capital in issue	(63,832)	(63,055)
Interest rate swaps	(12,520)	(1,840)
	<u>(1,239,769)</u>	<u>(764,245)</u>
Net interest income	<u>1,778,835</u>	<u>1,371,747</u>
Included within interest income		
Interest income on impaired loans and advances	<u>163</u>	<u>283</u>

Included within interest income and interest expense are HK\$3,008,361,000 (2014: HK\$2,133,849,000) and HK\$1,227,249,000 (2014: HK\$762,405,000) earned and incurred from financial assets and financial liabilities that are not at fair value through profit or loss, respectively.

Included above is interest income from unlisted investments in debt securities of HK\$642,338,000 (2014: HK\$352,696,000).

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2015

5. NET FEE AND COMMISSION INCOME

	2015 HK\$'000	2014 HK\$'000
Fee and commission income		
Securities dealings	178,218	134,747
Credit lines	30,432	19,542
Trade finance	13,204	13,303
Credit card services	87,041	82,062
Agency services	48,538	32,188
Others	30,011	18,988
Total fee and commission income	387,444	300,830
Less: Fee and commission expenses	(81,427)	(76,059)
Net fee and commission income	<u>306,017</u>	<u>224,771</u>
of which:		
Net fee and commission, 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 through profit or loss		
- Fee income	151,617	122,980
- Fee expenses	(78,676)	(75,585)
	<u>72,941</u>	<u>47,395</u>

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2015

6. NET TRADING INCOME

	2015 HK\$'000	2014 HK\$'000
Foreign exchange	65,894	100,601
Net expenses from financial assets designated at fair value	(366)	(8,414)
Net (losses) gains on financial instruments at fair value through profit or loss	(10,258)	7,121
Net (losses) gains on fair value hedge:		
- Net (losses) gains on hedged items attributable to the hedged risk	(12,189)	80,708
- Net gains (losses) on hedging instruments	<u>9,820</u>	<u>(80,893)</u>
	<u>52,901</u>	<u>99,123</u>

“Net trading income - foreign exchange” includes gains and losses from spots and forward contracts, swaps and translated foreign currency assets and liabilities, which are not designated as qualifying hedging relationship.

The Group entered into foreign exchange swaps for its liquidity management and funding activities. It involves swapping a currency (“original currency”) into another currency (“swap currency”) at the spot exchange rate for short-term placement and simultaneously entering into a forward contract to convert the funds back to the original currency on maturity of the placement. The exchange difference between the spot and forward contracts is recognised as a gain or loss in “net trading income - foreign exchange”, while the corresponding interest differential between the surplus funds in the original currency and swap currency is reflected in net interest income.

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2015

7. OTHER OPERATING INCOME

	2015 HK\$'000	2014 HK\$'000
Dividend income		
- Listed investments	5,905	6,856
- Unlisted investments	5,700	5,212
	11,605	12,068
Gross rents from investment properties	8,979	9,807
Less: Outgoings	939	(3,749)
Net rental income	9,918	6,058
Safe deposit box rentals	50,627	47,723
Insurance underwriting premiums less claims and commission expense	19,982	17,982
Other banking services income	47,974	47,435
Gain on retirement benefit	–	86
Others	3,141	2,762
	<u>143,247</u>	<u>134,114</u>

8. OPERATING EXPENSES

	2015 HK\$'000	2014 HK\$'000
Auditor's remuneration		
- Audit services	3,998	4,063
- Non-audit services	249	136
Total auditor's remuneration	4,247	4,199
Staff costs (including directors' emoluments)		
- Salaries and other costs	637,937	522,814
- Retirement benefits scheme contributions	35,121	32,143
Total staff costs	673,058	554,957
Depreciation	52,105	47,653
Release of prepaid lease payments for land	66	66
Premises and equipment expenses, excluding depreciation and release of prepaid lease payments for land		
- Rentals and rates for premises	117,335	100,279
- Others	30,757	26,762
Other operating expenses	236,189	231,815
	<u>1,113,757</u>	<u>965,731</u>

Included in the premises and equipment expenses are minimum lease payments under operating lease of HK\$109,053,000 (2014: HK\$92,645,000).

In addition to the Non-audit services of Auditor's remuneration disclosed above, the Group has capitalised Non-audit services of Auditor's remuneration of HK\$645,000 (2014: HK\$400,000).

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2015

9. TAXATION

	2015 HK\$'000	2014 HK\$'000
The tax charge comprises:		
Hong Kong Profits Tax		
- Current year	178,458	135,782
- (Over) under provision in prior years	(208)	333
Overseas taxation		
- Current year	47,662	47,049
- Over provision in prior years	(113)	(392)
Deferred tax (<i>Note 27</i>)	455	(17,085)
	<u>226,254</u>	<u>165,687</u>

Hong Kong Profits Tax is calculated at 16.5% (2014: 16.5%) of the estimated assessable profit for the year.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

The tax charge for the year can be reconciled to the Group's profit before taxation per the consolidated income statement as follows:

	2015 HK\$'000	2014 HK\$'000
Profit before taxation	<u>1,419,390</u>	<u>2,908,091</u>
Tax at the domestic income tax rate of 16.5% (2014: 16.5%)	234,199	479,834
Tax effect of share of profits of associates	(5,252)	(6,384)
Tax effect of expenses not deductible for tax purpose	10,683	528
Tax effect of income not taxable for tax purpose	(21,136)	(322,167)
Over provision in prior years	(321)	(59)
Effect of different tax rates of subsidiaries and branches operating in other jurisdictions	8,101	16,355
Others	<u>(20)</u>	<u>(2,420)</u>
Tax charge for the year	<u>226,254</u>	<u>165,687</u>

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2015

10. DIVIDENDS

	2015 HK\$'000	2014 HK\$'000
Dividends recognised as distribution to ordinary shareholders during the year:		
2015 Special Interim - Nil (2014: 2014 Special Interim - HK\$4.5195) per share	–	1,965,983
2015 Interim - HK\$0.21 (2014: 2014 Interim - HK\$0.19) per share	91,350	82,650
2014 Final - HK\$0.41 (2014: 2013 Final - HK\$0.33) per share	178,350	143,550
	<u>269,700</u>	<u>2,192,183</u>

The final dividend of HK\$0.37 per share, totalling HK\$241,425,000, in respect of the current financial year (2014: HK\$0.41 per share, totalling HK\$178,350,000) has been proposed by the Board and is subject to approval by the shareholders in the next AGM.

At an extraordinary general meeting of the shareholders on 20 December 2013, a special interim dividend of HK\$4.5195 per share, totaling HK\$1,965,982,500 to shareholders on the Bank's register of members as of 4 February 2014 was approved. The conditions for payment of the special interim dividend were satisfied on 5 February 2014, when the Partial Disposal, as defined and stipulated in the joint announcement made by the Bank, the ultimate holding company and Guangzhou Yue Xiu Holdings Limited on 25 October 2013, became unconditional, and on 19 February 2014 when the completion of the Property Transfer, as defined and stipulated in this joint arrangement, took place. The special interim dividend of HK\$4.5195 per share was paid on 20 February 2014.

At the board meeting on 17 August 2015, the Board declared a total amount of interim dividend of HK\$91,350,000 (2014: HK\$82,650,000) at a rate of HK\$0.21 (2014: HK\$0.19) per share. The interim dividend was paid on 16 September 2015.

11. EARNINGS PER SHARE - BASIC AND DILUTED

The calculation of basic earnings per share is based on the profit attributable to equity owners of the Bank of HK\$1,193,136,000 (2014: HK\$2,742,404,000) with deduction of distribution payment for additional equity instruments of HK\$151,173,000 (2014: HK\$Nil) on 506,207,000 (2014: 450,239,000) weighted average ordinary shares in issue during the year.

Basic earnings per share for 2014 has been restated to take into account the effects of the rights issue of the Bank completed in the year of 2015.

As at 31 December 2015 and 31 December 2014, there were no potential dilutive instrument in issue.

12. CASH AND SHORT-TERM FUNDS

	2015 HK\$'000	2014 HK\$'000
Cash and balances with central bank and banks	5,639,475	3,097,135
Money at call and short notice	12,493,978	21,476,748
Exchange fund bills	3,298,441	1,458,299
	<u>21,431,894</u>	<u>26,032,182</u>

Included in the "Cash and balances with central bank and banks" of the Group are surplus reserve deposits placed with People's Bank of China in the Mainland China by the Shantou Branch of the Bank of HK\$1,300,185,000 (2014: HK\$1,417,484,000).

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2015

13. DERIVATIVE FINANCIAL INSTRUMENTS

	2015			2014		
	Notional amount HK\$'000	Fair value Assets HK\$'000	Liabilities HK\$'000	Notional amount HK\$'000	Fair value Assets HK\$'000	Liabilities HK\$'000
Derivatives held for trading						
- Foreign currency forward contracts	50,451,669	442,399	549,336	14,459,444	19,246	260,024
- Interest rate swaps	1,141,030	6,598	6,338	70,000	1,736	1,597
Derivatives designated as hedging instruments						
- Interest rate swaps	11,579,083	128,654	289,104	8,879,021	121,180	151,703
- Cross-currency interest rate swaps	-	-	-	233,306	-	1,798
		<u>577,651</u>	<u>844,778</u>		<u>142,162</u>	<u>415,122</u>

As at 31 December 2015, the currencies of foreign currency forward contracts mainly comprise buying Hong Kong dollars and United States dollars (2014: Hong Kong dollars and Renminbi), and the currencies of foreign currency forward contracts mainly comprise selling Renminbi and United States dollars (2014: Renminbi and United States dollars). As at 31 December 2015 and 31 December 2014, all of these contracts have settlement dates within one year from the end of the reporting period.

The remaining maturity of interest rate swaps held for trading is 1 to 10 years (2014: 6 years).

Of the interest rate swaps held for trading with a notional amount of HK\$1,141,030,000 (2014: HK\$70,000,000) as at 31 December 2015, the notional amount of HK\$958,060,000 (2014: HK\$35,000,000) was floating-to-fixed rate swaps, the remaining notional amount of HK\$182,970,000 (2014: HK\$35,000,000) was fixed-to-floating rate swaps.

The credit risk-weighted amounts of derivative exposures calculated based on the Banking (Capital) Rules of the Hong Kong Banking Ordinance are as follows:

	2015			2014		
	Notional amount HK\$'000	Replacement cost HK\$'000	Credit risk- weighted amount HK\$'000	Notional amount HK\$'000	Replacement cost HK\$'000	Credit risk- weighted amount HK\$'000
Exchange rate contracts	50,451,669	442,399	259,178	14,692,750	19,246	72,891
Interest rate contracts	12,720,113	135,252	58,446	8,949,021	122,916	47,878
		<u>577,651</u>	<u>317,624</u>		<u>142,162</u>	<u>120,769</u>

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2015

13. DERIVATIVE FINANCIAL INSTRUMENTS - continued

Replacement cost is the cost which would be incurred by the Group if it was required to enter into another contract to replace the existing transaction or existing contract with another counterparty with substantially the same economic consequences for the Group and is calculated by marking-to-market the existing transaction or existing contract. If the resultant value is positive for the Group, the replacement cost shall be the resultant value of the existing transaction or existing contract. If the resultant value is negative for the Group, the replacement cost shall be zero. Replacement cost is a close approximation of the credit risk for these contracts at the end of the reporting period.

The derivative financial instruments including exchange rate contracts and interest rate contracts have been recognised in the statements of financial position at fair values.

The fair values of the derivative financial instruments do not take into account the effect of any bilateral netting agreements.

Fair value hedge of fixed-rate bonds

The Group designates certain interest rate swaps and cross-currency interest rate swaps as fair value hedges of available-for-sale debt securities with carrying amount of HK\$10,142,015,000 (2014: HK\$7,579,555,000) as at 31 December 2015. The purpose is to minimise its exposure to fair value changes of its fixed-rate bonds by swapping these fixed-rate bonds from fixed rates to floating rates. The interest rate swaps and cross-currency interest rate swaps and the corresponding fixed-rate bonds have the same terms. The management of the Group considers that the interest rate swaps and cross-currency interest rate swaps are highly effective hedging instruments. The remaining maturity of these interest rate swaps, cross-currency interest rate swaps and debt securities ranged from 5 months to 9 years.

During the years ended 31 December 2015 and 31 December 2014, the above fair value hedges were effective in hedging the fair value exposures to interest rate movements and as a result, both the losses in fair value of the bonds of HK\$8,551,000 (2014: gains of HK\$127,648,000) and gains in fair value of the interest rate swaps of HK\$4,497,000 (2014: losses of HK\$132,164,000) and gains in fair value of cross-currency interest rate swaps of HK\$Nil (2014: gains of HK\$3,278,000) were included in the consolidated income statement.

Fair value hedge of subordinated note issued

The Group designates an interest rate swap as fair value hedge of the interest rate movement of the US\$225 million subordinated note issued (see note 24). The purpose is to minimise its exposure to fair value changes of its fixed-rate note by swapping fixed-rate note from fixed rate to floating rate. The interest rate swap and the hedged subordinated note have the same terms and the management of the Group considers that the interest rate swap is a highly effective hedging instrument.

The hedge was effective in hedging the fair value exposure to interest rate movements and as a result, both the increase in fair value of the note of HK\$3,638,000 (2014: increase in fair value of HK\$46,940,000) and gains in fair value of the interest rate swap of HK\$5,323,000 (2014: gains of HK\$47,993,000) were included in the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2015

14. INVESTMENTS IN SECURITIES

	Financial assets at fair value through profit or loss		Available- for-sale securities	Held-to- maturity securities	Total
	Held for trading HK\$'000	Designated at fair value HK\$'000	HK\$'000	HK\$'000	HK\$'000
2015					
Equity securities:					
Listed in Hong Kong	271	–	186,172	–	186,443
Listed overseas	–	–	2,984	–	2,984
	<u>271</u>	<u>–</u>	<u>189,156</u>	<u>–</u>	<u>189,427</u>
Unlisted	–	–	34,333	–	34,333
	<u>271</u>	<u>–</u>	<u>223,489</u>	<u>–</u>	<u>223,760</u>
Debt securities:					
Certificates of deposit	–	–	7,264,655	2,720,985	9,985,640
Other debt securities					
- Unlisted	–	–	15,311,879	5,965,545	21,277,424
	<u>–</u>	<u>–</u>	<u>22,576,534</u>	<u>8,686,530</u>	<u>31,263,064</u>
Total:					
Listed in Hong Kong	271	–	186,172	–	186,443
Listed overseas	–	–	2,984	–	2,984
Unlisted	–	–	22,610,867	8,686,530	31,297,397
	<u>271</u>	<u>–</u>	<u>22,800,023</u>	<u>8,686,530</u>	<u>31,486,824</u>
As analysed by issuing entities:					
Central governments and central banks	–	–	1,762,697	16,183	1,778,880
Public sector entities	–	–	17	39,802	39,819
Banks	–	–	10,866,759	3,986,232	14,852,991
Corporate entities	271	–	10,170,191	4,644,313	14,814,775
Others	–	–	359	–	359
	<u>271</u>	<u>–</u>	<u>22,800,023</u>	<u>8,686,530</u>	<u>31,486,824</u>

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2015

14. INVESTMENTS IN SECURITIES - continued

	Financial assets at fair value through profit or loss		Available- for-sale securities	Held-to- maturity securities	Total
	Held for trading HK\$'000	Designated at fair value HK\$'000	HK\$'000	HK\$'000	HK\$'000
2014					
Equity securities:					
Listed in Hong Kong	287	—	236,193	—	236,480
Listed overseas	—	—	8,573	—	8,573
	287	—	244,766	—	245,053
Unlisted	—	—	36,115	—	36,115
	287	—	280,881	—	281,168
Debt securities:					
Certificates of deposit	—	—	—	1,163,972	1,163,972
Other debt securities					
- Unlisted	—	—	7,594,039	7,499,164	15,093,203
	—	—	7,594,039	8,663,136	16,257,175
Total:					
Listed in Hong Kong	287	—	236,193	—	236,480
Listed overseas	—	—	8,573	—	8,573
Unlisted	—	—	7,630,154	8,663,136	16,293,290
	287	—	7,874,920	8,663,136	16,538,343
As analysed by issuing entities:					
Central governments and central banks	—	—	—	10,629	10,629
Public sector entities	—	—	—	822,649	822,649
Banks	—	—	376,172	3,154,901	3,531,073
Corporate entities	287	—	7,493,896	4,674,957	12,169,140
Others	—	—	4,852	—	4,852
	287	—	7,874,920	8,663,136	16,538,343

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2015

14. INVESTMENTS IN SECURITIES - continued

Available-for-sale financial assets of aggregated carrying amount of HK\$230,513,000 (2014: HK\$227,664,000) are bonds issued by Yuexiu Property company Limited, a fellow subsidiary of the Group.

For the equity securities classified as available-for-sale financial instruments, impairment losses accumulated through the years of HK\$30,078,000 (2014: HK\$33,109,000) have been provided by the Group.

Unlisted equity securities classified as available-for-sale held by the Group amounting to HK\$33,974,000 (2014: HK\$35,744,000) are measured at cost less impairment. No impairment has been recognised for these equity securities.

Certain held-to-maturity certificates of deposit of HK\$17,052,000 (2014: HK\$17,065,000) held by the San Francisco Branch of the Bank have been pledged to the State of California of the United States of America in compliance with the requirements of the California Financial Code.

Debt securities classified as held-to-maturity amounting to HK\$16,183,000 (2014: HK\$10,629,000) were issued by the Government of Hong Kong Special Administrative Region and the Mainland China.

The debt securities classified as available-for-sale and held-to-maturity held by the Group are mainly guaranteed or issued by corporates and financial institutions from the Mainland China, Hong Kong and Australia.

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

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15. TRANSFER OF FINANCIAL ASSETS

The following were the Group's debt securities classified as held-to-maturity and available-for-sale as at 31 December 2015 and 31 December 2014 that were transferred to an entity with terms to repurchase these debt securities at agreed dates and prices. As the Group has retained substantially all the risks and rewards relating to these debt securities, the full carrying amount of these debt securities continued to be recognised. The cash received on the transfer was reported as liabilities under "Financial assets sold under repurchase agreements" (see note 21). The transferred debt securities serve as collateral to secure these liabilities. During the covered period, the legal title of the debt securities are transferred to the counterparty entity and there is no restriction for the counterparty entity to sell or repledge the collateral. These debt securities are either measured at amortised cost or carried at fair value in the statements of financial position.

31 December 2015			
	Available -for-sale debt securities HK\$'000	Held-to- maturity debt securities HK\$'000	Total HK\$'000
Carrying amount of transferred assets	2,956,066	534,753	3,490,819
Carrying amount of associated liabilities (<i>Note 21</i>)	<u>2,805,533</u>	<u>517,150</u>	<u>3,322,683</u>
31 December 2014			
	Available -for-sale debt securities HK\$'000	Held-to- maturity debt securities HK\$'000	Total HK\$'000
Carrying amount of transferred assets	3,368,491	2,102,043	5,470,534
Carrying amount of associated liabilities (<i>Note 21</i>)	<u>3,025,130</u>	<u>1,923,634</u>	<u>4,948,764</u>

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2015

16. ADVANCES AND OTHER ACCOUNTS

	2015 HK\$'000	2014 HK\$'000
Advances to customers		
Bills receivable	498,288	380,029
Trade bills	4,741,164	7,734,103
Other advances to customers	<u>58,360,560</u>	<u>48,811,288</u>
	63,600,012	56,925,420
Interest receivable	507,384	328,381
Impairment allowances		
- Individually assessed	(23,688)	(19,945)
- Collectively assessed	<u>(250,494)</u>	<u>(238,987)</u>
	63,833,214	56,994,869
Other accounts	<u>1,553,434</u>	<u>1,589,738</u>
	<u><u>65,386,648</u></u>	<u><u>58,584,607</u></u>

Included in the “Other Accounts” of the Group is variation margin of HK\$362,753,000 (2014: HK\$328,666,000) deposited in banks for certain interest rate swaps, foreign currency forward contracts and repurchase agreements and an amount of approximately HK\$313,914,000 (2014: HK\$658,218,000) placed as reserve funds with a bank in the Mainland China by the Shantou Branch of the Bank. Among which, HK\$151,741,000 (2014: HK\$489,673,000) are the mandatory reserve deposits placed with the People’s Bank of China. The mandatory reserve deposits are not available for the Group’s daily operation; HK\$162,173,000 (2014: HK\$168,545,000) are the fixed deposits placed with a bank in the Mainland China in compliance with the requirements of Regulations Governing Foreign Financial Institutions of the Mainland China. In addition, there is bank balance placed with a bank in Mainland China of HK\$357,970,000 (2014: Nil) in relation to the Guangzhou Branch setup awaiting capital verification.

The remaining balance of “Other Accounts” of the Group amounting to HK\$518,797,000 (2014: HK\$602,854,000) mainly included account receivables from Hong Kong Securities Clearing Company Limited, Hong Kong Futures Exchange Clearing Corporation Limited and brokerage clients in relation to securities dealing of HK\$239,587,000 (2014: HK\$365,783,000).

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2015

16. ADVANCES AND OTHER ACCOUNTS - continued

Impairment allowances on advances:

	Individual assessment HK\$'000	Collective assessment HK\$'000	Total HK\$'000
Balance 1 January 2015	19,945	238,987	258,932
- Increase in impairment allowances	19,813	12,439	32,252
- Amounts reversed	(9,504)	–	(9,504)
Charge of impairment allowances (net)	10,309	12,439	22,748
Amounts written off	(8,558)	–	(8,558)
Recoveries of advances written off in previous years	2,149	–	2,149
Unwinding effect of discount rate	(163)	–	(163)
Exchange difference	6	(932)	(926)
Balance 31 December 2015	23,688	250,494	274,182
Balance 1 January 2014	14,755	189,425	204,180
- Increase in impairment allowances	11,253	49,621	60,874
- Amounts reversed	(93,218)	–	(93,218)
Charge (reversal) of impairment allowances (net)	(81,965)	49,621	(32,344)
Amounts written off	(3,367)	–	(3,367)
Recoveries of advances written off in previous years	90,805	–	90,805
Unwinding effect of discount rate	(283)	–	(283)
Exchange difference	–	(59)	(59)
Balance 31 December 2014	19,945	238,987	258,932

Details of the impaired loans are as follows:

	2015 HK\$'000	2014 HK\$'000
Gross impaired loans	25,227	23,825
Less: Impairment allowances under individual assessment	(23,688)	(19,945)
Net impaired loans	1,539	3,880
Gross impaired loans as a percentage of gross advances to customers	0.04%	0.04%
Market value of collateral pledged	12,412	14,336

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2015

17. ASSETS HELD FOR SALE

The carrying amount of assets held for sale comprises:

	2015 HK\$'000	2014 HK\$'000
Leasehold land and buildings in Hong Kong		
Held on medium-term lease (10-50 years expired)	<u>–</u>	<u>1,718</u>

18. INVESTMENT PROPERTIES

	2015 HK\$'000	2014 HK\$'000
At 1 January	288,413	136,575
Transfer from land and buildings	13,200	149,500
Transfer to assets held for sale	(141,954)	–
Net increase in fair value recognised in the profit or loss	106,737	3,100
Exchange adjustments	<u>(2,174)</u>	<u>(762)</u>
At 31 December	<u>264,222</u>	<u>288,413</u>

All of the Group's property interests held under operating leases to earn rentals and / or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

Net gains on fair value adjustments on investment properties:

	2015 HK\$'000	2014 HK\$'000
Net gains on fair value adjustments on investment properties	<u>106,737</u>	<u>3,100</u>

Investment properties owned by the Group were revalued at 31 December 2015 by adopting the direct comparison approach (2014: direct comparison approach) and with reference to the recent transactions for similar premises by Vigers Appraisal and Consulting Limited (2014: Vigers Appraisal and Consulting Limited and Savills (Hong Kong) Limited), independent professionally qualified valuers. The fair value is mainly arrived at by reference to comparable market transactions for similar properties.

The fair value of investment properties is estimated based on assumptions that there would be no forced sale situation in any manner for these investment properties and the structure of these investment properties were in a reasonable condition at the end of the reporting period.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

One of the key inputs used in valuing the investment properties was the unit sale rate taking into account of time, location and individual factors such as size and levels of building, which ranged from HK\$5,800 to HK\$45,000 (2014: HK\$5,700 to HK\$40,000) per square feet. A decrease in the unit sale rate would result in decrease in fair value measurement of the investment properties by the same percentage decrease and vice versa.

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2015

18. INVESTMENT PROPERTIES - continued

In estimating the fair value of the Group's investment properties, the management of the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the management of the Group engages third party qualified valuers to perform the valuation of the Group's investment properties. At the end of each reporting period, the management of the Group works closely with the qualified external valuers to establish and determine the appropriate valuation techniques and inputs for Level 2 and Level 3 fair value measurement. The management of the Group will first consider and adopt Level 2 inputs where inputs can be derived from observable quoted prices in the active market. When Level 2 inputs are not available, the management of the Group will adopt valuation techniques that include Level 3 inputs. Where there is a material change in the fair value of the assets, the causes of the fluctuations will be reported to the directors of the Bank.

Information about the valuation techniques and inputs in determining the fair value of the Group's investment properties are disclosed above.

Investment properties are classified as Level 3 under fair value hierarchy as at 31 December 2015 and 31 December 2014. There were no transfers into or out of Level 3 during the year.

The investment properties are rented out under operating leases or are held for capital appreciation purposes.

The carrying amount of investment properties of the Group comprises:

	2015 HK\$'000	2014 HK\$'000
Leasehold properties		
Held in Hong Kong on long-term lease (over 50 years unexpired)	159,100	149,500
Held in Hong Kong on medium-term lease (10 - 50 years unexpired)	66,900	105,400
Held outside Hong Kong on medium-term lease (10 - 50 years unexpired)	38,222	33,513
	<u>264,222</u>	<u>288,413</u>

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2015

19. PROPERTY AND EQUIPMENT

	Leasehold land HK\$'000	Buildings HK\$'000	Equipment HK\$'000	Total HK\$'000
COST				
At 1 January 2015	486,350	166,070	577,595	1,230,015
Additions	–	–	72,185	72,185
Disposals	–	–	(8,740)	(8,740)
Transfer to investment properties	(169)	(2,212)	–	(2,381)
Exchange adjustments	–	(263)	–	(263)
At 31 December 2015	486,181	163,595	641,040	1,290,816
ACCUMULATED DEPRECIATION				
At 1 January 2015	120,634	45,160	454,265	620,059
Depreciation	10,834	4,016	37,255	52,105
Eliminated on disposals	–	–	(8,573)	(8,573)
Transfer to investment properties	(39)	(513)	–	(552)
At 31 December 2015	131,429	48,663	482,947	663,039
CARRYING AMOUNTS				
At 31 December 2015	354,752	114,932	158,093	627,777
At 1 January 2015	365,716	120,910	123,330	609,956
COST				
At 1 January 2014	491,963	167,103	565,426	1,224,492
Additions	–	–	33,896	33,896
Disposals	–	–	(22,257)	(22,257)
Reclassified to assets held for sale	(2,913)	–	–	(2,913)
Transfer to investment properties	(2,700)	(1,119)	–	(3,819)
Exchange adjustments	–	86	530	616
At 31 December 2014	486,350	166,070	577,595	1,230,015
ACCUMULATED DEPRECIATION				
At 1 January 2014	111,112	41,878	435,800	588,790
Depreciation	10,828	4,132	32,693	47,653
Eliminated on disposals	–	–	(14,143)	(14,143)
Reclassified to assets held for sale	(1,195)	–	–	(1,195)
Transfer to investment properties	(111)	(855)	–	(966)
Exchange adjustments	–	5	(85)	(80)
At 31 December 2014	120,634	45,160	454,265	620,059
CARRYING AMOUNTS				
At 31 December 2014	365,716	120,910	123,330	609,956
At 1 January 2014	380,851	125,225	129,626	635,702

The above items of property and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold land	Over the lease term of the leasehold land ranging from 33 to 929 years
Buildings	Over its estimated useful life of 50 years or the remaining lease period of the land which it is situated ranging from 33 to 929 years, whichever is the shorter
Equipment	10% -20%

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2015

19. PROPERTY AND EQUIPMENT - continued

The carrying amounts of leasehold land shown above comprise:

	2015 HK\$'000	2014 HK\$'000
Leasehold land in Hong Kong:		
Held on long-term lease (over 50 years unexpired)	37,379	37,686
Held on medium-term lease (10 - 50 years unexpired)	316,521	327,149
Leasehold land outside Hong Kong:		
Held on medium-term lease (10 - 50 years unexpired)	<u>852</u>	<u>881</u>
	<u>354,752</u>	<u>365,716</u>

The carrying amounts of buildings shown above comprise:

	2015 HK\$'000	2014 HK\$'000
Building		
Held in Hong Kong on long-term lease (over 50 years unexpired)	8,585	8,936
Held in Hong Kong on medium-term lease (10-50 years unexpired)	100,036	105,225
Held outside Hong Kong on medium-term lease (10-50 years unexpired)	<u>6,311</u>	<u>6,749</u>
	<u>114,932</u>	<u>120,910</u>

20. PREPAID LEASE PAYMENTS FOR LAND

The Group's prepaid lease payments for land comprise:

	2015 HK\$'000	2014 HK\$'000
COST		
Outside Hong Kong held on:		
Leases of between 10-50 years	<u>2,850</u>	<u>2,850</u>
Net book value at 1 January	2,336	2,403
Release of prepaid operating lease payments	(66)	(66)
Exchange adjustments	<u>(1)</u>	<u>(1)</u>
Net book value at 31 December	<u>2,269</u>	<u>2,336</u>
Analysed as:		
Current portion	66	66
Non-current portion	<u>2,203</u>	<u>2,270</u>
Total	<u>2,269</u>	<u>2,336</u>

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2015

21. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	2015 HK\$'000	2014 HK\$'000
Analysed by collateral type:		
Debt securities classified as:		
Available-for-sale (<i>Note 15</i>)	2,805,533	3,025,130
Held-to-maturity (<i>Note 15</i>)	<u>517,150</u>	<u>1,923,634</u>
	<u>3,322,683</u>	<u>4,948,764</u>

As at 31 December 2015, debt securities which are classified as available-for-sale and held-to-maturity with carrying amount of HK\$2,956,066,000 (2014: HK\$3,368,491,000) and HK\$534,753,000 (2014: HK\$2,102,043,000) respectively were sold under repurchase agreements with other banks. All repurchase agreements are due within 12 months from the end of the reporting period.

22. DEPOSITS FROM CUSTOMERS

	2015 HK\$'000	2014 HK\$'000
Demand deposits and current accounts	8,032,054	9,657,057
Savings deposits	31,440,381	29,223,905
Time, call and notice deposits	<u>59,919,929</u>	<u>43,252,429</u>
	<u>99,392,364</u>	<u>82,133,391</u>

23. CERTIFICATES OF DEPOSIT

The Group has issued certificates of deposit which are measured at amortised cost with a total carrying amount of HK\$351,962,000 as at 31 December 2015 (2014: HK\$2,108,136,000). Certificates of deposit bear contractual interest rates between 0.84% to 1.2% (2014: 0% to 4%) per annum and will mature in 2016. All certificates of deposit issued are not secured by any collateral.

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for the year ended 31 December 2015

24. LOAN CAPITAL

	2015 HK\$'000	2014 HK\$'000
US\$225 million fixed rate subordinated note due 2020 under fair value hedge (after adjustment of hedged interest rate risk) (Notes (a) & (b))	<u>1,819,591</u>	<u>1,815,563</u>

Notes:

- (a) This represented a subordinated note qualifying as tier 2 capital under Basel II accord with face value of US\$225,000,000 issued on 5 November 2010. The note will mature on 4 November 2020. If at any time on or after 1 January 2013, the note no longer fully qualifies as term subordinated debt for inclusion in Category II - Supplementary Capital of the Bank upon changes to regulatory requirements, the Bank may, at its option and subject to the prior written approval of the HKMA, exercise a change of the status of the note by serving the "Change in Status Notice" to the noteholders. Upon a "Change in Status Notice" becoming effective, the note shall thereafter constitute unsubordinated obligations and the rate of interest on the note shall be reduced from 6% per annum to 5.5% per annum. As "Change in Status Notice" has not been served, the rate of interest on the note remains at 6% per annum.
- (b) The subordinated note issued is not secured by any collateral.

25. SHARE CAPITAL AND SHARE PREMIUM

	Number of shares (thousands)	Share capital HK\$'000
Ordinary shares, issued and fully paid:		
At 1 January 2014	435,000	217,500
Transition to no-par value regime on 3 March 2014 (Note (a))	–	1,542,817
At 31 December 2014 and 1 January 2015	435,000	1,760,317
Issuance of shares upon right issues (Note (b))	<u>217,500</u>	<u>3,675,587</u>
At 31 December 2015	<u>652,500</u>	<u>5,435,904</u>

Notes:

- (a) In accordance with the transitional provisions set out in section 37 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622), on 3 March 2014, any amount outstanding to the credit of the share premium account has become part of the Bank's share capital.
- (b) During the year ended 31 December 2015, 217,500,000 new shares were issued and allotted under the rights issue at the subscription price of HK\$17.05 each on the basis of 1 rights share for every 2 shares held on 21 August 2015.

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

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26. ADDITIONAL EQUITY INSTRUMENTS

	2015 HK\$'000	2014 HK\$'000
US\$300 million undated non-cumulative subordinated additional tier 1 capital securities	<u>2,312,030</u>	<u>2,312,030</u>

On 25 September 2014, the Bank issued undated non-cumulative subordinated additional tier 1 capital securities ("Additional Tier 1 Capital Securities") with a face value of US\$300 million (equivalent to HK\$2,312,030,000 net of related issuance costs). The Additional Tier 1 Capital Securities are undated and bear a 6.50% coupon until the first call date on 25 September 2019. The coupon will be reset every five years if the Additional Tier 1 Capital Securities are not redeemed to a fixed rate equivalent to the then-prevailing five-year US Treasury rate plus 4.628% per annum.

The coupon shall be payable semi-annually. The Bank has the right to cancel coupon payment (subject to the requirement as set out in the terms and conditions of the Additional Tier 1 Capital Securities) and the coupon cancelled shall not be cumulative. However, the Bank is stopped from declaring dividend to its ordinary shareholders unless the next scheduled coupon payment is paid.

The principal of the Additional Tier 1 Capital Securities will be written off up to the amount as directed or agreed with the HKMA if the HKMA notifies the Bank that in the opinion of the HKMA, the Bank would become non-viable if there is no written off of the principal.

The Bank has a call option to redeem all the outstanding capital securities from 25 September 2019 or any subsequent coupon payment date, but subject to restriction as set out in the terms and conditions.

During the period, a distribution of US\$19,500,000 (equivalent to HK\$151,173,000) was paid to the securities holders.

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

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27. DEFERRED TAXATION

For the purpose of presentation in the statements of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2015 HK\$'000	2014 HK\$'000
Deferred tax assets	10,744	4,697
Deferred tax liabilities	(10,069)	(23,551)
	<u>675</u>	<u>(18,854)</u>

The following are the major deferred tax assets (liabilities) recognised and movements thereon during the current and prior reporting year:

	Accelerated tax depreciation HK\$'000	Collectively assessed impairment allowance HK\$'000	Investment properties HK\$'000	Revaluation of available- for-sale securities HK\$'000	Remeasurement of retirement benefits HK\$'000	Total HK\$'000
At 1 January 2015	(6,844)	38,138	(4,729)	(41,927)	(3,492)	(18,854)
Credit (charge) to income statement for the year (Note 9)	2,963	189	(3,607)	–	–	(455)
Credit to other comprehensive income for the year	–	–	–	19,301	–	19,301
Exchange adjustments	–	–	683	–	–	683
At 31 December 2015	<u>(3,881)</u>	<u>38,327</u>	<u>(7,653)</u>	<u>(22,626)</u>	<u>(3,492)</u>	<u>675</u>
At 1 January 2014	(15,575)	29,784	(4,837)	(31,838)	(1,694)	(24,160)
Credit to income statement for the year (Note 9)	8,731	8,354	–	–	–	17,085
Charge to other comprehensive income for the year	–	–	–	(10,089)	(1,798)	(11,887)
Exchange adjustments	–	–	108	–	–	108
At 31 December 2014	<u>(6,844)</u>	<u>38,138</u>	<u>(4,729)</u>	<u>(41,927)</u>	<u>(3,492)</u>	<u>(18,854)</u>

Under the Enterprise Income Tax Law of the PRC, withholding tax is imposed on profits distributed by the Bank's PRC branches from 1 January 2008 onwards. Deferred taxation has not been provided in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC branches amounting to HK\$453,011,000 (2014: HK\$402,165,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

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28. GOODWILL

	2015 HK\$'000	2014 HK\$'000
COST		
At 1 January and 31 December	110,606	110,606
IMPAIRMENT		
At 1 January and 31 December	<u>60,000</u>	<u>60,000</u>
CARRYING VALUES		
At 31 December	<u>50,606</u>	<u>50,606</u>

The Group acquired 100% of issued share capital of Chong Hing Insurance Company Limited. The amount of goodwill arising as a result of acquisition was HK\$110,606,000.

For the year ended 31 December 2015, the management has reviewed goodwill for impairment testing purpose. The review comprised a comparison of the carrying amount and the value in use of an acquired subsidiary (the smallest cash-generating unit) to which the goodwill has been allocated. The acquired subsidiary is involved in insurance business.

The value in use calculations primarily use cash flow projections based on the five-year financial budgets approved by the management of the subsidiary and estimated terminal value at the end of the five-year period. There are a number of assumptions and estimates involved for the preparation of cash flow projections for the period covered by the approved budget and the estimated terminal value. Key assumptions include the expected growth in revenues (growth rate at 4% to 14%), long term growth rate (3%) and selection of discount rate (12%).

Value in use is derived at by discounting the expected future cash flows.

The management of the Group determines that there is no impairment loss on the goodwill for the year ended 31 December 2015 and 2014.

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2015

29. CONTINGENT LIABILITIES AND COMMITMENTS

	2015 HK\$'000	2014 HK\$'000
Contingent liabilities and commitments - contractual amounts		
Direct credit substitutes	868,445	1,042,023
Trade-related contingencies	225,216	396,545
Forward asset purchases	40,758	12,542
Undrawn formal standby facilities, credit lines and other commitments		
Which are unconditionally cancellable without prior notice	6,653,368	6,665,955
With an original maturity of one year and under	8,188,562	9,021,621
With an original maturity of over one year	2,355,451	2,583,848
Lease commitments	<u>307,682</u>	<u>338,657</u>
	<u>18,639,482</u>	<u>20,061,191</u>

The credit risk-weighted amount of contingent liabilities and commitments is HK\$3,543,850,000 (2014: HK\$3,494,488,000).

The credit risk-weighted amount is calculated based on “standardised approach”. The risk-weights used in the computation of credit risk-weighted amounts range from 0% to 100% (2014: 0% to 100%) which is assessed in accordance with the Banking (Capital) Rules.

Direct credit substitutes include financial guarantees given by the Group.

Most of the contingent liabilities and commitments are denominated in Hong Kong dollars.

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2015 HK\$'000	2014 HK\$'000
Within one year	109,844	95,813
In the second to fifth years, inclusive	<u>197,838</u>	<u>242,844</u>
	<u>307,682</u>	<u>338,657</u>

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29. CONTINGENT LIABILITIES AND COMMITMENTS - continued

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of three years and rentals are fixed.

Capital commitments outstanding at the end of the reporting period are as follows:

	2015 HK\$'000	2014 HK\$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of property and equipment	<u>40,758</u>	<u>12,542</u>

At the end of the reporting period, the Group as lessor had contracted with tenants for the following future minimum lease payments:

	2015 HK\$'000	2014 HK\$'000
Within one year	6,926	3,393
In the second to fifth years, inclusive	11,075	4,184
After five years	<u>1,522</u>	<u>2,514</u>
	<u>19,523</u>	<u>10,091</u>

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30. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following material transactions with related parties:

	Interest, commission and rental income		Interest, rental and other operating expenses	
	2015	2014	2015	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Ultimate holding company	<u>24,698</u>	<u>608</u>	<u>18,182</u>	<u>5,471</u>
Fellow subsidiaries	<u>21,039</u>	<u>16,919</u>	<u>24,477</u>	<u>1,552</u>
Associates	<u>32,534</u>	<u>24,754</u>	<u>4,654</u>	<u>3,419</u>
Key management personnel (<i>Note</i>)	<u>782</u>	<u>802</u>	<u>1,700</u>	<u>1,880</u>
Former ultimate holding company	<u>–</u>	<u>–</u>	<u>–</u>	<u>3,201</u>
Former fellow subsidiaries	<u>–</u>	<u>204</u>	<u>–</u>	<u>–</u>

At the end of reporting period, the Group had the following material outstanding balances with related parties:

	Amounts due from related parties		Amounts due to related parties	
	2015	2014	2015	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Ultimate holding company	<u>–</u>	<u>760,304</u>	<u>2,153,574</u>	<u>3,935,992</u>
Fellow subsidiaries	<u>301,064</u>	<u>300,000</u>	<u>1,147,378</u>	<u>1,625,619</u>
Associates	<u>5,835</u>	<u>8,669</u>	<u>254,191</u>	<u>100,238</u>
Key management personnel (<i>Note</i>)	<u>53,352</u>	<u>32,559</u>	<u>165,407</u>	<u>156,218</u>

The above outstanding balances bear interest at rates similar to those made available to non-related parties. A portion of the loans to related parties are secured with properties, securities and fixed deposits.

As at 31 December 2015, the Group held available-for-sale debt securities issued by a fellow subsidiary of HK\$230,513,000 (2014: HK\$227,664,000).

Note: Includes key management personnel, close family members of key management personnel and entities that are controlled or jointly controlled, directly or indirectly, by key management personnel.

Amounts due from related parties are included in advances and other accounts on the statements of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2015

30. RELATED PARTY TRANSACTIONS - continued

Compensation of key management personnel

The remuneration of directors and other members of the key management during the year was as follows:

	2015 HK\$'000	2014 HK\$'000
Short-term benefits	128,073	81,200
Post employment benefits	<u>7,396</u>	<u>5,683</u>
	<u><u>135,469</u></u>	<u><u>86,883</u></u>

The remuneration of directors and key management is reviewed by the Remuneration Committee having regard to the performance of individuals and market trends.

As of 31 December 2015, the Group accrued a bonus for the Group's senior management and employees. The accrued bonus was approved by the Remuneration Committee on 24 February 2016. The Group has not completed the allocation of the bonus to individual senior management. The allocation of accrued bonus included under short-term benefits above represents the best estimate of management for the bonus to be distributed to key management personnel as of the date of approval of the financial statements.

31. COMPARATIVE AMOUNTS

Certain comparative figures have been reclassified to conform with the current period's presentation.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2015

1. ADVANCES TO CUSTOMERS - BY INDUSTRY SECTORS

The Group's gross advances to customers (including advances booked in branches outside Hong Kong and subsidiaries) are analysed and reported by industry sectors according to the usage of the loans or business activities of the borrowers as follows:

	31 December 2015				
	Gross loans and advances HK\$'000	Collective impairment allowances HK\$'000	Individual impairment allowances HK\$'000 (Note 1)	Loans and advances secured by collateral HK\$'000	Gross impaired advances HK\$'000
Loans for use in Hong Kong					
Industrial, commercial and financial					
- Property development	2,189,155	8,733	–	1,066,507	–
- Property investment	7,140,081	41,102	–	6,762,493	–
- Financial concerns	3,907,080	13,643	–	2,857,545	–
- Stockbrokers	1,673,788	6,699	–	1,047,000	–
- Wholesale and retail trade	2,807,443	33,402	8,659	1,752,215	8,659
- Manufacturing	2,880,266	38,760	2,656	1,658,538	2,656
- Transport and transport equipment	1,483,263	9,248	–	856,509	–
- Recreational activities	1,173	–	–	1,173	–
- Information technology	46,979	779	–	132	–
- Others (Note 2)	9,474,669	53,750	340	5,744,183	340
Individuals					
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	497,758	–	–	497,758	–
- Loans for the purchase of other residential properties	8,015,269	–	–	8,014,320	–
- Credit card advances	101,009	1,610	692	–	717
- Others (Note 3)	2,217,239	3,657	867	1,779,564	867
	42,435,172	211,383	13,214	32,037,937	13,239
Trade finance	5,651,328	4,696	9,680	740,892	9,680
Loans for use outside Hong Kong	15,513,512	34,415	794	4,980,269	2,308
	<u>63,600,012</u>	<u>250,494</u>	<u>23,688</u>	<u>37,759,098</u>	<u>25,227</u>

Notes: 1. Loans and advances secured by collateral are determined as the lower of the market value of collateral or outstanding loan principal.

2. Major items included in "Others" are for electricity and gas, hotels, catering, margin lending and other business purposes.

3. Major items mainly included loans to professionals and other individuals for various private purposes.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2015

1. ADVANCES TO CUSTOMERS - BY INDUSTRY SECTORS - continued

	31 December 2014 (Restated)				
	Gross loans and advances HK\$'000	Collective impairment allowances HK\$'000	Loans and Individual impairment allowances HK\$'000 (Note 1)	advances secured by collateral HK\$'000	Gross impaired advances HK\$'000
Loans for use in Hong Kong					
Industrial, commercial and financial					
- Property development	1,541,084	5,202	—	595,971	—
- Property investment	7,650,471	44,391	—	7,469,701	—
- Financial concerns	3,408,253	6,664	22	2,645,985	22
- Stockbrokers	1,461,378	9,431	—	499,108	—
- Wholesale and retail trade	2,415,957	31,581	5,666	1,967,117	5,666
- Manufacturing	2,019,708	30,034	6,119	1,171,366	6,119
- Transport and transport equipment	866,154	8,781	—	740,110	—
- Recreational activities	1,182	—	—	1,182	—
- Information technology	6,045	782	—	5,015	—
- Others (Note 2)	8,397,750	54,512	2,268	5,315,798	4,503
Individuals					
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	461,551	—	—	461,551	—
- Loans for the purchase of other residential properties	7,362,470	—	—	7,361,733	—
- Credit card advances	101,630	104	863	—	989
- Others (Note 3)	2,105,175	7,293	663	1,613,943	663
	37,798,808	198,775	15,601	29,848,580	17,962
Trade finance	8,767,283	2,261	3,555	516,394	3,555
Loans for use outside Hong Kong	10,359,329	37,951	789	3,558,586	2,308
	<u>56,925,420</u>	<u>238,987</u>	<u>19,945</u>	<u>33,923,560</u>	<u>23,825</u>

Notes: 1. Loans and advances secured by collateral are determined as the lower of the market value of collateral or outstanding loan principal.

2. Major items included in "Others" are for electricity and gas, hotels, catering, margin lending and other business purposes.

3. Major items mainly included loans to professionals and other individuals for various private purposes.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2015

1. ADVANCES TO CUSTOMERS - BY INDUSTRY SECTORS - continued

The Group's advances to customers overdue for over three months, and new impairment allowances and advances written off during the year ended 31 December 2015 and 2014 in respect of industry sectors which constitute not less than 10 per cent of gross advances to customers are analysed as follows:

	2015		
	Advances overdue for over three months as at 31 December HK\$'000	New impairment allowances during the year HK\$'000	Advances written-off during the year HK\$'000
Loans for use in Hong Kong			
Industrial, commercial and financial			
- Property investment	159,725	—	—
- Others	340	4,829	4,573
Individuals			
- Loans for the purchase of other residential properties	419	28	28
Loans for use outside Hong Kong	<u>135,274</u>	<u>121</u>	<u>—</u>
	2014		
	Advances overdue for over three months as at 31 December HK\$'000	New impairment allowances during the year HK\$'000	Advances written-off during the year HK\$'000
Loans for use in Hong Kong			
Industrial, commercial and financial			
- Property investment	458	—	—
- Others	4,753	363	211
Individuals			
- Loans for the purchase of other residential properties	419	—	—
Trade finance	3,555	—	—
Loans for use outside Hong Kong	<u>27,808</u>	<u>131</u>	<u>—</u>

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2015

2. ADVANCES TO CUSTOMERS - BY GEOGRAPHICAL AREAS

The Group's gross advances to customers by countries or geographical areas after taking into account any risk transfers are as follows:

	2015				
	Total advances HK\$'000	Advances overdue for over three months HK\$'000	Impaired advances HK\$'000	Individual impairment allowance HK\$'000	Collective impairment allowance HK\$'000
Hong Kong	51,355,270	375,988	22,919	22,894	217,953
Mainland China	9,832,239	2,308	2,308	794	24,204
Macau	2,386,415	—	—	—	8,337
America	3,110	—	—	—	—
Others	22,978	—	—	—	—
	<u>63,600,012</u>	<u>378,296</u>	<u>25,227</u>	<u>23,688</u>	<u>250,494</u>
	2014				
	Total advances HK\$'000	Advances overdue for over three months HK\$'000	Impaired advances HK\$'000	Individual impairment allowance HK\$'000	Collective impairment allowance HK\$'000
Hong Kong	50,478,066	44,259	21,517	19,157	217,013
Mainland China	3,369,537	2,308	2,308	788	4,247
Macau	1,151,073	—	—	—	11,522
America	653,707	—	—	—	6,205
Others	1,273,037	—	—	—	—
	<u>56,925,420</u>	<u>46,567</u>	<u>23,825</u>	<u>19,945</u>	<u>238,987</u>

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2015

3. INTERNATIONAL CLAIMS

The Group's international claims by countries or geographical areas which constitute 10% or more of the relevant disclosure items after taking into account any risk transfers are as follows:

At 31 December 2015					
	Non-bank private sector				Total HK\$'000
	Banks HK\$'000	Official sector HK\$'000	Non-bank financial institutions HK\$'000	Non-financial private sector HK\$'000	
Offshore centres	3,717,598	5,803	5,725,377	10,590,821	20,039,599
of which					
- Hong Kong	3,682,303	5,803	1,101,219	5,323,487	10,112,812
Developing Asia-Pacific	26,031,123	634,640	1,034,460	6,459,880	34,160,103
of which					
- Mainland China	24,363,216	634,640	834,071	6,303,140	32,135,067
Developed countries	<u>6,297,172</u>	<u>1,142,553</u>	<u>984,255</u>	<u>134,603</u>	<u>8,558,583</u>
31 December 2014 *					
	Banks and other financial institutions HK\$'000	Public sector entities HK\$'000	Others HK\$'000	Total HK\$'000	
Asia Pacific excluding Hong Kong	34,040,753	81,901	5,353,837	39,476,491	
of which					
- Mainland China	<u>26,736,049</u>	<u>25,210</u>	<u>3,802,399</u>	<u>30,563,658</u>	

* There are changes of reporting basis and the categorisation on the types of counterparties as required by the HKMA in 2015, hence the disclosures reported during the year of 2014 are not directly comparable.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2015

4. CURRENCY RISK

The Group's foreign currency exposures arising from non-trading and structural position which constitute 10% or more of the total net position in all foreign currencies are as follows:

	2015 RMB	Total
Equivalent in thousand of HK\$		
Spot assets	26,548,622	26,548,622
Spot liabilities	(22,809,094)	(22,809,094)
Forward purchases	14,176,552	14,176,552
Forward sales	(17,554,841)	(17,554,841)
Net long position	<u>361,239</u>	<u>361,239</u>
	MOP	RMB
Net structural position	<u>48,545</u>	<u>471,877</u>

	2014 RMB	Total
Equivalent in thousand of HK\$		
Spot assets	32,406,789	32,406,789
Spot liabilities	(25,970,201)	(25,970,201)
Forward purchases	2,447,685	2,447,685
Forward sales	(8,543,416)	(8,543,416)
Net long position	<u>340,857</u>	<u>340,857</u>
	MOP	RMB
Net structural position	<u>48,545</u>	<u>351,377</u>

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2015

5. OVERDUE AND RESCHEDULED ASSETS

	2015	
	Gross amount of advances HK\$'000	Percentage to total advances %
Advances overdue for		
- 6 months or less but over 3 months	138,025	0.2
- 1 year or less but over 6 months	212,820	0.3
- Over 1 year	<u>27,451</u>	<u>0.0</u>
Total overdue advances	<u>378,296</u>	<u>0.5</u>
Rescheduled advances	<u>1,092</u>	<u>0.0</u>
Individual impairment allowances made in respect of overdue loans and advances	<u>19,566</u>	

	2014	
	Gross amount of advances HK\$'000	Percentage to total advances %
Advances overdue for		
- 6 months or less but over 3 months	1,048	0.0
- 1 year or less but over 6 months	30,705	0.1
- Over 1 year	<u>14,814</u>	<u>0.0</u>
Total overdue advances	<u>46,567</u>	<u>0.1</u>
Rescheduled advances	<u>7,615</u>	<u>0.0</u>
Individual impairment allowances made in respect of overdue loans and advances	<u>14,891</u>	

The value of the security of the above overdue advances is analysed as follows:

	2015 HK\$'000	2014 HK\$'000
Covered portion of overdue loans and advances	359,501	32,338
Uncovered portion of overdue loans and advances	<u>18,795</u>	<u>14,229</u>
	<u>378,296</u>	<u>46,567</u>
Market value of collateral held against covered portion of overdue loans and advances	<u>914,110</u>	<u>157,472</u>

There were no advances to banks or other assets which were overdue for over three months as at 31 December 2015 and 31 December 2014, nor were there any rescheduled advances to banks and other financial institutions.

Reposessed assets held by the Group as at 31 December 2015 amounted to HK\$13,730,000 (2014: HK\$14,800,000).

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2015

6. MAINLAND ACTIVITIES EXPOSURES

The table below summaries the non-bank Mainland China exposures of Bank's Hong Kong banking operations and the Bank's Mainland branch and sub-branches categorized by types of counterparties:

Type by counterparties	31 December 2015		
	On-balance sheet exposure HK\$'000	Off-balance sheet exposure HK\$'000	Total HK\$'000
1. Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	8,882,948	372,752	9,255,700
2. Local government, local government-owned entities and their subsidiaries and JVs	2,656,138	453,323	3,109,461
3. Mainland China nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	4,053,774	1,057,871	5,111,645
4. Other entities of central government not reported in item 1 above	594,855	–	594,855
5. Other entities of local government not reported in item 2 above	782,005	–	782,005
6. Mainland China nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	7,415,023	931,423	8,346,446
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	151,138	1,500	152,638
Total	24,535,881	2,816,869	27,352,750
Total assets after provision (Note)	126,741,016		
On-balance sheet exposures as percentage of total assets (Note)	19%		

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2015

6. MAINLAND ACTIVITIES EXPOSURES - continued

Type by counterparties	31 December 2014		Total HK\$'000
	On-balance sheet exposure HK\$'000	Off-balance sheet exposure HK\$'000	
1. Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	5,395,362	476,348	5,871,710
2. Local government, local government-owned entities and their subsidiaries and JVs	2,588,909	903,532	3,492,441
3. Mainland China nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	2,334,987	980,545	3,315,532
4. Other entities of central government not reported in item 1 above	466,727	—	466,727
5. Other entities of local government not reported in item 2 above	856,869	23,214	880,083
6. Mainland China nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	6,091,801	806,731	6,898,532
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	143,678	2,596	146,274
Total	17,878,333	3,192,966	21,071,299
Total assets after provision (Note)	107,327,636		
On-balance sheet exposures as percentage of total assets (Note)	17%		

The categories of non-bank counterparties and type of direct exposures are disclosed in accordance with Banking (Disclosure) Rules with reference to the Return of Mainland Activities of the HKMA.

Note: Include total assets after provisions of the Bank's Hong Kong banking operations and the Bank's Mainland branch and sub-branches.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2015

7. CAPITAL ADEQUACY RATIOS, LEVERAGE RATIO AND LIQUIDITY RATIOS

	2015	2014
	%	%
Total capital ratio	17.73	15.94
Tier 1 capital ratio	15.22	12.77
Common Equity Tier 1 (“CET 1”) capital ratio	12.60	9.60

Countercyclical Capital Buffer Ratio

There is no information disclosed relating to the Countercyclical capital buffer (“CCyB”) ratio pursuant to section 24B of the Banking (Disclosure) Rules for this period because the applicable JCCyB ratio (a capital buffer level announced by the regulatory authorities for the purpose of implementing the provisions concerning the countercyclical capital buffer under Basel III) for Hong Kong and for jurisdiction outside Hong Kong are at 0% before 1 January 2016.

Capital Conservation Buffer Ratio

Under the Banking (Capital) Rules, the capital conservation buffer ratio for calculating the Bank’s buffer level is 0% for 2015.

	2015
	%
Leverage ratio	10.19

	Year ended 31 December 2015
	%
Average liquidity maintenance ratio for the year	39.46

	Year ended 31 December 2014
	%
Average liquidity ratio for the year	40.38

Capital adequacy ratios are compiled in accordance with the Banking (Capital) Rules under Hong Kong Banking Ordinance for the implementation of the “Basel III” capital accord, which became effective on 1 January 2013. In accordance with the Banking (Capital) Rules, the Bank has adopted the “standardised approach” for the calculation of the risk-weighted assets for credit risk, “standardised (market risk) approach” for the calculation of market risk and “basic indicator approach” for the calculation of operational risk. The capital adequacy ratio is consolidated, under the Banking (Capital) Rules, with reference to the financial information of the Bank, Chong Hing Finance Limited, Right Way Investments Limited, Gallbraith Limited, Chong Hing Information Technology Limited, Card Alliance Company Limited, Top Benefit Enterprise Limited and Hero Marker Limited.

Leverage ratio is disclosed in accordance with the Banking (Disclosure) Rules under Hong Kong Banking Ordinance. The leverage ratio is consolidated with reference to the financial information of the Bank, Chong Hing Finance Limited, Right Way Investments Limited, Gallbraith Limited, Chong Hing Information Technology Limited, Card Alliance Company Limited, Top Benefit Enterprise Limited and Hero Marker Limited.

Liquidity maintenance ratio (“LMR”) is compiled in accordance with the Banking (Liquidity) Rules under Hong Kong Banking Ordinance, which became effective on 1 January 2015. The LMR is calculated on an unconsolidated basis. The average liquidity maintenance ratio is calculated based on the arithmetic mean of the average value of the LMR of the Bank reported in the liquidity position return of the Bank for each month during the reporting period.

The average liquidity ratio is calculated as the ratio, expressed as a percentage, of the average of each calendar month’s average ratio, as specified in the Fourth Schedule of the Hong Kong Banking Ordinance, with reference to the financial information of the Bank, Chong Hing Finance Limited, Right Way Investments Limited and Gallbraith Limited.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2015

8. BASIS OF CONSOLIDATION

The consolidated financial statements cover the consolidated financial information of the Bank and all its subsidiaries and include the attributable share of interest in the Group's associates.

In preparing the capital adequacy ratio and liquidity ratio of the Group, they are prepared according to the basis of consolidation determined by the Hong Kong Monetary Authority for regulatory purposes. The main difference between the consolidation basis for accounting and regulatory purposes is that the former includes the Bank, all its subsidiaries and the attributable share of interests in the Group's associates whereas the latter includes the Bank and only some of the Group's subsidiaries which mainly conduct banking business or other business incidental to banking business. The LMR is prepared on an unconsolidated basis which includes the Bank only.

Subsidiaries that are included within the accounting scope of consolidation but are not included within the regulatory scope of consolidation are as follows:

Name of company	Principal activities	Total assets		Total equity	
		2015 HK\$'000	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000
Chong Hing (Nominees) Limited	Provision of nominee services	100	100	100	100
Chong Hing Securities Limited	Stockbroking	600,210	757,185	521,100	428,659
Chong Hing Commodities and Futures Limited	Investment holding and commodities and futures broking	67,270	65,693	62,771	61,701
Chong Hing Insurance Company Limited	Insurance underwriting	330,042	324,944	206,902	198,070
Chong Hing (Management) Limited	Provision of management services	110	379	100	100

STATEMENT OF COMPLIANCE

In preparing the consolidated financial statements for 2015, the Bank has fully complied with the Banking (Disclosure) Rules of the Hong Kong Banking Ordinance.

FINAL DIVIDEND

The directors will recommend at the forthcoming annual general meeting of the Bank (“AGM”) to be held on Friday, 13 May 2016 the payment of the final cash dividend for 2015 of HK\$0.37 per share. This final cash dividend, if approved, will be paid on Wednesday, 1 June 2016 to the Shareholders whose names are listed on the register of members of the Bank on Monday, 23 May 2016.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Bank will be closed from Monday, 9 May 2016 to Thursday, 12 May 2016 (both days inclusive), for the purpose of ascertaining the Shareholders who are entitled to attend and vote at the 2016 AGM, during which period no transfer of shares can be registered. In order to qualify for attending and voting at the 2016 AGM, all transfer documents, along with the relevant share certificates, must be lodged for registration with the Bank’s share registrar and transfer office, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong, not later than 4:30 pm on Friday, 6 May 2016.

In addition, the register of members of the Bank will be closed from Thursday, 19 May 2016 to Monday, 23 May 2016 (both days inclusive), for the purpose of ascertaining the Shareholders who are qualified to receive the final cash dividend, during which period no transfer of shares can be registered. In order to qualify for receiving the final cash dividend in question, all transfer documents, along with the relevant share certificates, must be lodged for registration with the Bank’s share registrar and transfer office, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong, not later than 4:30 pm on Wednesday, 18 May 2016.

PURCHASE, SALE OR REDEMPTION OF THE BANK’S LISTED SECURITIES

Neither the Bank nor any of its subsidiaries had purchased, sold or redeemed any of the Bank’s listed securities during the year.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Throughout the year ended 31 December 2015, the Bank complied with all the applicable code provisions set out in the Corporate Governance Code, with the exception of Code Provision A.4.1. Code Provision A.4.1 provides that non-executive directors should be appointed for a specific term, subject to re-election. None of the Non-executive Directors of the Bank is appointed for a specific term; however all of them are subject to retirement by rotation at the AGM in accordance with the Bank's Articles of Association. Save for Mr Yu Lup Fat Joseph, who was appointed as Independent Non-executive Director of the Bank on 4 August 2015, will hold office until the forthcoming AGM of the Bank and shall be eligible for re-election at that meeting. All the Non-executive Directors of the Bank had retired by rotation during the past three years and have been re-elected.

The Bank has also adopted its own code for securities transactions by Directors on terms no less exacting than those set out in the Model Code for Securities Transactions by Directors of Listed Issuers under Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Model Code"). All the Directors confirmed, following specific enquiry by the Bank, that they have complied with the required standards set out in the Model Code and the Bank's own code for securities transactions by Directors throughout the year ended 31 December 2015.

PUBLICATION OF RESULTS ON THE WEBSITES OF THE STOCK EXCHANGE OF HONG KONG LIMITED AND THE BANK

The Bank's Annual Report 2015, containing the relevant information required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, will be published on the websites of the Stock Exchange of Hong Kong Limited and the Bank and dispatched to shareholders in due course.

CHAIRMAN'S STATEMENT

Since becoming a member of the Yue Xiu Group in February 2014, Chong Hing Bank's operating results have shown rapid growth for two consecutive years, embodying Yue Xiu Group's core value of "Excellence without Limits". In 2015, the Bank had made significant progress in a number of key aspects including capital replenishment, cross-border business development and expansion of its branch network in Mainland China, building on all these to deliver a good start to 2016.

I am pleased to announce that, throughout the year of 2015, the Bank's core business lines and overall financial health were strong, asset quality remained sound and profitability was enhanced. The Bank's operating profit before impairment allowances was HK\$1,167 million and showed an improvement of 35% from last year. Profit attributable to equity owners amounted to HK\$1,193 million and showed an improvement of 51% from last year after excluding the net gains on disposal of Chong Hing Bank Centre in 2014. Total assets increased by 18% in 2015 to HK\$127,838 million and net asset value per share (excluding additional equity instruments and before the proposed final cash dividend for 2015) was HK\$19.61. The board of directors (the "Board") has recommended payment of the final cash dividend of HK\$0.37 per share for the year and the Board has considered that it is prudent to preserve the Bank's capital and excluded the net gains (net of tax) from disposal of and fair value adjustments on assets held for sale, available-for-sale securities and investment properties when the dividend level was considered. The Bank's total dividends payout for the year as a percentage of this adjusted profit attributable to equity owners less the distribution paid on the additional equity instruments will be 39.5%.

The major financial ratios for 2015 are as follows and the return on shareholders' equity is calculated after taken into consideration the coupon of the additional equity instruments relevant for the period:

- Return on shareholders' equity: 10.43%
- Average liquidity maintenance ratio: 39.46%
- Total capital ratio: 17.73% as of 31 December 2015
- Tier 1 capital ratio: 15.22% as of 31 December 2015
- Loan to deposit ratio: 59.01% as of 31 December 2015

As the world's second largest economy, China accounts for 30% of global economic growth and plays a vital role in driving global business. However, with the slowdown globally, China's gross domestic product moderated to 6.9% in 2015, the lowest in 25 years. The Central Government continued its quantitative easing measures and removed the ceiling on deposit interest rates. Through appropriate use of monetary policies, the Government aims to maximise the country's economic strengths, to avoid deflation and to stimulate the economy.

Hong Kong is the world's largest offshore Renminbi centre. It currently accounts for around 70% of Renminbi's offshore settlements. With the Renminbi gaining in popularity, businesses worldwide increasingly use it as a trade settlement currency. This benefits numerous Hong Kong businesses, and provides invaluable opportunities for the financial sector in Hong Kong. On 30 November 2015, the International Monetary Fund announced that the Renminbi would be included in the Special Drawing Rights (SDR) currency basket. It now ranks third among five international reserve currencies, behind United States dollar and Euro, and ahead of the British Pound and Japanese Yen. This is an important milestone in the internationalisation of the Renminbi. It will stimulate more transactions in Renminbi and drive more fund flow in Renminbi. Hong Kong will continue to play a pivotal role in promoting the Renminbi's internationalisation, and benefit from the ongoing liberalisation of the Mainland's capital account.

Measured in asset size, Yue Xiu Group is the largest regional Hong Kong-based enterprise operating in China. In recent years, besides growing its core property and transportation businesses, the Group is also cultivating and developing its financial business. Leveraging on its unique strength of "Two Markets, Two Resources", Yue Xiu has now established itself as one of Guangdong Province's strongest financial holding groups. Since joining the Yue Xiu Group, Chong Hing Bank has successfully reformulated its business strategies and operating model, and achieved immediate success through introducing a sound risk management framework to support its expansion. We are delighted that the Bank had reported steady growth, with particularly impressive growth in its total assets and revenue. Furthermore, the Bank has steadily expanded its Mainland business and has successfully opened sub-branches in Guangzhou, Foshan and Nansha. The Bank is currently establishing its Guangzhou Branch which will oversee our network of branches in the Mainland. With this strategically positioned headquarters in Guangzhou, the Bank is ideally positioned to expand its business in China.

Finally, I would like to express my sincere appreciation to all Directors of the Bank for their dedication in discharging their duties, and the guidance they provided across many areas that has helped Chong Hing Bank to achieve steady growth. There were many challenges in 2015, yet the year also brought exciting growth opportunities. I would like to thank the management team and all our staff for seizing the opportunities, and for their tireless efforts and contribution in achieving such a smooth transformation and outstanding performance. On behalf of the Board, I wish to convey my appreciation to our shareholders, customers and business partners for their longstanding support and trust. As we make great strides towards securing a firm foothold in Guangzhou and Hong Kong, and achieving nationwide coverage, Chong Hing Bank will continue to strengthen its cross-border business and to promote financial cooperation between Guangdong and Hong Kong, with the aim of delivering long-term sustainable value to our shareholders.

MANAGING DIRECTOR'S STATEMENT

Global Economy

The global financial markets faced great uncertainty in 2015, with monetary policy in the major developed economies diverging, and with uneven economic growth across different countries. The United States recorded moderate growth. In a landmark step, the Federal Reserve Board announced 0.25% increase in the interest rate in December 2015, the first increase since December 2008. Growth in the Eurozone and in Japan however had slowed down with weaker domestic demand and possibility of deflation. The European Central Bank introduced a new round of quantitative easing (QE) measures in December, including further lowering the deposit rate to -0.3% and extending QE for a further six months. Japan remained in technical recession, with annual growth of only 0.6%.

China's economy experienced a moderate slowdown with increasing downside risks becoming apparent. The Central Government continued its monetary easing policies and applied various fiscal measures to maintain economic momentum. During the year, the People's Bank of China (PBoC) introduced five interest rate cuts, four general and one targeted reductions in its reserve requirement ratio. On 11 August, the PBoC reset the middle price for the Renminbi exchange rate. Since then the USD-CNY middle price devalued by approximately 6.12%.

On the positive side, on 30 November, the International Monetary Fund announced the Renminbi's inclusion in the special drawing rights (SDR) currency basket with a weighting of 10.92%, effective 1 October 2016. This is a significant milestone on the road to internationalising the Renminbi.

Moreover, the Asian Infrastructure Investment Bank (the "AIIB"), which has a clear roadmap for internationalising the Renminbi, was officially established on 25 December 2015. The prime focus of AIIB is to provide financial support to Asian countries in developing infrastructure, and thereby promote regional collaboration, connectivity and trading. The AIIB is closely linked to the Central Government's "One Belt, One Road" policy. Coupled with the Renminbi's inclusion in the SDR currency basket, it will help to promote the use of Renminbi as a settlement currency.

Against the backdrop of uncertainties in the global economy, the Hong Kong economy achieved moderate growth in 2015. Gross domestic product grew 2.5% in the first three quarters in real terms compared with the same period in 2014. Unemployment rate remained low at 3.3% throughout the year.

Both the equity market and the property market experienced great volatility. Driven by rapid growth in the China A-share market in the second quarter of the year, daily turnover in the Hong Kong stock market soared briefly to over HK\$100 billion. Unfortunately, investment sentiment worsened in the third quarter. Deleveraging in the Mainland led to sell-offs in the A-share market which adversely affected investment sentiment in Hong Kong. The Hang Seng Index (HSI) fluctuated by 8,200 points during the year, the highest volatility since 2011. On the last trading day of 2015, the HSI closed at 21,914 points, a drop of 7.2% for the year, ending three years of consecutive growth.

In the property market, stimulated by the strong equity market in the second quarter, coupled with ample supply in the primary market, transaction value in the primary market exceeded HK\$100 billion in the first seven months of the year. However in the second half of the year, with the downturn in the equity market, and fear of a US rate hike, both property prices and rentals experienced downward pressure.

Tourist arrival also declined for the first time since the third quarter of 2009, and exerted downward pressure on local retailers and rental on commercial properties.

Results Announcement and Profit Analysis

The results for the financial year of 2015 of the Bank, on a consolidated basis, are summarised below:

Key Financial Data	31 December (12 months)		
	2015 HK\$'000	2014 HK\$'000	Variance %
1. Operating profit before impairment allowances	1,167,243	864,024	+35.09
2. Profit attributable to equity owners (<i>Note 1</i>)	1,193,136	792,522	+50.55
3. Return on shareholders' equity (<i>Notes 1 & 2</i>)	10.43%	9.35%	+11.55
4. Earnings per share (<i>Notes 1 & 3</i>)	HK\$2.06	HK\$1.76 (restated)	+17.05
5. Net interest income	1,778,835	1,371,747	+29.68
6. Net interest margin	1.53%	1.58%	-3.16
7. Net fee and commission income	306,017	224,771	+36.15
8. Net trading income	52,901	99,123	-46.63
9. Other operating income	143,247	134,114	+6.81
10. Operating expenses	1,113,757	965,731	+15.33
11. Net (charge) reversal of impairment allowances on loans and advances	(22,748)	32,344	-170.33
12. Cost to income ratio	48.83%	52.78%	-7.48
13. Average liquidity maintenance ratio	39.46%	40.38% (average liquidity ratio)	-2.28
	As of 31 December 2015 HK\$'000	As of 31 December 2014 HK\$'000	Variance %
14. Total loans and advances to customers	63,600,012	56,925,420	+11.73
15. Impaired loan ratio	0.04%	0.04%	—
16. Provision coverage of impaired loans and advances	1,086.86%	1,086.76%	+0.01
17. Rescheduled loan ratio	0.00%	0.01%	-100.00
18. Total customer deposits	99,392,364	82,133,391	+21.01
19. Loan to deposit ratio (<i>Note 4</i>)	59.01%	62.01% (restated)	-4.84
20. Investments in securities	31,486,824	16,538,343	+90.39
21. Total assets	127,837,646	108,045,762	+18.32
22. Net asset value per share (excluding additional equity instruments and before the final dividend)	HK\$19.61	HK\$19.48	+0.67
23. Total capital ratio	17.73%	15.94%	+11.23
24. Tier 1 capital ratio	15.22%	12.77%	+19.19
25. Common Equity Tier 1 capital ratio	12.60%	9.60%	+31.25

Notes: 1. As the results for the year ended 31 December 2014 included net gains on disposal of Chong Hing Bank Centre, wherever appropriate figures excluding these net gains of HK\$1,950 million (net of tax) in the year ended 31 December 2014 are shown to reflect the performance of the core business lines.

2. Return on shareholders' equity took into consideration the coupon of the additional equity instruments relevant for the period.

3. Earnings per share was calculated after deducting the distribution paid on the additional equity instruments in the year and the earnings per share for the year ended 31 December 2014 has been restated to take into account the rights issue of the Bank completed in the third quarter of 2015.

4. To better reflect the asset and liability management of the Bank, the method used to calculate the Loan to deposit ratio has been changed to advances to customers less trade bills over deposits from customers plus certificates of deposit, and the comparative ratio as at 31 December 2014 has been restated accordingly.

Analysis of Key Financial Data

For the financial year of 2015, on a consolidated basis, operating profit before impairment allowances amounted to HK\$1,167 million and showed an improvement of 35% year on year. Net interest income at HK\$1,779 million was 30% higher than last year, although net interest margin narrowed 5 basis points year on year to 1.53%, total assets grew by 18% with advances to customers increasing by 12% and investments in securities increasing by 90%. Net interest margin increased from 1.51% in the first half of 2015 to 1.55% in the second half of 2015. The decrease in net interest margin from last year was mainly because competition for customer deposits in Hong Kong kept the interest costs relatively high whereas yields on inter-bank placements remained relatively low, and the widening of margins on advances to customers could not cover the higher costs on customer deposits. The net interest margin was also lower in the Mainland due to changes in market conditions and policies.

Net fee and commission income rose 36% to HK\$306 million mainly because of the 32% increase in fee and commission income arising from securities dealings to HK\$178 million particularly in the first half of 2015 when the stock market turnover was much higher than last year. Fee and commission income from agency services also rose by 51% to HK\$49 million through the sale of life insurance and wealth management products to customers. Net trading income decreased by 47% to HK\$53 million primary due to a reduction in net trading income from foreign exchange swaps used for the Bank's liquidity management and funding activities. Net gains on customer related dealings in foreign currencies actually rose 40% to HK\$58 million.

On the other fronts, operating expenses rose by 15% from last year. Total staff costs increased by 21% from last year as the Bank is building the foundation for long-term growth and developing its business network in the Mainland. As overall operating income growth was ahead of increase in expenses, cost to income ratio dropped by 7% from 52.78% to 48.83%.

Net impairment allowances on loans and advances were net charge of HK\$23 million this year compared to a net reversal of HK\$32 million last year. Operating profit after impairment allowances amounted to HK\$1,144 million and showed an improvement of 28% year on year.

After a review of the asset portfolio, certain assets which were not considered essential to the core business lines ("non-core assets") had been sold or reclassified as assets held for sale. As a result, there were net gains on disposal of assets held for sale of HK\$52 million, net gains on disposal of available-for-sale securities of HK\$81 million and net gains on disposal of and fair value adjustments on investment properties of HK\$107 million recorded in the year.

Profit attributable to equity owners amounted to HK\$1,193 million, an increase of 51% over that for last year after excluding the profit from Chong Hing Bank Centre in 2014, translating into return on shareholders' equity of 10.43% and earnings per share of HK\$2.06 (Note 3). Excluding the net gains (net of tax) from the disposal of non-core assets, the profit attributable to equity owners would have been HK\$993 million, and the increase would be 25% over that for last year.

Total loans and advances to customers increased by 12% or HK\$6,675 million to HK\$63,600 million, with loans for use in Hong Kong increased by HK\$4,637 million, trade finance reduced by HK\$3,116 million and loans for use outside Hong Kong increased by HK\$5,154 million. Growth in loans for use outside Hong Kong was mainly from syndication loans originated from Hong Kong and Macau. Despite low volume of transactions in the Hong Kong property market, loans to individuals for purchase of residential properties rose 9% year on year. With careful management on the exposure to credit risk, asset quality of loans and advances continued to be good with impaired loan ratio at 0.04%, provision coverage of impaired loans and advances at 1,086.86%, and rescheduled loan ratio at 0.00%.

Total customer deposits increased by 21% to HK\$99,392 million and this included short-term deposits from a customer as the Bank was acting as the settlement bank for its capital market activities. Excluding such deposits, total customer deposits would have increased by 15% year on year, mostly in Hong Kong dollars and US dollars.

Investments in securities increased by 90% to HK\$31,487 million. 70% of the increase was from investments in available-for-sale securities issued by banks and other financial institutions, 18% of the increase was from available-for-sale securities issued by corporate entities and 12% of the increase was from available-for-sale securities issued by central governments and central banks. The investments were part of the Bank's liquidity management and deployment of surplus funds as deposit growth had been higher than loan growth. Non-bank Mainland on-balance sheet exposures increased by 37% from last year through investments in debt securities and advances to customers in the Mainland and Hong Kong and such exposures amounted to 20% of total assets after provision of the Bank's banking operations in Hong Kong and the Mainland.

Total capital ratio increased from 15.94% in December 2014 to 17.73% in December 2015 after the rights issue exercise, the Tier 1 capital ratio was at 15.22% and the Common Equity Tier 1 capital ratio was at 12.60%.

Overall, the Bank's core business lines and financial health are strong, asset quality sound, impaired loan ratio low, provision coverage high, and capital adequacy and liquidity ratios well above the relevant statutory requirements.

Dividend

To properly balance sharing of success with preserving capital for future growth, the Board has recommended paying the final cash dividend of HK\$0.37 per share for the financial year of 2015 (2014 final cash dividend: HK\$0.41 per share) to shareholders whose names appear in the Register of Members at the close of business on Monday, 23 May 2016. Total dividends for the financial year of 2015, including the interim cash dividend of HK\$0.21 per share paid on 16 September 2015 (2014 interim cash dividend: HK\$0.19 per share), amounted to HK\$0.58 per share (2014 total dividends: HK\$0.60 per share).

Completion of the Rights Issue Exercise

To ensure there are sufficient resources to support future growth, the Bank had successfully completed a rights issue in September 2015, and raised HK\$3,676 million of new capital. These rights shares have been listed and traded on the Hong Kong Stock Exchange since 25 September. The 217,500,000 rights shares issued representing 50% of the Bank's share capital as of 13 August 2015, at a subscription price of HK\$17.05 per rights share on the basis of one rights share in nil-paid form for every two shares held by the qualifying shareholders. As the major controlling shareholder, Yue Xiu Group holds 75% of the Bank's total issued share capital, with 163,125,000 fully subscribed rights shares allotted. In addition, China Lounge Investments Limited, a wholly-owned subsidiary of Guangzhou Automobile Group Company Limited, subscribed rights shares representing approximately 5.2% of the total number of rights shares. This rights issue indicated the high level of support among shareholders for the Bank and its development strategies. The rights issue also helped to expand the Bank's shareholder base. The new capital will be used to finance the Bank's future growth and business development, and satisfy capital adequacy requirements. The Bank will strive to maximise long term returns to its shareholders.

Business Review

Loan and Deposit Business

The Bank continues to strengthen its deposit business by launching promotions and capturing new customer. Total deposit balance increased 21%, compared with 2014, and provided a solid foundation for loan growth and wealth management business.

In the retail loan business, drawdowns of new residential mortgage loans delivered sustainable growth. The Bank will continue to improve on its sales channels and infrastructure to better suit customer needs and to drive business growth.

In its corporate banking business, the Bank proactively expanded its customer base and provides comprehensive banking products and services to Hong Kong and Mainland enterprises. In 2015, the loan balance, interest income and non-interest income all recorded steady growth compared with the previous year. Furthermore, the Bank grew its small and medium-sized enterprises (SME) client base by actively supporting the Hong Kong Government's SME Loan Guarantee Scheme; and by participating in the Hong Kong Mortgage Corporation Limited's SME Financing Guarantee Scheme.

The Bank will continue to dedicate resources to acquire new customers, strengthen its cross-border trade finance and capital expenditure financing business, and promote its financial market and wealth management services. As well as helping Mainland enterprises to expand their business in Hong Kong, the Bank will also fully support its customers' expansion into the Mainland and overseas. Through maintaining a prudent lending approach and acquiring high-quality local customers, the Bank seeks to generate higher returns for its shareholders.

Card Business

In 2015, the Bank's credit card business maintained similar level of accounts receivables, credit cards in force and total spending as in the previous year. Despite the downturn in the overall retail market, the Bank's merchant-acquiring business for Visa and Master cards recorded modest year-on-year growth. However, the decline in Mainland visitors to Hong Kong resulted in a year-on-year decline in the turnover for UnionPay cards. Nevertheless, net income from the Bank's overall merchant-acquiring business grew by approximately 7% compared with 2014.

In 2015, the Bank launched a new round of co-branded credit card promotions for MSN@VISA aiming at younger customers, these were supported by enticing welcome gifts and an online promotional channel.

The Bank will continue to seek steady growth for its credit card and merchant-acquiring businesses.

Wealth Management Business

Despite volatile market conditions, US rate hikes and slowing economic growth in China, the Bank's investment business reported increased fund sales and commission income in 2015. Looking ahead, the Bank will further diversify its investment products mix. As new funds have been approved under the Mutual Recognition of Funds agreed at the end of 2015, the Bank will introduce more fund houses as partners and provide customers with additional investment choices. Following on the opening of its Premium and Private Banking Centre in 2015, the Bank will continue to build its wealth management businesses and expand its premium and private banking services as well as retail investment business.

Asset Management Business

Since obtaining a Renminbi Qualified Foreign Institutional Investor (RQFII) quota in 2013, the Bank has actively built on its asset management business. Going forward, besides developing more innovative products under the RQFII scheme, the Bank will also develop and launch other non-conventional asset management products to satisfy the different financial management needs of its customers.

Mainland Operations

The Bank opened a new sub-branch in the Nansha Free Trade Zone in December 2015. This is the first sub-branch opened by a bank of Hong Kong origin. The Bank has also obtained preliminary approval to establish a new branch in Guangzhou and a new sub-branch in the Hengqin Free Trade Zone. Preparation for the official opening is now in progress.

The Bank will leverage on favourable policies allowed under the China and Hong Kong Closer Economic Partnership Arrangement (CEPA) and the free trade zones to establish a firm footing in the Pearl River Delta, to open new outlets and to source new customers. The Bank will fully utilise its cross-border advantages and capabilities to support Mainland entities that are “going out”, to support their cross-border activities and in financing their expansion overseas. The Bank aims at attracting customers seeking to expand internationally and require banking services and facilities both locally and abroad.

Financial Markets Activities

The Bank’s treasury activities are mainly on money market operations, foreign exchange services, debt securities investments as well as overall liquidity and balance sheet management. All activities are conducted with strict risk management procedures in place. In view of the changing macroeconomic environment, the Bank closely monitors market volatility to manage liquidity and enhance returns. The Bank will continue to manage liabilities using certificate of deposit programme and repurchase agreements.

Turning to its Renminbi business, the Bank will aggressively grow its Renminbi treasury products and services. The Bank will also expand Renminbi trade finance, agilely managing Renminbi liquidity in both offshore and onshore markets to keep pace with Renminbi internationalisation. It also plans to launch more innovative new products to match business opportunities presented by the establishment of free trade zones in Guangdong.

The Bank has dedicated resources to develop new and timely products. The Bank focuses on cross-selling and on offering more diverse customer services to suit the needs of its customers and at the same time to improve the Bank’s non-funded income.

Securities Business

To take advantage of the equity boom in the second quarter, Chong Hing Securities Limited, a wholly-owned subsidiary of the Bank, reported very impressive results in 2015. These included a 42.5% growth in turnover and a 37.6% increase in commission income in 2015 compared with 2014. Moving forward, multiple factors such as gradual US rate hikes, global capital flows, political and economic uncertainty in the US and Europe, and a possible soft landing for the Chinese economy all have important implications on the local economy and financial markets. The retail securities business expects to face fresh challenges in 2016.

Insurance Business

Chong Hing Insurance Company Limited (Chong Hing Insurance), a wholly-owned subsidiary of the Bank, substantially increased its year-on-year profit before tax. Going forward, Chong Hing Insurance will continue to use the bancassurance model to generate new business, and will leverage on the Bank’s strong business network to improve its performance. It will also expand its range of products and services to grow its business.

Enhanced Collaboration with Yue Xiu Group

Chong Hing Bank has enjoyed a mutually beneficial relationship with the Yue Xiu Group since becoming a member of the Yue Xiu Group in February 2014. In 2015, the Bank strengthened its core operations in Hong Kong, and further expanded in the Mainland, selecting Guangzhou as the cornerstone to build its Mainland business, and to build on Yue Xiu's strong presence and strong ties in the city.

For two consecutive years, the Bank participated in the China (Guangzhou) International Finance Expo (Expo) which was held in June 2015. The Bank's Guangzhou Sub-Branch joined the Expo for the first time. The key theme of the Bank's booth was to showcase Guangzhou Sub-Branch's capabilities, including its cross-border financing and cash pooling abilities, as well as investment services under the Shanghai-Hong Kong Stock Connect scheme.

In 2015, Yue Xiu Group celebrated its 30th anniversary. In September, the Yue Xiu Group opened a Yue Xiu Group Showroom in its Guangzhou International Finance Center. The Showroom showcases the Yue Xiu Group's development and achievement over the past 30 years. A section in the Showroom is reserved for the Bank, which is now part of the Yue Xiu Group. The section portrays the Bank's long history, with its formation as a family-owned business in 1948, its listing in 1994, its change in ownership in 2014, and its development and achievement through these years.

Outlook

In 2016, both the Hong Kong and the Mainland markets are expected to face huge challenges but will also see great opportunities arising. The Bank has experience accumulated over the past 68 years. It has a professional management team. It has a loyal customer base. It has the support of the Yue Xiu Group. The Bank is confident that it will be able to identify and capture opportunities from the opening up of the financial market in the Mainland, the continual journey of Renminbi internationalisation, and beneficial policies under CEPA and the free trade zones, to grow the business in a prudent manner. The Bank aims to further improve its productivity and efficiency, to enhance its customer service and product range, to expand its presence in the Mainland, and to strengthen its cross-border capabilities. The Bank's vision is to be a boutique finance service provider that serves customers that have banking needs both in Hong Kong and the Mainland.

Appreciation

Despite the increasing complexity of global financial markets, and the challenging environment in which it operated throughout 2015, the Bank continues to live the value of providing customer-centric and professional services while maintaining prudent risk management in the course of business development. During the year, the Bank had steadily expanded its business and delivered exceptional performance. I wish to convey my deepest thanks to all our Directors and the management team for the foresight and leadership that have allowed us to deliver these outstanding results. On behalf of the Board of Directors, I wish to express my heartfelt gratitude to all staff members for their diligence and integrity, and for upholding the highest professional standards. I also wish to thank our customers and shareholders for their generous support and unwavering trust in the Bank over the years. The Bank is committed to continuously strive for excellence and to create value for its shareholders, customers and employees.

REVIEW OF FINANCIAL REPORT

This financial report has been reviewed by the Bank's Audit Committee.

By Order of the Board
Zhang Zhaoxing
Chairman

Hong Kong, 24 February 2016

As at the date of this announcement, the Board of the Bank comprises:

- *Executive Directors*

Mrs Leung Ko May Yee Margaret (Deputy Chairman and Managing Director), Mr Zong Jianxin (Deputy Managing Director), Mr Lau Wai Man (Chief Executive Officer) and Mr Liu Tit Shing Don (Deputy Chief Executive Officer);

- *Non-executive Directors*

Mr Zhang Zhaoxing (Chairman), Mr Zhu Chunxiu, Mr Wang Shuhui, Mr Li Feng and Mr Chow Cheuk Yu Alfred; and

- *Independent Non-executive Directors*

Mr Chiranakhorn Wanchai, Mr Cheng Yuk Wo, Mr Ma Chiu Cheung Andrew, Mr Lee Ka Lun and Mr Yu Lup Fat Joseph.