

Report of the Directors and Audited Financial Statements

KDB ASIA LIMITED  
產銀亞洲金融有限公司

31 December 2016

KDB ASIA LIMITED

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## KDB ASIA LIMITED

### REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2016.

#### Principal activities

The principal activities of the Company have not changed during the year and consisted of deposit taking, loan syndication, underwriting, investment, trade financing and the provision of financial services.

#### Results and dividends

The Company's profit for the year ended 31 December 2016 and the Company's financial position at that date are set out in the financial statements on pages 5 to 65.

The directors do not recommend the payment of any final dividend in respect of the year.

#### Property and equipment

Details of movements in the Company's property and equipment during the year are set out in note 11 to the financial statements.

#### Share capital

There have been no movements in the Company's share capital during the year.

#### Reserves

Details of movements in the Company's reserves during the year are set out in note 18 to the financial statements and in the statement of changes in equity.

#### Directors

The directors of the Company during the year were:

Mr. LEE Byung Ho	
Mr. BAE Chang Hwan	
Mr. HONG Sun Young	(Appointed on 25 April 2016)
Mr. KIM Su Jae	(Appointed on 20 June 2016)
Mr. LEE Ho Guk	(Appointed on 13 October 2016)
Mr. ROH Kang Sik	(Resigned on 25 April 2016)
Mr. LEE Young Hoon	(Resigned on 20 June 2016)
Mr. YANG Bok Seung	(Resigned on 13 October 2016)

Subsequent to the end of the reporting period, Mr. KIM Su Jae and Mr. BAE Chang Hwan resigned as directors of the Company on 1 March 2017 and 29 March 2017 respectively and Mr. CHOI Man Sik and Mr. YEO Dong Bok were appointed as directors of the Company on 29 March 2017.

In accordance with article 103 of the Company's articles of association, all of the existing directors will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

#### Directors' interests

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

#### Directors' interests in transactions, arrangements or contracts

No director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Company to which the Company's holding companies or fellow subsidiaries was a party during the year.

#### Permitted indemnity provision

During the year, a qualifying third party indemnity provision provided by the Company for the benefit of all the directors of the Company was in force.

KDB ASIA LIMITED

REPORT OF THE DIRECTORS (continued)

Compliance with Supervisory Policy Manual

The Company has complied with the disclosure requirements of the "Guideline on the Application of the Banking (Disclosure) Rules" and "Corporate Governance of Locally Incorporated Authorised Institutions" under the Supervisory Policy Manuals issued by the Hong Kong Monetary Authority ("HKMA"). The Company has also complied with the capital requirements related to capital base and capital adequacy ratio stipulated by the HKMA.

Auditors

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD



.....  
HONG Sun Young  
Chief Executive

Hong Kong  
11 April 2017

**Independent auditor's report**  
**To the members of KDB Asia Limited**  
(Incorporated in Hong Kong with limited liability)

**Opinion**

We have audited the financial statements of KDB Asia Limited (the "Company") set out on pages 5 to 65, which comprise the statement of financial position as at 31 December 2016, and the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

**Basis for opinion**

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

**Other information included in the Annual Report**

The directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of the directors for the financial statements**

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

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

**Independent auditor's report (continued)**  
**To the members of KDB Asia Limited**  
(Incorporated in Hong Kong with limited liability)

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


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

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

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

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

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



Certified Public Accountants  
Hong Kong  
11 April 2017

KDB ASIA LIMITED

INCOME STATEMENT

Year ended 31 December 2016

	Notes	2016 US\$	2015 US\$
Interest income	3(a)	31,777,243	25,026,771
Interest expense	3(b)	(12,225,582)	(6,997,933)
<b>Net interest income</b>		<u>19,551,661</u>	<u>18,028,838</u>
Fee and commission income	3(c)	6,439,361	8,276,038
Fee and commission expense	3(c)	(338,464)	(224,132)
<b>Net fee and commission income</b>		<u>6,100,897</u>	<u>8,051,906</u>
Net gains/(losses) from financial assets held at fair value through profit or loss	3(d)	884,764	(1,715,156)
Net hedging loss	3(e)	(276,924)	(335,688)
Other operating gains, net	3(f)	<u>442,227</u>	<u>740,949</u>
<b>Operating income</b>		26,702,625	24,770,849
Operating expenses	3(g)	(9,813,965)	(9,150,208)
Release/(charge) of impairment allowances on loans and advances	9(c)	15,285,931	(22,055,799)
Release of impairment allowances on available-for-sale investments		33,631	799,489
Gains from sale of available-for-sale investments	3(h)	<u>10,306,421</u>	<u>2,696,543</u>
<b>PROFIT/(LOSS) BEFORE TAX</b>		42,514,643	(2,939,126)
Income tax (expense)/credit	6	<u>(6,108,847)</u>	<u>879,129</u>
<b>PROFIT/(LOSS) FOR THE YEAR</b>		<u><u>36,405,796</u></u>	<u><u>(2,059,997)</u></u>

KDB ASIA LIMITED

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2016

	Notes	2016 US\$	2015 US\$
<b>PROFIT/(LOSS) FOR THE YEAR</b>		36,405,796	(2,059,997)
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR</b>			
Other comprehensive income to be reclassified to income statement in subsequent periods:			
Available-for-sale investments:			
Net movement in the available-for-sale investments fair value reserve, net of tax	7	(1,279,217)	(6,615,562)
Other comprehensive income not to be reclassified to income statement in subsequent periods:			
Re-measurement gains on defined benefit scheme	7	<u>16,491</u>	<u>4,862</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<u>35,143,070</u>	<u>(8,670,697)</u>



KDB ASIA LIMITED

STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	2016 US\$	2015 US\$
<b>ASSETS</b>			
Cash and balances with banks and other financial institutions	19	15,108,387	12,616,602
Placements with banks and other financial institutions	19	50,000,000	95,000,000
Trade bills		308,575,781	200,008,889
Trading assets	8	26,702,679	10,248,684
Loans and advances	9	497,606,473	439,459,187
Available-for-sale investments	10	386,838,613	421,456,680
Property and equipment	11	1,167,929	882,706
Interest receivable and other assets	13	11,809,111	7,595,128
Deferred tax assets	12	491,608	2,639,347
<b>TOTAL ASSETS</b>		<u>1,298,300,581</u>	<u>1,189,907,223</u>
<b>EQUITY AND LIABILITIES</b>			
<b>LIABILITIES</b>			
Deposits and balances of banks and other financial institutions		543,629,401	519,368,000
Deposits from customers	14	2,485,700	2,633,557
Trading liabilities	15	1,433,465	1,598,416
Certificates of deposit issued		434,317,973	362,978,357
Tax payable		711,480	543,919
Interest payable and other liabilities	16	45,989,481	68,194,963
<b>TOTAL LIABILITIES</b>		<u>1,028,567,500</u>	<u>955,317,212</u>
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>			
Share capital	17	140,000,000	140,000,000
Reserves	18	129,733,081	94,590,011
<b>TOTAL EQUITY</b>		<u>269,733,081</u>	<u>234,590,011</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>1,298,300,581</u>	<u>1,189,907,223</u>



.....  
HONG Sun Young  
Director



.....  
CHOI Man Sik  
Director

## KDB ASIA LIMITED

## STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

	Notes	Share capital US\$	Available- for-sale investments revaluation reserve US\$	Retained profits US\$	Total US\$
<b>At 1 January 2015</b>		140,000,000	13,026,235	97,734,473	250,760,708
Loss for the year	18	-	-	(2,059,997)	(2,059,997)
Other comprehensive income for the year:					
Net movement in the available-for-sale fair value reserve, net of tax	18	-	(6,615,562)	-	(6,615,562)
Re-measurement gains on defined benefit scheme	18	-	-	4,862	4,862
Total comprehensive income for the year		-	(6,615,562)	(2,055,135)	(8,670,697)
Dividend declared and paid for the year	5	-	-	(7,500,000)	(7,500,000)
<b>At 31 December 2015 and 1 January 2016</b>		140,000,000	6,410,673	88,179,338	234,590,011
Profit for the year	18	-	-	36,405,796	36,405,796
Other comprehensive income for the year:					
Net movement in the available-for-sale fair value reserve, net of tax	18	-	(1,279,217)	-	(1,279,217)
Re-measurement gains on defined benefit scheme	18	-	-	16,491	16,491
Total comprehensive income for the year		-	(1,279,217)	36,422,287	35,143,070
<b>At 31 December 2016</b>		<u>140,000,000</u>	<u>5,131,456</u>	<u>124,601,625</u>	<u>269,733,081</u>

KDB ASIA LIMITED

STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Notes	2016 US\$	2015 US\$
<b>CASH FLOWS (USED IN)/FROM OPERATING ACTIVITIES</b>			
Profit/(loss) before tax		42,514,643	(2,939,126)
Adjustments for:			
Net hedging loss	3(e)	276,924	335,688
(Release)/charge of impairment allowances on loans and advances	9(c)	(15,285,931)	23,372,152
Release of impairment allowances on available-for-sale investments		(33,631)	(799,489)
Gains from sale of available-for-sale investments	3(h)	(10,306,421)	(2,696,543)
Depreciation	3(g)	125,139	113,257
Loss on disposal of items of property and equipment		-	886
Amortised interest expense		1,542,827	1,556,628
Amortised net fair value gain on available-for-sale investments on hedge ineffectiveness		(99,674)	(56,083)
		<u>18,733,876</u>	<u>18,887,370</u>
<b>INCREASE IN OPERATING ASSETS:</b>			
Decrease/(increase) in placements with banks and other financial institutions with original maturity more than three months		47,000,000	(5,000,000)
Increase in trade bills		(108,566,892)	(54,320,634)
Increase in trading assets		(16,616,883)	(8,207,865)
Increase in gross loans and advances		(42,861,355)	(132,385,399)
Increase in interest receivable and other assets		(4,213,983)	(1,712,794)
		<u>(125,259,113)</u>	<u>(201,626,692)</u>
<b>INCREASE IN OPERATING LIABILITIES:</b>			
Increase in deposits from banks and other financial institutions		24,261,401	153,683,596
Decrease in deposits from customers		(147,857)	(76,792,765)
Increase in certificates of deposit issued		71,339,616	94,685,176
(Decrease)/increase in trading liabilities		(28,265)	407,681
(Decrease)/increase in interest payable and other liabilities		(22,188,991)	15,532,073
		<u>73,235,904</u>	<u>187,515,761</u>
Hong Kong profits tax paid		<u>(3,540,770)</u>	<u>(3,253,407)</u>
<b>Net cash flows (used in)/from operating activities</b>		<u>(36,830,103)</u>	<u>1,523,032</u>

KDB ASIA LIMITED

STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2016

	Notes	2016 US\$	2015 US\$
<b>Net cash flows (used in)/from operating activities</b>		<u>(36,830,103)</u>	<u>1,523,032</u>
<b>CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES</b>			
Purchases of items of property and equipment	11	(410,362)	(11,104)
Proceeds from disposal of available-for-sale investments		245,025,109	178,773,550
Purchases of available-for-sale investments		<u>(203,292,859)</u>	<u>(252,592,858)</u>
<b>Net cash flows from/(used in) investing activities</b>		<u>41,321,888</u>	<u>(73,830,412)</u>
<b>CASH FLOWS USED IN FINANCING ACTIVITIES</b>			
Dividends paid to equity shareholders of the Company		<u>-</u>	<u>(7,500,000)</u>
<b>Net cash flows used in financing activities</b>		<u>-</u>	<u>(7,500,000)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		4,491,785	(79,807,380)
<b>Cash and cash equivalents at 1 January</b>		<u>50,616,602</u>	<u>130,423,982</u>
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	19	<u><u>55,108,387</u></u>	<u><u>50,616,602</u></u>
<b>Operational cash flows from interest and dividends:</b>			
Interest received		30,671,195	23,672,987
Interest paid		9,955,733	6,381,567
Dividend received		<u>74,801</u>	<u>5,730</u>

31 December 2016

## 1. CORPORATE INFORMATION

KDB Asia Limited (the "Company") is a limited company incorporated and domiciled in Hong Kong and is a restricted licence bank under the Hong Kong Banking Ordinance. Its registered office is Suite 2005-2010, 20th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

During the year, the principal activities of the Company consisted of deposit taking, loan syndication, underwriting, investment, trade financing and the provision of financial services.

In the opinion of the directors, the holding company is Korea Development Bank, which is incorporated in Republic of Korea.

## 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations ("Int")) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. The preparation of the financial statements has also made reference to the Guideline on the Application of the Banking (Disclosure) Rules and Corporate Governance of Locally Incorporated Authorised Institutions under the Supervisory Policy Manuals issued by the Hong Kong Monetary Authority ("HKMA").

The financial statements have been prepared under the historical cost convention, except for trading assets, financial assets designated at fair value through profit or loss, and certain available-for-sale investments which have been measured at fair value. These financial statements are presented in United States dollars ("US\$").

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Company has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	<i>Investment Entities: Applying the Consolidation Exception</i>
Amendments to HKFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i>
HKFRS 14	<i>Regulatory Deferral Accounts</i>
Amendments to HKAS 1	<i>Disclosure Initiative</i>
Amendments to HKAS 16 and HKAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>
Amendments to HKAS 16 and HKAS 41	<i>Agriculture: Bearer Plants</i>
Amendments to HKAS 27 (2011)	<i>Equity Method in Separate Financial Statements</i>
Annual Improvements 2012-2014 Cycle	<i>Amendments to a number of HKFRSs</i>

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Except for the amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011), amendments to HKFRS 11, HKFRS 14, amendments to HKAS 16 and HKAS 41, amendments to HKAS 27 (2011), and certain amendments included in the *Annual Improvements 2012-2014 Cycle*, which are not relevant to the preparation of the Company's financial statements, the nature and the impact of the amendments are described below:

Amendments to HKAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

- (i) the materiality requirements in HKAS 1;
- (ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;
- (iii) that entities have flexibility as to the order in which they present the notes to financial statements; and
- (iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The amendments have had no significant impact on the Company's financial statements.

Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively. The amendments have had no impact on the financial position or performance of the Company as the Company has not used a revenue-based method for the calculation of depreciation of its non-current assets.

*Annual Improvements to HKFRSs 2012-2014 Cycle* issued in October 2014 sets out amendments to a number of HKFRSs. Details of the amendments are as follows:

- HKAS 19 *Employee Benefits*: Clarifies that market depth of high quality corporate bonds used for discounting the post-employment benefit obligation for defined benefit plans is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. The amendment does not have any material impact on the Company.

31 December 2016

**2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS**

The Company has not early applied the following new and revised HKFRSs, that have been issued but are not yet effective for the accounting year ended 31 December 2016 in these financial statements:

Amendments to HKFRS 2	<i>Classification and Measurement of Share-based Payment Transactions<sup>2</sup></i>
Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts<sup>2</sup></i>
HKFRS 9	<i>Financial Instruments<sup>2</sup></i>
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture<sup>4</sup></i>
HKFRS 15	<i>Revenue from Contracts with Customers<sup>2</sup></i>
Amendments to HKFRS 15	<i>Clarifications to HKFRS 15 Revenue from Contracts with Customers<sup>2</sup></i>
HKFRS 16	<i>Leases<sup>3</sup></i>
Amendments to HKAS 7	<i>Disclosure Initiative<sup>1</sup></i>
Amendments to HKAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses<sup>1</sup></i>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2017

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>4</sup> No mandatory effective date yet determined but is available for adoption.

Further information about those HKFRSs that are expected to be applicable to the Company is as follows:

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Company expects to adopt HKFRS 9 from 1 January 2018. The Company is currently assessing the impact of the standard upon adoption and expects that the adoption of HKFRS 9 will have an impact on the classification and measurement of the Company's financial assets.

The amendments were issued in October 2014 with an original effective date for a financial period beginning on or after 1 January 2016. In January 2016, the HKICPA deferred the effective date of these amendments because the IASB is planning a broader review that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures. A new effective date will be determined at a future date when the IASB finalises its broader review. Earlier application of the amendments is however permitted. The amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Company upon adoption.

31 December 2016

**2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)**

HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Company expects to adopt HKFRS 15 on 1 January 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases - Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees - leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. The Company expects to adopt HKFRS 16 on 1 January 2019 and is currently assessing the impact of HKFRS 16 upon adoption.

Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will result in additional disclosure to be provided in the financial statements. The Company expects to adopt the amendments from 1 January 2017.

Amendments to HKAS 12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, although they also have a broader application for other situations. The amendments clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Company expects to adopt the amendments from 1 January 2017.



## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Fair value measurement

The Company measures its trading assets, trading liabilities and available-for-sale investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 - based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 - based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

### Investments and other financial assets

#### *Initial recognition and measurement*

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Company commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investments and other financial assets (continued)

#### *Subsequent measurement*

The subsequent measurement of financial assets depends on their classification as follows:

#### *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the income statement. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Recognition of income and expense" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate ("EIR") method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the EIR. The EIR amortisation is included in interest income in the income statement. The loss arising from impairment is recognised in the income statement.

#### *Available-for-sale financial investments*

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investments revaluation reserve to the income statement.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investments and other financial assets (continued)

#### *Available-for-sale financial investments (continued)*

Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the income statement in accordance with the policies set out for "Recognition of income and expense" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Company evaluates whether the ability and intention to sell its available-for-sale financial investments in the near term are still appropriate. When, in rare circumstances, the Company is unable to trade these financial assets due to inactive markets, the Company may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to income statement over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

#### *Derecognition of financial assets*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Company's statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of the Company's continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investments and other financial assets (continued)

#### *Offsetting of financial instruments*

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

### Financial liabilities

#### *Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Company's financial liabilities include deposits and balances of banks and other financial institutions, deposits from customers, trading liabilities, certificates of deposit issued, interest payable and other liabilities.

#### *Subsequent measurement*

The subsequent measurement of financial liabilities depends on their classification as follows:

#### *Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

#### *Loans and borrowings and certificates of deposit issued*

After initial recognition, interest-bearing loans and borrowings and certificates of deposit issued are subsequently measured at amortised cost, using the EIR method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in interest expense in the income statement.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

### Repurchase and reverse repurchase transactions

Securities sold subject to a simultaneous agreement to repurchase these securities at a certain later date at a fixed price (repurchase agreements) are retained in the financial statements and measured in accordance with their original measurement principles. The proceeds of the sale are reported as liabilities and are carried at amortised cost.

Securities purchased under agreements to resell (reverse repurchase agreements) are reported not as purchases of the securities, but as receivables and are carried in the statement of financial position at amortised cost.

Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements are recognised as interest income or interest expense respectively, over the life of each agreement using the EIR method.

### Hedge accounting

The Company makes use of derivative instruments to manage exposures to interest rate risk and applies hedge accounting for transactions which meet specified criteria.

At inception of the hedge relationship, the Company formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the risk management objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship at inception and on an ongoing basis.

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting. A formal assessment is undertaken by comparing the hedging instrument's effectiveness in offsetting the changes in fair value attributable to the hedged risk in the hedged item, both at inception and at each quarter end on an ongoing basis. A hedge is expected to be highly effective if the changes in fair value attributable to the hedged risk during the period for which the hedge is designated were offset by the hedging instrument in a range of 80% to 125% and were expected to achieve such offset in future periods. Hedge ineffectiveness is recognised in the income statement in net hedging income.

### *Fair value hedges*

For designated and qualifying fair value hedges, the cumulative change in the fair value of a hedging derivative is recognised in the income statement in net hedging income. Meanwhile, the cumulative change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item in the statement of financial position and is also recognised in the income statement in net hedging income.

**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Hedge accounting (continued)Fair value hedges (continued)

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is discontinued prospectively. For hedged items recorded at amortised cost, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the recalculated EIR method. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the income statement.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand, demand deposits and placements with banks and other financial institutions with original maturity of three months or less.

Property and equipment and depreciation

Property and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property and equipment are required to be replaced at intervals, the Company recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

– Land and buildings	remaining term of the lease
– Leasehold improvements	5 years
– Furniture, fittings and office equipment	5 years
– Motor vehicles	5 years

Where parts of an item of property and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Company, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Leases (continued)

Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Company is the lessor, assets leased by the Company under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Company is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property and equipment.

### Impairment of financial assets

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

#### *Financial assets carried at amortised cost*

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

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR (i.e., the EIR computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment of financial assets (continued)

#### *Financial assets carried at amortised cost (continued)*

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the income statement.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Company's internal credit grading system that considers credit risk characteristics such as asset type, industry, collateral type, economic factors and other relevant factors.

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

Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

#### *Assets carried at cost*

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

#### *Available-for-sale investments*

For available-for-sale investments, the Company assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale investment is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in income statement, is removed from other comprehensive income and recognised in the income statement.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement - is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.



## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment of financial assets (continued)

#### *Available-for-sale investments (continued)*

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Company evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement.

Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through the income statement if the subsequent increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, financial assets, investment properties, goodwill and non-current assets/a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

### Employee benefits

#### *Short term employee benefits and contributions to defined contribution retirement plans.*

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Employee benefits (continued)

#### *Defined benefit retirement plan obligations*

The Company's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any plan assets is deducted. The discount rate is the yield at the end of the reporting period on high quality corporate bonds that have maturity dates approximating the terms of the Company's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

Remeasurements arising from defined benefit pension plans, comprising actuarial gains and losses, the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability) and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in the statement of financial position with a corresponding debit or credit to retained profits through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Company recognises the following changes in the net defined benefit obligation in the income statement:

- service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements; and
- net interest expense or income

### Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

### Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. In prior years, final dividend proposed by the directors were classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Foreign currencies

These financial statements are presented in United States dollars, which is the Company's functional and presentation currency. Foreign currency transactions recorded by the entities in the Company are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item.

### Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Company operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Income tax (continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### Recognition of income and expense

Revenue, which is also the Company's turnover, is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

### *Interest and similar income and expenses*

For all financial instruments measured at amortised cost, interest bearing financial assets classified as available-for-sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the EIR. EIR is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Company revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

### *Fee and commission income*

The Company earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- (i) *Fee income earned from services that are provided over a certain period of time*  
Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the EIR on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight line basis.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Recognition of income and expense (continued)

#### *Fee and commission income (continued)*

##### *(ii) Fee income from providing transaction services*

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

##### *(iii) Dividend income*

Dividend income is recognised when the Company's right to receive the payment is established.

##### *(iv) Net trading income*

Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense for financial assets and financial liabilities held for trading. This includes any ineffectiveness recorded in hedging transactions.

### Related parties

A party is considered to be related to the Company if:

- (a) the party is a person or a close member of that person's family and that person
  - (i) has control or joint control over the Company;
  - (ii) has significant influence over the Company; or
  - (iii) is a member of the key management personnel of the Company or of a parent of the Company;

or

- (b) the party is an entity where any of the following conditions applies:
  - (i) the entity and the Company are members of the same group;
  - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
  - (iii) the entity and the Company are joint ventures of the same third party;
  - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company;
  - (vi) the entity is controlled or jointly controlled by a person identified in (a);
  - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Related parties (continued)

(b) the party is an entity where any of the following conditions applies (continued):

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

## 2.5 SIGNIFICANT ACCOUNTING ESTIMATES

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

### *Impairment losses on loans and advances*

The Company reviews its individually significant loans and advances at the end of each reporting period to assess whether an impairment loss should be recorded in the income statement. In particular, management judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired are assessed together with all individually insignificant loans and advances in groups of assets with similar risk characteristics. This is to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as levels of arrears, credit utilisation, loan to collateral ratios, etc.), and judgments to the effect of concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups). At 31 December 2016, impairment allowances of US\$12,631,090 have been recognised for loans and advances (2015: US\$27,917,021). The carrying amount of loans and advances was US\$497,606,473 (2015: US\$439,459,187). Further details are contained in note 9 to the financial statements.

### *Impairment of available-for-sale investments*

The Company reviews its debt securities classified as available-for-sale investments at each reporting date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances.

The Company also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Company evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost. At 31 December 2016, impairment losses of US\$1,465,797 have been recognised for available-for-sale investments (2015: US\$1,499,428). The carrying amount of available-for-sale investments was US\$386,838,613 (2015: US\$421,456,680).

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**3. PROFIT/(LOSS) BEFORE TAX**

The Company's profit/(loss) before tax is arrived after taking account of:

**(a) Interest income**

	2016 US\$	2015 US\$
Listed investments	10,884,668	8,794,908
Unlisted investments	1,088,259	1,336,164
Trade bills and loans and advances	18,900,122	13,997,415
Others	<u>904,194</u>	<u>898,284</u>
	<u>31,777,243</u>	<u>25,026,771</u>

Included in the above is interest income of US\$1,113,571 (2015: US\$210,290) accrued on impaired financial assets for the year ended 31 December 2016.

**(b) Interest expense**

	2016 US\$	2015 US\$
Deposits from customers, banks and other financial institutions and certificates of deposit issued	<u>12,225,582</u>	<u>6,997,933</u>

**(c) Net fee and commission income**

All fee and commission income and expense are related to financial assets and liabilities not designated at fair value through profit or loss.

**(d) Net gains/(losses) from financial assets held at fair value through profit or loss**

	2016 US\$	2015 US\$
Net gains from trading securities	2,431,157	928,653
Net interest expense on derivatives	<u>(1,546,393)</u>	<u>(2,643,809)</u>
	<u>884,764</u>	<u>(1,715,156)</u>

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**3. PROFIT/(LOSS) BEFORE TAX (continued)****(e) Net hedging loss**

	2016 US\$	2015 US\$
Fair value hedges		
- Net gains/(losses) on hedged items attributable to the hedged risk	311,468	(639,310)
- Net (losses)/gains on hedging instruments	<u>(588,392)</u>	<u>303,622</u>
	<u>(276,924)</u>	<u>(335,688)</u>

**(f) Other operating gains, net**

	2016 US\$	2015 US\$
Net gains from dealing in foreign currencies	367,426	735,219
Dividend income from unlisted available-for-sale investments	<u>74,801</u>	<u>5,730</u>
	<u>442,227</u>	<u>740,949</u>

**(g) Operating expenses**

	2016 US\$	2015 US\$
Staff costs	<u>5,901,322</u>	<u>5,581,119</u>
Premises and equipment expenses		
- Depreciation	125,139	113,257
- Rent	2,227,222	1,938,101
- Rates	<u>101,689</u>	<u>84,398</u>
	<u>2,454,050</u>	<u>2,135,756</u>
Auditors' remuneration	65,448	64,123
Others	<u>1,393,145</u>	<u>1,369,210</u>
	<u>1,458,593</u>	<u>1,433,333</u>
	<u>9,813,965</u>	<u>9,150,208</u>

Included in the staff costs above are retirement scheme contribution of US\$78,957 (2015: US\$70,207) and operating lease charges in respect of staff quarters of US\$1,030,697 (2015: US\$832,130) for the year ended 31 December 2016.

Included in the above operating expenses are total operating lease charges of US\$2,964,278 (2015: US\$2,529,206) for rental of properties and US\$293,641 (2015: US\$241,025) for rental of equipment.



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**3. PROFIT/(LOSS) BEFORE TAX (continued)****(h) Gains from sale of available-for-sale investments**

	2016 US\$	2015 US\$
Net revaluation gains transferred from reserves	6,059,976	1,257,777
Net gains arising in current year	<u>4,246,445</u>	<u>1,438,766</u>
	<u>10,306,421</u>	<u>2,696,543</u>

**4. DIRECTORS' REMUNERATION**

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

	2016 US\$	2015 US\$
Fees	-	-
Other emoluments:		
- Short-term employee benefits	<u>710,173</u>	<u>669,889</u>
	<u>710,173</u>	<u>669,889</u>

Directors of the Company are considered to be key management personnel.

**5. DIVIDENDS**

	2016 US\$	2015 US\$
Interim - Nil (2015: US\$0.05357) per ordinary share	<u>-</u>	<u>7,500,000</u>
	<u>-</u>	<u>7,500,000</u>

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**6. INCOME TAX**

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

	2016 US\$	2015 US\$
Provision for the year	3,732,290	3,044,296
Over-provision in respect of prior years	(23,959)	(59,452)
Deferred tax (note 12)	<u>2,400,516</u>	<u>(3,863,973)</u>
Tax expense/(credit) for the year	<u>6,108,847</u>	<u>(879,129)</u>

A reconciliation of the tax expense applicable to profit/(loss) before tax at the statutory rate to the tax expense/(credit) at the effective tax rate is as follows:

	2016 US\$	2015 US\$
Profit/(loss) before tax	<u>42,514,643</u>	<u>(2,939,126)</u>
Tax at the statutory tax rate of 16.5%	7,014,916	(484,956)
Expenses not deductible for tax	340,313	172,118
Income not subject to tax	(1,222,423)	(507,326)
Over-provision in respect of prior years	(23,959)	(59,452)
Others	<u>-</u>	<u>487</u>
Tax expense/(credit) at the effective rate of 14.4% (2015: 29.9%)	<u>6,108,847</u>	<u>(879,129)</u>

**7. OTHER COMPREHENSIVE INCOME****(a) Tax effects relating to each component of other comprehensive income**

	2016			2015		
	Before-tax amount US\$	Tax benefit US\$	Net-of-tax amount US\$	Before-tax amount US\$	Tax benefit US\$	Net-of-tax amount US\$
Available-for-sale investments: Net movement in available-for-sale investments fair value reserve	(1,531,994)	252,777	(1,279,217)	(7,922,831)	1,307,269	(6,615,562)
Re-measurement gains on defined benefit scheme	<u>16,491</u>	<u>-</u>	<u>16,491</u>	<u>4,862</u>	<u>-</u>	<u>4,862</u>
Other comprehensive income	<u>(1,515,503)</u>	<u>252,777</u>	<u>(1,262,726)</u>	<u>(7,917,969)</u>	<u>1,307,269</u>	<u>(6,610,700)</u>

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**7. OTHER COMPREHENSIVE INCOME (continued)****(b) Reclassification adjustments relating to components of other comprehensive income**

	2016 US\$	2015 US\$
<b>Available-for-sale investments, net of tax:</b>		
Changes in fair value recognised during the year	4,780,759	(5,357,785)
Reclassification adjustments for gains and losses included in profit or loss		
- gains on disposal	<u>(6,059,976)</u>	<u>(1,257,777)</u>
Net movement in the available-for-sale investments fair value reserve during the year recognised in other comprehensive income	<u>(1,279,217)</u>	<u>(6,615,562)</u>

**8. TRADING ASSETS**

	2016 US\$	2015 US\$
Listed debt securities, at fair value	24,408,790	7,940,800
Positive fair values of derivatives (note 20(b))	<u>2,293,889</u>	<u>2,307,884</u>
	<u>26,702,679</u>	<u>10,248,684</u>
Trading securities issued by:		
- Corporate entities	2,095,960	7,940,800
- Banks and other financial institutions	19,524,630	-
- Public sector entities	<u>2,788,200</u>	<u>-</u>
	<u>24,408,790</u>	<u>7,940,800</u>
Trading securities analysed by place of listing:		
- Listed outside Hong Kong	21,620,590	7,940,800
- Listed in Hong Kong	<u>2,788,200</u>	<u>-</u>
	<u>24,408,790</u>	<u>7,940,800</u>

The above listed debt securities were classified as held for trading. The fair values of these listed securities are based on quoted market price.

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**9. LOANS AND ADVANCES****(a) Loans and advances less impairment**

	2016 US\$	2015 US\$
Gross loans and advances to:		
- banks	60,417,724	50,671,177
- customers	<u>449,819,839</u>	<u>416,705,031</u>
	<u>510,237,563</u>	<u>467,376,208</u>
Less: Collectively assessed impairment allowances on loans and advances to		
- banks (note 9(c))	(230,850)	(482,125)
- customers (note 9(c))	<u>(1,626,316)</u>	<u>(3,751,249)</u>
	<u>(1,857,166)</u>	<u>(4,233,374)</u>
Less: Individually assessed impairment allowances on loans and advances to		
- customers (note 9(c))	<u>(10,773,924)</u>	<u>(23,683,647)</u>
	<u>(10,773,924)</u>	<u>(23,683,647)</u>
Net loans and advances to:		
- banks	60,186,874	50,189,052
- customers	<u>437,419,599</u>	<u>389,270,135</u>
	<u>497,606,473</u>	<u>439,459,187</u>

Note 22(a)(vi) contains information about the collaterals against loans and advances held by the Company.

**(b) Analysis by industry sector**

	2016 US\$	2015 US\$
Loans and advances for use in Hong Kong		
- Manufacturing	11,892,500	16,807,008
- Wholesale and retail trade	70,396,222	35,812,326
- Transport and transport equipment	21,939,072	23,683,647
- Financial concerns	60,358,059	88,450,014
- Stock brokers	13,774,209	3,718,774
- Others	<u>33,403,663</u>	<u>18,142,157</u>
	<u>211,763,725</u>	<u>186,613,926</u>
Trade finance	10,379,259	8,787,733
Loans and advances for use outside Hong Kong	<u>288,094,579</u>	<u>271,974,549</u>
Gross loans and advances	<u>510,237,563</u>	<u>467,376,208</u>

The above analysis of loans and advances by industry sector is based on the categories used in the "Quarterly Analysis of Loans and Advances and Provisions" Return to the HKMA.

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**9. LOANS AND ADVANCES (continued)****(c) Movement in impairment allowances on loans and advances**

	Individually assessed US\$	Collectively assessed US\$	Total US\$
At 1 January 2016	23,683,647	4,233,374	27,917,021
Loans and advances recovered/ released to income statement	<u>(12,909,723)</u>	<u>(2,376,208)</u>	<u>(15,285,931)</u>
At 31 December 2016	<u>10,773,924</u>	<u>1,857,166</u>	<u>12,631,090</u>
Deducted from:			
- Loans and advances to banks (note 9(a))	-	230,850	230,850
- Loans and advances to customers (note 9(a))	<u>10,773,924</u>	<u>1,626,316</u>	<u>12,400,240</u>
	<u>10,773,924</u>	<u>1,857,166</u>	<u>12,631,090</u>
At 1 January 2015	5,000,000	861,222	5,861,222
Loans and advances recovered/ released to income statement	<u>(1,316,353)</u>	-	<u>(1,316,353)</u>
Charged to income statement	<u>20,000,000</u>	<u>3,372,152</u>	<u>23,372,152</u>
At 31 December 2015	<u>23,683,647</u>	<u>4,233,374</u>	<u>27,917,021</u>
Deducted from:			
- Loans and advances to banks (note 9(a))	-	482,125	482,125
- Loans and advances to customers (note 9(a))	<u>23,683,647</u>	<u>3,751,249</u>	<u>27,434,896</u>
	<u>23,683,647</u>	<u>4,233,374</u>	<u>27,917,021</u>

**(d) Impaired loans and advances**

	2016 US\$	2015 US\$
Gross impaired loans and advances	22,893,924	23,683,647
Impairment allowance - individually assessed	<u>(10,773,924)</u>	<u>(23,683,647)</u>
	<u>12,120,000</u>	<u>-</u>
Gross impaired loans and advances as a percentage of total gross loans and advances	<u>4.49%</u>	<u>5.07%</u>

Impaired loans and advances are individually assessed loans with objective evidence of impairment on an individual basis.

Individually assessed impaired loans and advances are unsecured.

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**10. AVAILABLE-FOR-SALE INVESTMENTS**

	2016 US\$	2015 US\$
Debt securities		
- Listed in Hong Kong	111,496,890	101,176,355
- Listed outside Hong Kong	231,405,320	252,188,200
- Unlisted	<u>29,200,720</u>	<u>52,227,530</u>
	<u>372,102,930</u>	<u>405,592,085</u>
 Unlisted equity securities	 106,734	 104,503
 Unlisted investments in funds	 <u>14,628,949</u>	 <u>15,760,092</u>
	<u>386,838,613</u>	<u>421,456,680</u>
 <b>Issued by:</b>		
Banks and other financial institutions	116,629,620	137,495,640
Corporate entities	<u>270,208,993</u>	<u>283,961,040</u>
	<u>386,838,613</u>	<u>421,456,680</u>

As at 31 December 2016, all unlisted investments in funds are carrying at fair value. As at 31 December 2015, certain unlisted investments in funds with carrying amount of US\$613,541 were stated at cost less impairment because their fair value cannot be measured reliably.

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**11. PROPERTY AND EQUIPMENT**

	Land and buildings US\$	Leasehold improvements US\$	Furniture, fittings and office equipment US\$	Motor vehicles US\$	Total US\$
2016					
Cost:					
At 1 January 2016	1,022,708	713,796	704,600	117,680	2,558,784
Additions	-	352,316	58,046	-	410,362
Disposal	-	-	(4,696)	-	(4,696)
At 31 December 2016	<u>1,022,708</u>	<u>1,066,112</u>	<u>757,950</u>	<u>117,680</u>	<u>2,964,450</u>
Accumulated depreciation:					
At 1 January 2016	377,782	573,194	650,625	74,477	1,676,078
Charge for the year	16,534	60,784	24,285	23,536	125,139
Written off on disposal	-	-	(4,696)	-	(4,696)
At 31 December 2016	<u>394,316</u>	<u>633,978</u>	<u>670,214</u>	<u>98,013</u>	<u>1,796,521</u>
Net book value:					
At 31 December 2016	<u>628,392</u>	<u>432,134</u>	<u>87,736</u>	<u>19,667</u>	<u>1,167,929</u>
2015					
Cost:					
At 1 January 2015	1,022,708	713,796	699,022	117,680	2,553,206
Additions	-	-	11,104	-	11,104
Disposal	-	-	(5,526)	-	(5,526)
At 31 December 2015	<u>1,022,708</u>	<u>713,796</u>	<u>704,600</u>	<u>117,680</u>	<u>2,558,784</u>
Accumulated depreciation:					
At 1 January 2015	361,248	526,747	628,525	50,941	1,567,461
Charge for the year	16,534	46,447	26,740	23,536	113,257
Written off on disposal	-	-	(4,640)	-	(4,640)
At 31 December 2015	<u>377,782</u>	<u>573,194</u>	<u>650,625</u>	<u>74,477</u>	<u>1,676,078</u>
Net book value:					
At 31 December 2015	<u>644,926</u>	<u>140,602</u>	<u>53,975</u>	<u>43,203</u>	<u>882,706</u>

The Company's leasehold land and buildings are all situated in Hong Kong and are held under long term lease.

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**12. DEFERRED TAX ASSETS**

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

	Impairment allowances on loans and advances US\$	Revaluation of available- for-sale investments US\$	Depreciation allowances in excess of the related depreciation US\$	Total US\$
At 1 January 2016	3,998,507	(1,266,776)	(92,384)	2,639,347
Charged to income statement (note 6)	(2,391,875)	-	(8,641)	(2,400,516)
Charged to revaluation reserve (note 7(a))	-	252,777	-	252,777
At 31 December 2016	<u>1,606,632</u>	<u>(1,013,999)</u>	<u>(101,025)</u>	<u>491,608</u>
At 1 January 2015	142,101	(2,574,045)	(99,951)	(2,531,895)
Credited to income statement (note 6)	3,856,406	-	7,567	3,863,973
Charged to revaluation reserve (note 7(a))	-	1,307,269	-	1,307,269
At 31 December 2015	<u>3,998,507</u>	<u>(1,266,776)</u>	<u>(92,384)</u>	<u>2,639,347</u>

**13. INTEREST RECEIVABLE AND OTHER ASSETS**

	2016 US\$	2015 US\$
Interest receivable	6,873,481	5,891,730
Margin deposit	1,436,676	161,359
Other assets	3,498,954	1,542,039
	<u>11,809,111</u>	<u>7,595,128</u>

Margin deposit represented cash held with brokers as collateral to secure the open future contracts undertaken by the Company.

**14. DEPOSITS FROM CUSTOMERS**

All of the deposits from customers are time deposit.

**15. TRADING LIABILITIES**

	2016 US\$	2015 US\$
Negative fair values of derivatives (note 20(b))	<u>1,433,465</u>	<u>1,598,416</u>



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**16. INTEREST PAYABLE AND OTHER LIABILITIES**

	2016 US\$	2015 US\$
Interest payable	5,410,150	3,140,300
Other liabilities	<u>40,579,331</u>	<u>65,054,663</u>
	<u>45,989,481</u>	<u>68,194,963</u>

**17. SHARE CAPITAL**

	2016 US\$	2015 US\$
Issued and fully paid: 140,000,000 (2015: 140,000,000) ordinary shares	<u>140,000,000</u>	<u>140,000,000</u>

**18. RESERVES**

	Retained profits US\$	Available- for-sale investments revaluation reserve US\$	Total US\$
At 1 January 2016	88,179,338	6,410,673	94,590,011
Available-for-sale investments:			
- Change in fair value, net of deferred tax	-	4,780,759	4,780,759
- Transfer to income statement on disposal	-	(6,059,976)	(6,059,976)
Profit for the year	36,405,796	-	36,405,796
Re-measurement gains on defined benefit scheme	<u>16,491</u>	<u>-</u>	<u>16,491</u>
At 31 December 2016	<u>124,601,625</u>	<u>5,131,456</u>	<u>129,733,081</u>

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**18. RESERVES (continued)**

	Retained profits US\$	Available- for-sale investments revaluation reserve US\$	Total US\$
At 1 January 2015	97,734,473	13,026,235	110,760,708
Available-for-sale investments:			
- Change in fair value, net of deferred tax	-	(5,357,785)	(5,357,785)
- Transfer to income statement on disposal	-	(1,257,777)	(1,257,777)
Loss for the year	(2,059,997)	-	(2,059,997)
Dividend declared and paid for the year	(7,500,000)	-	(7,500,000)
Re-measurement gains on defined benefit scheme	<u>4,862</u>	<u>-</u>	<u>4,862</u>
At 31 December 2015	<u>88,179,338</u>	<u>6,410,673</u>	<u>94,590,011</u>

**Nature and purpose of reserves****(i) Revaluation reserve on available-for-sale investments**

The revaluation reserve on available-for-sale investments comprises the cumulative net change in the fair value of available-for-sale investments held at the end of the reporting period net of any deferred tax.

**(ii) Regulatory reserve**

As at 31 December 2016, the Company has earmarked US\$3,030,112 (2015: US\$222,809) as regulatory reserve from retained profits. The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes. Movements in the reserve are made directly through retained profits and in consultation with the HKMA.

**(iii) The directors do not recommend the payment of any dividend in respect of the year. As at 31 December 2015, interim dividend declared and paid of US\$0.05357 per ordinary share.****19. CASH AND CASH EQUIVALENTS**

	2016 US\$	2015 US\$
Cash and balances with banks and other financial institutions	15,108,387	12,616,602
Placements with banks and other financial institutions	<u>50,000,000</u>	<u>95,000,000</u>
Cash and bank placements	65,108,387	107,616,602
Less: Placements with banks and other financial institutions with original maturity more than three months	<u>10,000,000</u>	<u>57,000,000</u>
Cash and cash equivalents	<u>55,108,387</u>	<u>50,616,602</u>

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**20. DERIVATIVES**

The use of derivatives as risk management products sold to customers is an integral part of the Company's business activities. These instruments are also used to manage the Company's own exposures to market risk as part of its asset and liability management process. The principal derivative instruments used by the Company are interest and foreign exchange rate related contracts, which are primarily over-the-counter derivatives. For accounting purposes, derivatives are classified as trading financial instruments.

**(a) Notional amount of derivatives**

Derivatives refer to financial contracts whose value depends on the value of one or more underlying assets or indices. The notional amounts of these instruments indicate the volume of transactions outstanding at the end of the reporting period and they do not represent amounts at risk.

	2016 US\$	2015 US\$
<b>Exchange rate contracts</b>		
Forwards	109,386,958	80,642,877
Swaps	<u>-</u>	<u>16,999,575</u>
	<u>109,386,958</u>	<u>97,642,452</u>
<b>Interest rate contracts</b>		
Swaps		
- Qualifying for hedge accounting	198,500,000	291,500,000
- Others	<u>110,500,000</u>	<u>60,500,000</u>
	<u>309,000,000</u>	<u>352,000,000</u>
<b>Debt security contracts</b>		
Futures	<u>18,200,000</u>	<u>10,400,000</u>
	<u>436,586,958</u>	<u>460,042,452</u>

The transactions are used to hedge the Company's own exposure to market risks as part of its asset and liability management.

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**20. DERIVATIVES (continued)****(b) Fair values and credit risk weighted amounts of derivatives**

	2016			2015		
	Fair value		Credit risk weighted amount US\$	Fair value		Credit risk weighted amount US\$
	Assets US\$	Liabilities US\$		Assets US\$	Liabilities US\$	
<b>Exchange rate contracts</b>						
Forward	256,003	1,393,432	372,539	234,155	852,683	310,681
Swaps	-	-	-	9,459	-	35,891
	<u>256,003</u>	<u>1,393,432</u>	<u>372,539</u>	<u>243,614</u>	<u>852,683</u>	<u>346,572</u>
<b>Interest rate contracts</b>						
Swaps	<u>2,037,886</u>	<u>40,033</u>	<u>1,799,258</u>	<u>2,064,270</u>	<u>745,733</u>	<u>2,452,387</u>
<b>Debt security contracts</b>						
Futures	-	-	385,039	-	-	211,088
	<u>2,293,889</u>	<u>1,433,465</u>	<u>2,556,836</u>	<u>2,307,884</u>	<u>1,598,416</u>	<u>3,010,047</u>

Credit risk-weighted amount refers to the amount as computed in accordance with the Banking (Capital) Rules of the Hong Kong Banking Ordinance. The amount depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 20% to 100% for exchange rate, interest rate and debt security contracts.

The Company did not enter into any bilateral netting arrangement during the year and accordingly these amounts are shown on a gross basis.

**(c) Fair values of derivatives designated as hedging instruments**

The following is a summary of the fair values of derivatives held for hedging purposes by product type entered into by the Company:

	2016		2015	
	Assets US\$	Liabilities US\$	Assets US\$	Liabilities US\$
Interest rate contracts	<u>1,648,661</u>	<u>39</u>	<u>1,811,550</u>	<u>136,725</u>

Fair value hedges principally consist of interest rate swaps that are used to protect against changes in the fair value of certain fixed rate assets due to the movements in market interest rates. At 31 December 2016, the net fair value of interest rate swaps was US\$1,648,622 (2015: US\$1,674,825) comprising assets of US\$1,648,661 (2015: US\$1,811,550) and liabilities of US\$39 (2015: US\$136,725).

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**20. DERIVATIVES (continued)****(d) Remaining life of derivatives**

The following table provides an analysis of the notional amounts of derivatives of the Company by remaining maturity grouping based on the remaining period to settlement at the end of the reporting period.

	Interest rate contracts US\$	Exchange rate contracts US\$	Debt security contracts US\$	Total US\$
2016				
1 year or less	107,500,000	96,566,445	18,200,000	222,266,445
Over 1 year to 5 years	188,500,000	12,820,513	-	201,320,513
Over 5 years	<u>13,000,000</u>	<u>-</u>	<u>-</u>	<u>13,000,000</u>
	<u>309,000,000</u>	<u>109,386,958</u>	<u>18,200,000</u>	<u>436,586,958</u>
2015				
1 year or less	28,000,000	84,821,939	10,400,000	123,221,939
Over 1 year to 5 years	296,000,000	12,820,513	-	308,820,513
Over 5 years	<u>28,000,000</u>	<u>-</u>	<u>-</u>	<u>28,000,000</u>
	<u>352,000,000</u>	<u>97,642,452</u>	<u>10,400,000</u>	<u>460,042,452</u>

**21. CONTINGENT LIABILITIES AND COMMITMENTS****(a) Contingent liabilities and commitments to extend credit**

	2016 US\$	2015 US\$
Trade-related contingencies	20,803,378	20,665,861
Other commitments		
- with an original maturity of under one year	78,544,310	81,895,817
- with an original maturity of more than one year	<u>909,574</u>	<u>22,528,057</u>
	<u>100,257,262</u>	<u>125,089,735</u>
Credit risk weighted amounts	<u>20,324,325</u>	<u>31,776,364</u>

Contingent liabilities and commitments are credit-related instruments which include commitments to extend credit. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the customer default. As the facilities may expire without being drawn upon, the contractual amounts do not represent expected future cash flows.

The risk weights used range from 0% to 100% for contingent liabilities and commitments.

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**21. CONTINGENT LIABILITIES AND COMMITMENTS (continued)****(b) Operating lease commitments**

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

	2016 US\$	2015 US\$
Within 1 year	2,460,158	3,120,764
After 1 year but within 5 years	<u>2,915,167</u>	<u>3,941,770</u>
	<u>5,375,325</u>	<u>7,062,534</u>

The Company leases a number of properties under operating leases. The leases usually run for an initial period of one to four years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

**(c) Capital commitments**

Commitments to unlisted investments in funds outstanding at the end of the reporting period not provided for in the financial statements were as follows:

	2016 US\$	2015 US\$
Contracted for	<u>14,853,225</u>	<u>4,183,580</u>
Credit risk weighted amounts	<u>7,426,612</u>	<u>2,091,790</u>

**22. FINANCIAL RISK MANAGEMENT**

This section presents information about the Company's exposure to and its management and control of risks, in particular, the primary risks associated with its use of financial instruments:

- credit risk: loss resulting from customer or counterparty default and arises on credit exposure in all forms, including settlement risk;
- market risk: exposure to market variables such as interest rates, exchange rates and equity markets;
- liquidity and funding risk: risk that the Company is unable to meet its payment obligations when due, or that it is unable, on an ongoing basis, to borrow funds in the market on an unsecured, or even secured basis at an acceptable price to fund actual or proposed commitments; and
- operational risk: risk arising from matters such as non-adherence to systems and procedures or from frauds resulting in financial or reputation loss.

A risk manager is appointed to oversee risk management, set the strategy and policy for each type of principal risk and set the means for ensuring that the strategy and policy are implemented.

**22. FINANCIAL RISK MANAGEMENT (continued)**

The Company has established policies and procedures to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and limits continually by means of management and information systems. The Company continually modifies and enhances its risk management policies and systems to reflect changes in markets, products and best practice risk management processes. The internal auditors also perform regular audits to ensure compliance with the policies and procedures.

**(a) Credit risk management**

This category includes credit and counterparty risks from loans and advances, issuer risks from the securities business, counterparty risks from trading activities and country risks. The Company identifies and manages this risk through its (a) target market definitions, (b) credit approval process, (c) post-disbursement monitoring and (d) remedial management procedures.

**(i) Corporate credit risk**

Although the Company caters to some middle market borrowers, the corporate lending is generally concentrated among highly rated customers. In addition to underwriting standards, the principal means of managing credit risk is the credit approval process. The Company has policies and procedures to evaluate the potential credit risk of a particular counterparty or transaction and to approve the transaction. For corporate customers, the Company refers to the risk grading system of its parent Company that is applied to each counterparty and evaluated on a regular basis. The Company also has limits for exposures to individual borrowers and groups of borrowers, regardless of whether the exposure is in the form of loans or non-funded exposures. The Company also has a review process that ensures the proper level of review and approval depending on the size of the facility and risk grading of the credit.

The Company undertakes ongoing credit analysis and monitoring at several levels. The policies are designated to promote early detection of counterparty, industry or product exposures that require special monitoring. The Risk Management Committee monitors overall portfolio risk and potential problem loans on a regular basis.

**(ii) Concentration of credit risk**

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is material in relation to the Company's total exposures. The Company's portfolio of financial instruments is diversified along industry and product sectors.

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**22. FINANCIAL RISK MANAGEMENT (continued)****(a) Credit risk management (continued)****(iii) Maximum exposure**

The maximum exposure to credit risk at the end of the reporting period without taking into consideration of any collateral held or other credit enhancements is represented by the carrying amount of each financial asset in the statement of financial position after deducting any impairment allowance. A summary of the maximum credit exposures for off-balance sheet items without taking into account the fair value of collateral are as follows:

	2016 US\$	2015 US\$
Financial guarantees and other credit related contingent liabilities	<u>20,803,378</u>	<u>20,665,861</u>
Loan commitments and other credit related commitments	<u>79,453,884</u>	<u>104,423,874</u>

**(iv) Credit quality of loans and advances**

Loans and advances are only made to recognised and creditworthy third parties. At 31 December 2016 and 2015, no loans and advances to banks are impaired. The credit quality of loans and advances can be analysed as follows:

	2016 US\$	2015 US\$
Gross loans and advances		
- neither past due nor impaired	487,343,639	443,692,561
- impaired	<u>22,893,924</u>	<u>23,683,647</u>
	<u>510,237,563</u>	<u>467,376,208</u>
<b>Of which:</b>		
Gross loans and advances that are neither past due nor impaired		
- Grade 1: Pass	<u>487,343,639</u>	<u>443,692,561</u>

The Company classifies the loans and advances in accordance with the loan classification system required to be adopted for reporting to the HKMA.



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**22. FINANCIAL RISK MANAGEMENT (continued)****(a) Credit risk management (continued)****(v) Credit quality of financial assets other than loans and advances**

The following table presents an analysis of investment in debt securities (both trading and available-for-sale), by rating agency designation at the end of the reporting period, based on Standard and Poor's ratings or their equivalent to the respective issues of the securities.

	2016 US\$	2015 US\$
AAA	2,788,200	-
AA- to AA+	50,932,980	49,544,300
A- to A+	251,548,640	273,613,875
Lower than A-	<u>62,041,180</u>	<u>51,145,500</u>
Unrated	<u>367,311,000</u> <u>29,200,720</u>	<u>374,303,675</u> <u>39,229,210</u>
	<u><u>396,511,720</u></u>	<u><u>413,532,885</u></u>

**(vi) Collaterals**

The Company obtains collaterals against loans and advances to customers and trade finance business. Loans and advances to banks, debt securities, treasury and other eligible bills are generally unsecured.

	2016 US\$	2015 US\$
Listed equity securities	-	28,285,256
Cash deposits	<u>-</u>	<u>1,013,987</u>

**(vii) Offsetting financial assets and financial liabilities**

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

	Gross amounts of recognised financial assets US\$	Gross amounts of recognised financial liabilities offset in the financial statements US\$	Net amounts of financial assets reported in the financial statements US\$	Related amounts not set off in the statement of financial position		Net US\$
				Financial instruments US\$	Cash collateral received US\$	
<b>31 December 2016</b>						
Derivative financial instruments	<u>2,293,889</u>	<u>-</u>	<u>2,293,889</u>	<u>(834,429)</u>	<u>-</u>	<u>1,459,460</u>
<b>31 December 2015</b>						
Derivative financial instruments	<u>2,307,884</u>	<u>-</u>	<u>2,307,884</u>	<u>(1,033,026)</u>	<u>-</u>	<u>1,274,858</u>

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**22. FINANCIAL RISK MANAGEMENT (continued)****(a) Credit risk management (continued)****(vii) Offsetting financial assets and financial liabilities (continued)**

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

	Gross amounts of recognised financial liabilities US\$	Gross amounts of recognised financial assets offset in the financial statements US\$	Net amounts of financial liabilities reported in the financial statements US\$	Related amounts not set off in the <u>statement of financial position</u>		Net US\$
				Financial instruments US\$	Cash collateral pledged US\$	
<b>31 December 2016</b>						
Derivative financial instruments	<u>1,433,465</u>	<u>-</u>	<u>1,433,465</u>	<u>(834,429)</u>	<u>-</u>	<u>599,036</u>
<b>31 December 2015</b>						
Derivative financial instruments	<u>1,598,416</u>	<u>-</u>	<u>1,598,416</u>	<u>(1,033,026)</u>	<u>-</u>	<u>565,390</u>

The Company further manages its credit exposure by entering into master netting arrangements with counterparties where it is appropriate and feasible to do so. Master netting arrangements do not generally result in an offset of assets and liabilities as transactions are usually accounted for individually on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if an event of default occurs.

For the financial assets and liabilities subject to enforceable master netting arrangements or similar arrangements above, each agreement between the Company and the counterparty allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such an election, financial asset and liabilities will be settled on a gross basis, however, each party to the master netting agreement or similar arrangement will have the option to settle all such amounts on a net basis in the event of default of the other party. The Company and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously; the financial assets and liabilities are therefore not set off in the statement of financial position.

**(b) Market risk management**

Market risk arises on all market risk sensitive financial instruments, including securities, foreign exchange contracts, equity and derivative instruments, as well as from statement of financial position or structural positions. The objective of market risk management is to avoid excessive exposure of earnings and equity to loss and to reduce the Company's exposure to the volatility inherent in financial instruments.

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**22. FINANCIAL RISK MANAGEMENT (continued)****(b) Market risk management (continued)****(i) Currency risk**

The Company's foreign currency positions arise from foreign exchange dealing and commercial banking operations. All foreign currency positions are managed by the global markets department within limits approved by the board.

The following table indicates the concentration of currency risk at the end of the reporting period.

	2016						Total
	Korean Won	Hong Kong dollars	Euros	Japanese Yen	Renminbi	Singapore dollars	
<b>United States dollars equivalents</b>							
Spot assets	108,628	51,350,060	3,643,569	97,706	5,843,781	-	61,043,744
Spot liabilities	-	(13,232,216)	(3,630,516)	(2,171,979)	(46,600,578)	-	(65,635,289)
Forward purchases	-	12,868,515	-	2,079,647	41,690,706	-	56,638,868
Forward sales	-	(50,902,135)	-	(91,522)	(982,736)	-	(51,976,393)
Net long/(short) position	<u>108,628</u>	<u>84,224</u>	<u>13,053</u>	<u>(86,148)</u>	<u>(48,827)</u>	<u>-</u>	<u>70,930</u>
	2015						
	Korean Won	Hong Kong dollars	Euros	Japanese Yen	Renminbi	Singapore dollars	Total
<b>United States dollars equivalents</b>							
Spot assets	114,689	28,607,515	1,407,620	1,625,016	19,603,299	95,570	51,453,709
Spot liabilities	-	(13,497,033)	(4,384,274)	(2,124,263)	(40,102,279)	(17,086,897)	(77,194,746)
Forward purchases	-	12,876,715	-	-	30,456,100	16,999,575	60,332,390
Forward sales	-	(28,016,694)	-	-	(9,122,699)	-	(37,139,393)
Net long/(short) position	<u>114,689</u>	<u>(29,497)</u>	<u>(2,976,654)</u>	<u>(499,247)</u>	<u>834,421</u>	<u>8,248</u>	<u>(2,548,040)</u>

As at 31 December 2016, the Company has limited foreign currency risk as the Company's net foreign currency positions are not significant. At 31 December 2015, the Company was mainly exposed to currency risk arisen from Euros, RMB, and Japanese Yen.

Currency risk arisen from short-term borrowings in Euros. At 31 December 2015, it was estimated that a general change of ten percent appreciation in exchange rate with all other variables remain constant, would have resulted in a US\$297,665 increase in the Company's loss before tax.

Currency risk arisen from customer loans in RMB. At 31 December 2015, it was estimated that a general change of ten percent appreciation in exchange rate with all other variables remain constant, would have resulted in a US\$83,442 decrease in the Company's loss before tax.

Currency risk arisen from other account payable in Japanese Yen. At 31 December 2015, it was estimated that a general change of ten percent appreciation in exchange rate with all other variables remain constant, would have resulted in a US\$49,925 increase in the Company's loss before tax.

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**22. FINANCIAL RISK MANAGEMENT (continued)****(b) Market risk management (continued)****(i) Currency risk (continued)**

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the end of the next reporting period. In this respect, it is assumed that the pegged rate between the HKD and the USD would be materially unaffected by any changes in movement in value of the USD against other currencies.

**(ii) Interest rate risk**

The Company's interest rate positions arise from treasury and commercial banking activities. Interest rate risk arises in both trading portfolios and non-trading portfolios. Interest rate risk primarily results from the timing differences in the repricing of interest-bearing assets, liabilities and commitments. It also related to positions from non-interest bearing liabilities including shareholders' funds and current accounts, as well as from certain fixed rate loans and liabilities. The Company uses interest rate swaps and other derivatives to manage interest rate risk.

The following tables indicate the effective interest rates for the relevant periods and the expected next repricing dates (or maturity dates whichever are earlier) for interest bearing non-derivative assets and liabilities at the end of the reporting period. Actual repricing dates may differ from the contractual dates owing to prepayments and the exercise of options. An analysis of the contractual maturity of notional amounts of interest rate swaps is shown in note 20.

	Effective interest rate	2016					Non-interest bearing US\$
		Total US\$	3 months or less (include overdue) US\$	Over 3 months to 1 year US\$	Over 1 year to 5 years US\$	Over 5 years US\$	
<b>Assets</b>							
Cash and short-term funds	1.61%	65,108,387	50,000,000	-	-	-	15,108,387
Trade bills	0.93%	308,575,781	131,524,273	177,051,508	-	-	-
Trading assets	3.23%	26,702,679	-	-	21,119,720	3,289,070	2,293,889
Loans and advances	3.22%	497,606,473	483,675,396	13,931,077	-	-	-
Available-for-sale investments	3.01%	386,838,613	43,176,030	96,320,600	203,945,510	28,660,790	14,735,683
Interest receivable and other assets		11,809,111	-	-	-	-	11,809,111
		<u>1,296,641,044</u>	<u>708,375,699</u>	<u>287,303,185</u>	<u>225,065,230</u>	<u>31,949,860</u>	<u>43,947,070</u>
<b>Liabilities</b>							
Deposits and balances of banks and other financial institutions	1.01%	543,629,401	493,629,401	50,000,000	-	-	-
Deposits from customers	0.90%	2,485,700	1,467,119	1,018,581	-	-	-
Trading liabilities		1,433,465	-	-	-	-	1,433,465
Certificates of deposit issued	1.54%	434,317,973	421,506,387	-	12,811,586	-	-
Interest payable and other liabilities		45,989,481	-	-	-	-	45,989,481
		<u>1,027,856,020</u>	<u>916,602,907</u>	<u>51,018,581</u>	<u>12,811,586</u>	<u>-</u>	<u>47,422,946</u>
<b>Assets-liabilities gap</b>			<b><u>(208,227,208)</u></b>	<b><u>236,284,604</u></b>	<b><u>212,253,644</u></b>	<b><u>31,949,860</u></b>	

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**22. FINANCIAL RISK MANAGEMENT (continued)****(b) Market risk management (continued)****(ii) Interest rate risk (continued)**

	Effective interest rate	2015					Non-interest bearing US\$
		Total US\$	3 months or less (include overdue) US\$	Over 3 months to 1 year US\$	Over 1 year to 5 years US\$	Over 5 years US\$	
<b>Assets</b>							
Cash and short-term funds	0.78%	107,616,602	53,000,000	42,000,000	-	-	12,616,602
Trade bills	0.79%	200,008,889	152,874,062	47,134,827	-	-	-
Trading assets	0.30%	10,248,684	-	-	-	7,940,800	2,307,884
Loans and advances	2.86%	439,459,187	437,065,907	2,393,280	-	-	-
Available-for-sale investments	2.49%	421,456,680	67,218,590	10,131,430	294,305,175	33,936,890	15,864,595
Interest receivable and other assets		7,595,128	-	-	-	-	7,595,128
		<u>1,186,385,170</u>	<u>710,158,559</u>	<u>101,659,537</u>	<u>294,305,175</u>	<u>41,877,690</u>	<u>38,384,209</u>
<b>Liabilities</b>							
Deposits and balances of banks and other financial institutions	0.56%	519,368,000	499,368,000	20,000,000	-	-	-
Deposits from customers	1.55%	2,633,557	1,319,570	1,313,987	-	-	-
Trading liabilities		1,598,416	-	-	-	-	1,598,416
Certificates of deposit issued	1.09%	362,978,357	283,388,128	66,784,889	12,805,340	-	-
Interest payable and other liabilities		68,194,963	-	-	-	-	68,194,963
		<u>954,773,293</u>	<u>784,075,698</u>	<u>88,098,876</u>	<u>12,805,340</u>	<u>-</u>	<u>69,793,379</u>
<b>Assets-liabilities gap</b>			<u><b>(73,917,139)</b></u>	<u><b>13,560,661</b></u>	<u><b>281,499,835</b></u>	<u><b>41,877,690</b></u>	

The analysis below sets out the impact on future net interest income of a 50 basis points parallel fall or rise in all-in yield curves at the beginning of year from 1 January 2016 and 12.5 basis points parallel fall or rise in all-in yield curves at the beginning of each quarter during the 12 month period from 1 January 2016.

Assuming no management actions and all other variables held constant, such a series of incremental parallel rises/falls in all-in yield curves would increase/decrease planned net interest income for the year ended 31 December 2016 by US\$86,604 (2015: US\$118,369) for 50 basis points movement at the beginning of the year and increase/decrease by US\$54,127 (2015: US\$73,981) for 12.5 basis points movement at the beginning of each quarter respectively. These figures incorporate the impact of any option features in the underlying exposures and takes into account the change in pricing of retail products relative to change in market interest rates.

**(iii) Equity price risk**

The Company is exposed to equity price risk from investments in equity securities and funds, which are classified as available-for-sale investments held for long-term strategic purposes.

At 31 December 2016, it is estimated that a general change of one percent in the fair value of the Company's available-for-sale equity investments, with all other variables held constant, would have resulted in a US\$147,357 (2015: US\$152,511) change on the available-for-sale investments revaluation reserve.

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**22. FINANCIAL RISK MANAGEMENT (continued)****(c) Liquidity risk management**

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

Liquidity is managed on a daily basis by the global markets department under the direction of the Risk Management Committee. The global markets department is responsible for ensuring that the Company has adequate liquidity for all operations; ensuring that the funding mix is appropriate so as to avoid maturity mismatches and to prevent price and reinvestment risk in case of a maturity gap; and monitoring local and international markets for the adequacy of funding and liquidity.

The Company manages liquidity risk by holding sufficient liquid assets (e.g. cash and short-term funds and securities) of appropriate quality to ensure that short-term funding requirements are covered within prudent limits. Adequate facilities can be obtained from its holding company to provide liquidity to meet unexpected and material cash outflows in the ordinary course of business.

*Analysis of assets and liabilities by remaining maturity*

The following maturity profile is based on the remaining period at the end of the reporting period to the contractual maturity date. Trading assets and trading liabilities are regarded as undated as they are managed on a fair value basis.

	2016								Total US\$
	Repayable on demand US\$	Within 1 month US\$	Over 1 month but within 3 months US\$	Over 3 months but within 1 year US\$	Over 1 year but within 5 years US\$	Over 5 years US\$	Undated US\$		
<b>Assets</b>									
Cash and short-term funds	15,108,387	40,000,000	10,000,000	-	-	-	-	-	65,108,387
Trade bills	-	45,699,453	85,824,820	177,051,508	-	-	-	-	308,575,781
Trading assets	-	-	-	-	-	-	26,702,679	-	26,702,679
Loans and advances	-	10,091,699	19,666,579	117,599,166	296,224,193	54,024,836	-	-	497,606,473
Available-for-sale investments	-	14,004,650	1,076,944	106,024,382	231,143,830	34,482,073	106,734	-	386,838,613
Interest receivable and other assets	-	2,677,201	2,210,812	1,985,467	-	-	4,935,631	-	11,809,111
	<u>15,108,387</u>	<u>112,473,003</u>	<u>118,779,155</u>	<u>402,660,523</u>	<u>527,368,023</u>	<u>88,506,909</u>	<u>31,745,044</u>	-	<u>1,296,641,044</u>
<b>Liabilities</b>									
Deposits and balances of banks and other financial institutions	-	153,629,401	90,000,000	210,000,000	90,000,000	-	-	-	543,629,401
Deposits from customers	-	1,467,119	-	1,018,581	-	-	-	-	2,485,700
Trading liabilities	-	-	-	-	-	-	1,433,465	-	1,433,465
Certificates of deposit issued	-	10,000,000	41,548,950	169,994,577	212,774,446	-	-	-	434,317,973
Interest payable and other liabilities	-	1,266,718	2,865,426	1,278,006	-	-	40,579,331	-	45,989,481
	-	<u>166,363,238</u>	<u>134,414,376</u>	<u>382,291,164</u>	<u>302,774,446</u>	-	<u>42,012,796</u>	-	<u>1,027,856,020</u>
<b>Net assets/(liabilities) gap</b>	<u>15,108,387</u>	<u>(53,890,235)</u>	<u>(15,635,221)</u>	<u>20,369,359</u>	<u>224,593,577</u>	<u>88,506,909</u>	-	-	

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**22. FINANCIAL RISK MANAGEMENT (continued)****(c) Liquidity risk management (continued)***Analysis of assets and liabilities by remaining maturity (continued)*

	2015							Total US\$
	Repayable on demand US\$	Within 1 month US\$	Over 1 month but within 3 months US\$	Over 3 months but within 1 year US\$	Over 1 year but within 5 years US\$	Over 5 years US\$	Undated US\$	
<b>Assets</b>								
Cash and short-term funds	12,616,602	38,000,000	15,000,000	42,000,000	-	-	-	107,616,602
Trade bills	-	39,288,752	113,585,310	47,134,827	-	-	-	200,008,889
Trading assets	-	-	-	-	-	-	10,248,684	10,248,684
Loans and advances	-	20,792,851	27,979,179	94,533,086	232,657,696	63,496,375	-	439,459,187
Available-for-sale investments	-	8,012,490	10,034,551	39,145,440	326,819,501	37,340,195	104,503	421,456,680
Interest receivable and other assets	-	2,527,810	1,745,305	1,618,615	-	-	1,703,398	7,595,128
	<u>12,616,602</u>	<u>108,621,903</u>	<u>168,344,345</u>	<u>224,431,968</u>	<u>559,477,197</u>	<u>100,836,570</u>	<u>12,056,585</u>	<u>1,186,385,170</u>
<b>Liabilities</b>								
Deposits and balances of banks and other financial institutions	-	159,368,000	130,000,000	170,000,000	60,000,000	-	-	519,368,000
Deposits from customers	-	1,319,570	-	1,313,987	-	-	-	2,633,557
Trading liabilities	-	-	-	-	-	-	1,598,416	1,598,416
Certificates of deposit issued	-	30,437,927	32,973,911	286,761,179	12,805,340	-	-	362,978,357
Interest payable and other liabilities	-	933,492	845,495	1,361,313	-	-	65,054,663	68,194,963
	-	<u>192,058,989</u>	<u>163,819,406</u>	<u>459,436,479</u>	<u>72,805,340</u>	-	<u>66,653,079</u>	<u>954,773,293</u>
<b>Net assets/(liabilities) gap</b>	<u>12,616,602</u>	<u>(83,437,086)</u>	<u>4,524,939</u>	<u>(235,004,511)</u>	<u>486,671,857</u>	<u>100,836,570</u>		

The following tables give the undiscounted cash-flow projection of the Company's financial liabilities including interest payable and undrawn commitments at the end of the reporting period based on the dates of their contractual payment obligations. Interest payable in respect of term financial liabilities are reported based on contractual interest payment date. Financial liabilities repayable on demand including interest accrued up to the end of the reporting period are reported under the column "repayable on demand".

	2016					Total US\$
	Repayable on demand US\$	Three months or less but not on demand US\$	Three months to one year US\$	One year to five years US\$	Over five years US\$	
Deposits and balance of banks and other financial institutions	-	245,590,891	212,703,256	90,824,094	-	549,118,241
Deposits from customers	-	1,468,920	1,022,186	-	-	2,491,106
Certificates of deposit issued	-	54,645,807	172,599,364	215,558,582	-	442,803,753
Derivative financial instruments	-	97,883,778	4,062,210	20,146,620	649,097	122,741,705
	-	<u>399,589,396</u>	<u>390,387,016</u>	<u>326,529,296</u>	<u>649,097</u>	<u>1,117,154,805</u>
Commitments:						
Trade-related contingencies	20,803,378	-	-	-	-	20,803,378
Other commitments	94,307,109	-	-	-	-	94,307,109
	<u>115,110,487</u>	-	-	-	-	<u>115,110,487</u>

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**22. FINANCIAL RISK MANAGEMENT (continued)****(c) Liquidity risk management (continued)***Analysis of assets and liabilities by remaining maturity (continued)*

	2015					Total US\$
	Repayable on demand US\$	Three months or less but not on demand US\$	Three months to one year US\$	One year to five years US\$	Over five years US\$	
Deposits and balance of banks and other financial institutions	-	290,520,195	170,637,038	61,201,902	-	522,359,135
Deposits from customers	-	1,333,385	1,330,882	-	-	2,664,267
Certificates of deposit issued	-	63,411,838	286,940,666	12,805,340	-	363,157,844
Derivative financial instruments	-	58,987,277	27,255,111	15,019,088	179,952	101,441,428
	-	<u>414,252,695</u>	<u>486,163,697</u>	<u>89,026,330</u>	<u>179,952</u>	<u>989,622,674</u>
Commitments:						
Trade-related contingencies	20,665,861	-	-	-	-	20,665,861
Other commitments	<u>108,607,454</u>	-	-	-	-	<u>108,607,454</u>
	<u>129,273,315</u>	-	-	-	-	<u>129,273,315</u>

**(d) Operational risk management**

Operational risks arise from the Company's daily operation and fiduciary activities. The Company has put in place an internal control process which requires the establishment of policies and procedures for all key business activities. In particular for new products and services development, policies and procedures must be approved before launch. All business units are responsible for identifying, assessing and controlling the risks inherent in their business activities.

The Company's internal audit and compliance department together with the risk manager play an essential role in monitoring the Company's operational risk. The primary focus of internal audit and compliance department is:

- to independently evaluate the adequacy of key internal controls;
- to ensure adherence to the operating guidelines, including regulatory and legal requirements;
- to pro-actively recommend improvements; and
- to report to the Risk Management Committee on a regular basis.

**(e) Capital management**

The Company's objective for managing capital is to maintain a strong capital base to support the development of its business and to meet regulatory capital requirements at all times.

The HKMA sets and monitors capital requirements for the Company as a whole.

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



**22. FINANCIAL RISK MANAGEMENT (continued)**

**(e) Capital management (continued)**

The Company actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might otherwise be possible with greater gearing and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The process of allocating capital to specific operations and activities is undertaken by management and is reviewed regularly by the board of directors.

Consistent with industry practice, the Company monitors its capital structure on the basis of the capital adequacy ratio and there have been no material changes in the Company's policy on the management of capital during the year.

The capital adequacy ratios are computed in accordance with the Banking (Capital) Rules of the Hong Kong Banking Ordinance.

The Company has complied with the capital requirements at each reporting date during the years ended 31 December 2016 and 2015 and is above the minimum required ratio set by the HKMA at 31 December 2016.

**23. FAIR VALUES OF FINANCIAL INSTRUMENTS**

**(a) Estimation of fair values**

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. Where available, the most suitable measure for fair value is the quoted market price. In the absence of organised secondary markets for most financial instruments, in particular for loans, deposits and unlisted derivatives, direct market prices are not available and the fair values of such instruments were therefore calculated on the basis of well-established valuation techniques using current market parameters. In particular, the fair value is a theoretical value applicable at a given reporting date, and hence can only be used as an indicator of the value realisable in a future sale.

Valuation techniques involve uncertainties and are significantly affected by the assumptions used and judgements made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experiences and other factors. Changes in assumptions could significantly affect these estimates and the resulting fair values. Derived fair value estimates cannot necessarily be substantiated by comparison to independent markets and, in many cases, could not be realised in an immediate sale of the instruments.

**23. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)**

**(a) Estimation of fair values (continued)**

The following methods and significant assumptions have been applied in determining the fair values of financial instruments where a quoted price is not readily available.

- (i) the fair value of variable rate loans and receivables and certificates of deposit issued are assumed to be approximated by their carrying amounts and does not reflect changes in their credit quality, as the impact of credit risk is recognised separately by deducting the amount of the impairment allowances from both the carrying amount and fair value;
- (ii) the fair value of unquoted debt securities is estimated by using an appropriate credit spread for the issuer of the period to discount future cash flows;
- (iii) the fair value of fixed rate loans and certificates of deposit issued carried at amortised cost is estimated by comparing market interest rates when the loans were granted with current market rates offered on similar loans. Changes in the credit quality of loans within the portfolio are not taken into account in determining gross fair values, as the impact of credit risk is recognised separately by deducting the amount of the impairment loss and allowances from both the carrying amount and fair value;
- (iv) the fair value of unquoted equity investments are estimated by pricing agent based on the future discounted cash flow method;
- (v) the fair value of unlisted open-ended investment funds is estimated using the net asset value as reported by the managers of such funds; and
- (vi) the fair value of interest rate swaps is estimated either using broker quotes or by discounting future cash flows. Future cash flows are estimated based on management's best estimates of the amount it would receive or pay to terminate the contract at the end of the reporting period taking into account current market conditions and the current credit worthiness of the counterparties. The discount rate used is a market rate for a similar instrument at the end of the reporting period. Inputs are based on market related data at the end of the reporting period.

**(b) Financial instruments carried at fair value**

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information.

Fair values of equity and debt securities that are traded in active markets are based on quoted market prices or dealer price quotations.

The Company uses discounted future cash flow models for determining the fair value of interest rate swaps that use only observable market data and require little management judgement and estimation.

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**23. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)****(b) Financial instruments carried at fair value (continued)**

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

<b>2016</b>	Level 1 US\$	Level 2 US\$	Level 3 US\$	Total US\$
<b>Assets</b>				
Trading assets				
- Debt securities	24,408,790	-	-	24,408,790
- Positive fair value of derivatives	-	2,293,889	-	2,293,889
	<u>24,408,790</u>	<u>2,293,889</u>	<u>-</u>	<u>26,702,679</u>
Available-for-sale investments measured at fair value				
- Debt securities	342,902,210	29,200,720	-	372,102,930
- Equity securities	-	-	106,734	106,734
- Investments in funds	-	-	14,628,949	14,628,949
	<u>342,902,210</u>	<u>29,200,720</u>	<u>14,735,683</u>	<u>386,838,613</u>
	<u>367,311,000</u>	<u>31,494,609</u>	<u>14,735,683</u>	<u>413,541,292</u>
<b>Liabilities</b>				
Trading liabilities				
- Negative fair value of derivatives	-	1,433,465	-	1,433,465
	<u>-</u>	<u>1,433,465</u>	<u>-</u>	<u>1,433,465</u>
<b>2015</b>				
	Level 1 US\$	Level 2 US\$	Level 3 US\$	Total US\$
<b>Assets</b>				
Trading assets				
- Debt securities	7,940,800	-	-	7,940,800
- Positive fair value of derivatives	-	2,307,884	-	2,307,884
	<u>7,940,800</u>	<u>2,307,884</u>	<u>-</u>	<u>10,248,684</u>
Available-for-sale investments measured at fair value				
- Debt securities	353,364,555	52,227,530	-	405,592,085
- Equity securities	-	-	104,503	104,503
- Investments in funds	-	-	15,146,551	15,146,551
	<u>353,364,555</u>	<u>52,227,530</u>	<u>15,251,054</u>	<u>420,843,139</u>
	<u>361,305,355</u>	<u>54,535,414</u>	<u>15,251,054</u>	<u>431,091,823</u>
<b>Liabilities</b>				
Trading liabilities				
- Negative fair value of derivatives	-	1,598,416	-	1,598,416
	<u>-</u>	<u>1,598,416</u>	<u>-</u>	<u>1,598,416</u>

During the year there were no transfers of financial instruments amongst Level 1, Level 2 and Level 3 of the fair value hierarchy.

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**23. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)****(b) Financial instruments carried at fair value (continued)****(i) Valuation of financial instruments with significant unobservable inputs**

The Company's global markets department and principal investment department is responsible for determining the policies and procedures for the fair value measurement of Level 3 financial instruments. At each reporting date, the global market department and principal investment department analyse the movements in the values of Level 3 financial instruments and verify the major inputs applied in the valuation. The valuation is reviewed and approved by the chief executive officer. The valuation process and results are presented to the risk management committee of the Company on a monthly basis.

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

	2016 US\$	2015 US\$
<b>At 1 January</b>	15,251,054	18,659,859
Purchases	2,402,830	1,529,082
Net unrealised gains or losses recognised in other comprehensive income during the year	4,769,172	(2,190,403)
Proceeds from sales	<u>(7,687,373)</u>	<u>(2,747,484)</u>
<b>At 31 December</b>	<u>14,735,683</u>	<u>15,251,054</u>
Total gains for the year reclassified from other comprehensive income upon disposal	<u>5,635,255</u>	<u>875,280</u>

**(ii) Effect of changes in significant unobservable inputs to reasonably possibly alternatives**

The fair value of financial instruments are, in certain circumstances, measured using valuation models that incorporate assumptions that are not supported by prices from observable current market transactions in the same instrument and are not based on observable market data. For unquoted equity investments, the impact due to changes in fair value is insignificant to the Company. For unlisted open-ended investment funds, the significant unobservable input is the net asset value as reported by the managers of such funds. The following table shows the sensitivity of fair values due to parallel movement of plus or minus 10% of the net asset values as reported by the managers of such funds.

	Effect on other comprehensive income Favourable US\$	Unfavourable US\$
<b>2016</b>		
<b>Assets</b>		
Available-for-sale investments		
- Unlisted investments in funds	<u>1,462,895</u>	<u>(1,462,895)</u>
<b>2015</b>		
<b>Assets</b>		
Available-for-sale investments		
- Unlisted investments in funds	<u>1,514,655</u>	<u>(1,514,655)</u>

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**24. MATERIAL RELATED PARTY TRANSACTIONS**

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Company entered into the following material related party transactions.

**Transactions with group companies**

During the year, the Company entered into transactions with group companies in the ordinary course of its banking business including lending, acceptance and placement of inter-bank deposits, correspondent banking transactions and off-balance sheet transactions. The transactions were priced at the relevant market rates at the time of each transaction. The Company has internal policies to control connected lending.

The amount of related-party transactions during the year and outstanding balances at the end of the reporting period are set out below:

**Income statement**

	<i>Holding company</i>		<i>Fellow subsidiaries</i>	
	2016	2015	2016	2015
	US\$	US\$	US\$	US\$
Interest income	2,830,238	1,374,406	-	-
Interest expense	<u>(2,772,509)</u>	<u>(1,717,968)</u>	<u>-</u>	<u>-</u>

**Statement of financial position**

	<i>Holding company</i>		<i>Fellow subsidiaries</i>	
	2016	2015	2016	2015
	US\$	US\$	US\$	US\$
Cash and short-term funds	1,768	10,187	-	-
Trade bills	304,206,937	198,699,685	-	-
Trading assets	983,890	-	-	-
Interest receivable and other assets	1,304,926	290,524	-	-
Deposits and balances of banks and other financial institutions	(253,629,401)	(264,368,000)	-	-
Interest payable and other liabilities	<u>(4,062,705)</u>	<u>(10,488,881)</u>	<u>-</u>	<u>(171,583)</u>

No impairment allowance was made in respect of the above loans to and trade bills with related parties.

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**25. ADDITIONAL DISCLOSURES REQUIRED UNDER THE BANKING (DISCLOSURE) RULES****(a) Capital adequacy ratios**

	2016	2015
- Common Equity Tier 1 ("CET1") capital ratio	29.70%	26.67%
- Tier 1 capital ratio	29.70%	26.67%
- Total capital ratio	<u>30.25%</u>	<u>27.19%</u>

Capital adequacy ratios were compiled in accordance with the Banking (Capital) Rules issued by the HKMA. The capital disclosures at 31 December 2016 are compiled in accordance with the Banking (Capital) (Amendment) Rules 2012 effective from 1 January 2013 for the implementation of the Basel III capital framework.

In accordance with the Banking (Capital) Rules, the Company has adopted the "basic approach" for the calculation of the risk-weighted assets for credit risk, the standardized (market risk) approach to calculate its market risk, and the "basic indicator approach" for the calculation of operational risk. The Company has adopted the "standardised method" for the calculation of CVA capital charge.

To comply with the Banking (Disclosure) Rules, all additional information in relation to the Company's regulatory capital disclosures will be published by using the standard disclosure templates as specified by the HKMA under the "Regulatory Disclosures" section on the website:

<https://www.kdb.co.kr/ih/simpleJsp.do?actionId=IHGMBBL&actionTg=IHGM&intgBlbId=PDS253&menuId=IHGHGM9026&localeCode=en>

**(b) Regulatory capital disclosures**

	2016 US\$	2015 US\$
CET1 capital instruments	140,000,000	140,000,000
Retained earnings	124,601,625	88,179,338
Disclosed reserves	<u>5,131,456</u>	<u>6,410,673</u>
<b>CET1 CAPITAL BEFORE DEDUCTIONS</b>	<b>269,733,081</b>	<b>234,590,011</b>
Deduct:		
Deferred tax assets in excess of deferred tax liabilities	(1,505,607)	(3,906,125)
Regulatory reserve for general banking risks	<u>(3,030,112)</u>	<u>(222,809)</u>
<b>CET1 CAPITAL</b>	<b>265,197,362</b>	<b>230,461,077</b>
<b>ADDITIONAL TIER 1 CAPITAL AFTER DEDUCTIONS</b>	<b>-</b>	<b>-</b>
<b>TIER 1 CAPITAL</b>	<b><u>265,197,362</u></b>	<b><u>230,461,077</u></b>
Regulatory reserve for general banking risks	3,030,112	222,809
Collective impairment allowance	<u>1,857,166</u>	<u>4,233,374</u>
<b>TIER 2 CAPITAL</b>	<b><u>4,887,278</u></b>	<b><u>4,456,183</u></b>
<b>TOTAL CAPITAL BASE</b>	<b><u>270,084,640</u></b>	<b><u>234,917,260</u></b>

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**25. ADDITIONAL DISCLOSURES REQUIRED UNDER THE BANKING (DISCLOSURE) RULES (continued)****(c) Liquidity maintenance ratio**

	2016	2015
Average liquidity maintenance ratio for the year	<u>155.13%</u>	<u>98.93%</u>

The Company calculates the average liquidity maintenance ratio of each calendar month by reference to positions of specified days approved by the HKMA pursuant to Rule 48(2) of the Banking (Liquidity) Rules.

The average liquidity maintenance ratio is computed on a solo basis using the arithmetic mean of each calendar month's average liquidity maintenance ratio as reported in the return relating to liquidity position submitted to the HKMA.

**(d) Leverage ratio**

	2016 US\$	2015 US\$
On-balance sheet exposures	1,296,006,692	1,187,599,339
Less: Regulatory adjustments	<u>(1,505,607)</u>	<u>(3,906,125)</u>
<b>Total on-balance sheet exposures</b>	<u>1,294,501,085</u>	<u>1,183,693,214</u>
Replacement cost associated with all derivatives transactions	2,399,084	2,323,321
Add-on amounts for potential future exposure associated with all derivative transactions	<u>4,564,190</u>	<u>4,429,245</u>
<b>Total derivative exposures</b>	<u>6,963,274</u>	<u>6,752,566</u>
Exposures with a 20% credit conversion factor	19,869,537	20,512,336
Exposures with a 50% credit conversion factor	<u>7,881,400</u>	<u>13,355,818</u>
<b>Total off-balance sheet exposures</b>	<u>27,750,937</u>	<u>33,868,154</u>
<b>Securities financing transaction exposures</b>	<u>-</u>	<u>-</u>
<b>Total exposures</b>	<u>1,329,215,296</u>	<u>1,224,313,934</u>
<b>Tier 1 capital</b>	<u>265,197,362</u>	<u>230,461,077</u>
<b>Leverage ratio</b>	<u>19.95%</u>	<u>18.82%</u>

Leverage ratio ("LR") is calculated in accordance with the completion instruction issued by the HKMA. The LR disclosure requirement is scheduled to take effect from 2015 for the implementation of the Basel III leverage ratio framework.

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**25. ADDITIONAL DISCLOSURES REQUIRED UNDER THE BANKING (DISCLOSURE) RULES (continued)****(d) Leverage ratio (continued)**

To comply with the Banking (Disclosure) Rules, all additional information in relation to the Company's leverage ratio disclosure will be published by using the standard disclosure templates as specified by the HKMA under the "Regulatory Disclosures" section on the website:

<https://www.kdb.co.kr/ih/simpleJsp.do?actionId=IHGMBBL&actionTg=IHGM&intgBlbldId=PDS350&localeCode=en&menuId=IHHGM9037>

**(e) Countercyclical Capital Buffer Ratio**

Countercyclical capital buffer ratio ("CCyB") were complied in accordance with the Banking (Capital) Rules. The Company's specific CCyB rate is calculated as the weighted average of the applicable jurisdictional CCyB rates, in respect of the jurisdictions (including Hong Kong) where the Company has private sector credit exposures. The weight to be attributed to a given jurisdiction's applicable CCyB rate is the ratio of the Company's aggregate risk-weighted amounts for its private sector credit exposures (in both the banking book and the trading book) in that jurisdiction (where the location of the exposures is determined as far as possible on an ultimate risk basis) to the sum of the Company's aggregate risk-weighted amounts across all jurisdictions in which the Company has private sector credit exposure. For a credit exposure guaranteed by a party situated in a country different from the counterparty, risk will be transferred to the country of the guarantor.

Geographical breakdown of risk-weighted amounts (RWA) in relation to private sector credit exposures, are shown as follows:

**At 31 December 2016**

Jurisdiction	Applicable JCCyB ratio in effect	Total RWA used in computation of CCyB ratio US\$	CCyB ratio	CCyB amount US\$
Hong Kong SAR	0.625%	250,948,744		
China	-	50,012,608		
Angola	-	3,750,916		
Cayman Islands	-	21,377,583		
India	-	18,442,150		
Indonesia	-	17,517,799		
Ireland	-	12,701,461		
Kuwait	-	13,665,680		
Luxembourg	-	2,500,000		
Malaysia	-	613,711		
Mexico	-	5,018,688		
Philippines	-	13,244,534		
Singapore	-	5,028,717		
South Korea	-	217,377,264		
United Kingdom	-	2,186,676		
United States	-	<u>9,088,495</u>		
<b>Total</b>		<b><u>643,475,026</u></b>	<b><u>0.244%</u></b>	<b><u>1,570,079</u></b>



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**25. ADDITIONAL DISCLOSURES REQUIRED UNDER THE BANKING (DISCLOSURE) RULES (continued)****(e) Countercyclical Capital Buffer Ratio (continued)**

CCyB ratio is scheduled to take effect from 2016 for the implementation of the Basel III countercyclical capital buffer framework.

To comply with the Banking (Disclosure) Rules, all additional information in relation to the Company's countercyclical capital buffer ratio disclosure will be published by using the standard disclosure templates as specified by the HKMA under the "Regulatory Disclosures" section on the website:

<http://www.kdb.co.kr/ih/simpleJsp.do?actionId=IHGMBBL&actionTg=IHGM&intgBIbdId=PDS369&menuId=IHIHGM9048&localeCode=en>

Comparative figures are not presented as this is the first year of disclosure.

**(f) Segmental information****(i) By class of business**

All the principal operations of the Company are primarily located in Hong Kong.

The Company's activities comprise two classes of business. Commercial banking activities include the acceptance of deposits, the advance of loans, the investment holding, the supply of foreign exchange and trade financing to commercial, industrial and institutional customers and international banking. Securities business activities include underwriting/trading of securities.

*Operating income before operating expenses and provisions:*

	2016 US\$	2015 US\$
Commercial banking	17,936,516	17,577,548
Securities business	<u>8,766,109</u>	<u>7,193,301</u>
	<u>26,702,625</u>	<u>24,770,849</u>

*Operating assets:*

	2016 US\$	2015 US\$
Commercial banking	877,595,003	753,892,365
Securities business	<u>420,705,578</u>	<u>436,014,858</u>
	<u>1,298,300,581</u>	<u>1,189,907,223</u>

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**25. ADDITIONAL DISCLOSURES REQUIRED UNDER THE BANKING (DISCLOSURE) RULES (continued)****(f) Segmental information (continued)****(ii) Fee and commission income - by product line:**

	2016 US\$	2015 US\$
Agency fees	718,800	774,300
Underwriting fees	4,446,125	5,130,055
Fee income on letters of credit	453,988	560,972
Trade finance	277,183	457,439
Financial advisory	-	912,750
Others	<u>543,265</u>	<u>440,522</u>
	<u>6,439,361</u>	<u>8,276,038</u>

**(g) Overdue and rescheduled assets****(i) Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue and remains unpaid at the year-end.**

	2016 US\$	2015 US\$
Gross loans and advances to customers which have been overdue with respect to principal for period of - Over 1 year	<u>2,893,924</u>	<u>3,683,647</u>

**(ii) Rescheduled loans and advances**

Rescheduled loans and advances are those loans and advances which have been restructured or renegotiated because of a deterioration in the financial position of the borrower, or of the inability of the borrower to meet the original repayment schedule and for which the revised repayment terms are non-commercial to the Company.

There are no rescheduled loans and advances to banks and customers in both 2016 and 2015.

**(iii) Other overdue assets**

	2016 US\$	2015 US\$
Debt securities which have been overdue with respect to principal for period of - Over 1 year	<u>1,465,797</u>	<u>1,499,428</u>

**(iv) There are no repossessed assets held in both 2016 and 2015.**

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**26. NON-BANK MAINLAND CHINA EXPOSURES**

The analysis of non-bank Mainland China exposures is based on the categories of non-bank counterparties and the type of direct exposures with reference to the Completion Instruction for the HKMA return of non-bank Mainland exposures.

	Items in HKMA return	2016		Total exposure US\$
		On-balance sheet exposure US\$	Off-balance sheet exposure US\$	
Central government, central government-owned entities and their subsidiaries and joint ventures	1	107,444,045	96,619	107,540,664
Local governments, local government- owned entities and their subsidiaries and joint ventures	2	18,594,536	-	18,594,536
PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and joint ventures	3	60,296,206	-	60,296,206
Other entities of central government not reported in item 1 above	4	-	-	-
Other entities of local governments not reported in item 2 above	5	13,853,293	-	13,853,293
PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	6	31,940,690	-	31,940,690
Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	7	<u>24,284,256</u>	<u>2,023,896</u>	<u>26,308,152</u>
<b>Total</b>	<b>8</b>	<b><u>256,413,026</u></b>	<b><u>2,120,515</u></b>	<b><u>258,533,541</u></b>
Total assets after provision	9	<u>1,299,810,922</u>		
On-balance sheet exposures as percentage of total assets	10	<u>19.73%</u>		

	Items in HKMA return	2015		Total exposure US\$
		On-balance sheet exposure US\$	Off-balance sheet exposure US\$	
Central government, central government-owned entities and their subsidiaries and joint ventures	1	133,873,694	1,566,704	135,440,398
Local governments, local government- owned entities and their subsidiaries and joint ventures	2	24,049,641	5,250,000	29,299,641
PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and joint ventures	3	59,806,055	-	59,806,055
Other entities of central government not reported in item 1 above	4	-	-	-
Other entities of local governments not reported in item 2 above	5	3,892,267	10,000,000	13,892,267
PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	6	43,845,546	-	43,845,546
Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	7	<u>24,803,569</u>	<u>2,824,166</u>	<u>27,627,735</u>
<b>Total</b>	<b>8</b>	<b><u>290,270,772</u></b>	<b><u>19,640,870</u></b>	<b><u>309,911,642</u></b>
Total assets after provision	9	<u>1,192,157,762</u>		
On-balance sheet exposures as percentage of total assets	10	<u>24.35%</u>		

No Individual impairment allowance was made in respect of the above exposures.

**27. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the board of directors on 11 April 2017.

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**1. LOANS AND ADVANCES - BY GEOGRAPHICAL AREAS**

	2016			
	Gross loans and advances US\$	Impaired loans (individually determined) US\$	Individually assessed impairment allowances US\$	Collectively assessed impairment allowances US\$
Korea	200,433,858	22,893,924	(10,773,924)	(676,568)
Hong Kong	156,422,089	-	-	(596,092)
Others	<u>153,381,616</u>	<u>-</u>	<u>-</u>	<u>(584,506)</u>
	<u>510,237,563</u>	<u>22,893,924</u>	<u>(10,773,924)</u>	<u>(1,857,166)</u>
	2015			
	Gross loans and advances US\$	Impaired loans (individually determined) US\$	Individually assessed impairment allowances US\$	Collectively assessed impairment allowances US\$
Korea	155,292,727	23,683,647	(23,683,647)	(1,255,713)
Hong Kong	132,875,777	-	-	(1,267,799)
China	84,611,500	-	-	(807,298)
Others	<u>94,596,204</u>	<u>-</u>	<u>-</u>	<u>(902,564)</u>
	<u>467,376,208</u>	<u>23,683,647</u>	<u>(23,683,647)</u>	<u>(4,233,374)</u>

The above geographical analysis is classified by the location of the counterparties after taking into account the transfer of risk. For a claim guaranteed by a party situated in a country different from the counterparty, risk will be transferred to the country of the guarantor. For a claim on the branch of a bank or other financial institution, the risk will be transferred to the country where its head office is situated.

## SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

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**2. FURTHER ANALYSIS ON LOANS AND ADVANCES ANALYSED BY INDUSTRY SECTOR**

Loans and advances analysed by the coverage of collateral, overdue amount and the impairment allowance is as follows. The economic sector analysis is based on the categories and definitions used by the HKMA.

	2016				Impairment charged/ (released) to income statement during the year US\$
	Gross loans and advances US\$	Percentage of collateral securing loans and advances	Individually assessed impairment allowance US\$	Collectively assessed impairment allowance US\$	
Industrial, commercial and financial					
- Manufacturing	11,892,500	-	-	45,320	(115,040)
- Wholesale and retail trade	70,396,222	-	-	268,265	(73,429)
- Transport and transport equipment	21,939,072	-	2,893,924	72,577	(907,971)
- Financial concerns	60,358,059	-	-	230,012	(613,910)
- Stock brokers	13,774,209	-	-	52,491	17,009
- Others	<u>33,403,663</u>	-	-	<u>127,295</u>	<u>(45,802)</u>
Loans and advances for use in Hong Kong	211,763,725	-	2,893,924	795,960	(1,739,143)
Trade finance	10,379,259	-	-	39,553	(44,293)
Loans and advances for use outside Hong Kong	<u>288,094,579</u>	-	<u>7,880,000</u>	<u>1,021,653</u>	<u>(13,502,495)</u>
	<u>510,237,563</u>	-	<u>10,773,924</u>	<u>1,857,166</u>	<u>(15,285,931)</u>
	2015				Impairment charged/ (released) to income statement during the year US\$
Gross loans and advances US\$	Percentage of collateral securing loans and advances	Individually assessed impairment allowance US\$	Collectively assessed impairment allowance US\$		
Industrial, commercial and financial					
- Manufacturing	16,807,008	-	-	160,360	92,818
- Wholesale and retail trade	35,812,326	-	-	341,694	328,645
- Transport and transport equipment	23,683,647	-	3,683,647	190,825	(1,151,609)
- Financial concerns	88,450,014	11.31%	-	843,922	683,470
- Stock brokers	3,718,774	-	-	35,482	35,482
- Others	<u>18,142,157</u>	-	-	<u>173,097</u>	<u>160,048</u>
Loans and advances for use in Hong Kong	186,613,926	-	3,683,647	1,745,380	148,854
Trade finance	8,787,733	1.13%	-	83,846	(5,055)
Loans and advances for use outside Hong Kong	<u>271,974,549</u>	-	<u>20,000,000</u>	<u>2,404,148</u>	<u>21,912,000</u>
	<u>467,376,208</u>	<u>2.16%</u>	<u>23,683,647</u>	<u>4,233,374</u>	<u>22,055,799</u>

## SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

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**3. CURRENCY RISK**

The following table indicates the concentration of currency risk at the end of the reporting period defined by the Banking (Disclosure) Rules.

Expressed in millions of Hong Kong dollars	2016						Total
	United States Dollars	Korean Won	Japanese Yen	Euros	Renminbi	Singapore Dollars	
Spot assets	9,758	1	1	28	46	-	9,834
Spot liabilities	(9,714)	-	(17)	(28)	(363)	-	(10,122)
Forward purchase	2,818	-	16	-	325	-	3,159
Forward sales	(2,863)	-	(1)	-	(8)	-	(2,872)
Net long/(short) position	(1)	1	(1)	-	-	-	(1)

Expressed in millions of Hong Kong dollars	2015						Total
	United States Dollars	Korean Won	Japanese Yen	Euros	Renminbi	Singapore Dollars	
Spot assets	9,111	1	13	11	153	1	9,290
Spot liabilities	(8,906)	-	(17)	(34)	(313)	(133)	(9,403)
Forward purchases	3,037	-	-	-	237	132	3,406
Forward sales	(3,222)	-	-	-	(71)	-	(3,293)
Net long/(short) position	20	1	(4)	(23)	6	-	-

## SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

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**4. INTERNATIONAL CLAIMS (BY ULTIMATE NATION)**

International claims are on-balance sheet exposures to counterparties based on the location of the counterparties after taking into account the transfer of risk and by types of counterparties. For a claim guaranteed by a party situated in a country different from the counterparty, risk will be transferred to the country of the guarantor. For a claim on the branch of a bank or other financial institution, the risk will be transferred to the country where its head office is situated. Claims on individual countries or areas, after risk transfer, are shown as follows:

At 31 December 2016	Non-bank private sector				Total US\$
	Banks US\$	Official Sector US\$	Non-bank financial institutions US\$	Non-bank private sector US\$	
<b>Developed countries</b>	<b>87,299,065</b>	-	<b>23,476,632</b>	-	<b>110,775,697</b>
- of which Australia	2,932,630	-	-	-	2,932,630
- of which Belgium	4,917	-	-	-	4,917
- of which France	888,290	-	-	-	888,290
- of which Germany	1,436,549	-	-	-	1,436,549
- of which Ireland	-	-	12,701,461	-	12,701,461
- of which Japan	40,048,849	-	-	-	40,048,849
- of which Luxembourg	7,115	-	-	-	7,115
- of which Spain	20,075,227	-	-	-	20,075,227
- of which United Kingdom	5,418,795	-	1,686,676	-	7,105,471
- of which United States	16,486,693	-	9,088,495	-	25,575,188
<b>Offshore centres</b>	<b>2,013,291</b>	-	<b>71,796,329</b>	<b>149,042,426</b>	<b>222,852,046</b>
- of which Bahrain	1,985,776	-	-	-	1,985,776
- of which Cayman Islands	-	-	16,450,971	-	16,450,971
- of which Hong Kong	27,515	-	50,316,641	149,042,426	199,386,582
- of which Singapore	-	-	5,028,717	-	5,028,717
<b>Developing Latin America and Caribbean</b>	-	-	-	<b>5,018,688</b>	<b>5,018,688</b>
- of which Mexico	-	-	-	5,018,688	5,018,688
<b>Developing Africa and Middle East</b>	<b>30,154,665</b>	-	<b>17,416,596</b>	-	<b>47,571,261</b>
- of which Angola	-	-	3,750,916	-	3,750,916
- of which Kuwait	-	-	13,665,680	-	13,665,680
- of which Qatar	15,003,260	-	-	-	15,003,260
- of which South Africa	5,013,488	-	-	-	5,013,488
- of which United Arab Emirates	10,137,917	-	-	-	10,137,917
<b>Developing Asia and Pacific</b>	<b>554,526,276</b>	<b>5,001,531</b>	<b>24,993,307</b>	<b>291,810,014</b>	<b>876,331,128</b>
- of which China	48,312,363	-	5,007,209	45,005,398	98,324,970
- of which India	2,019,671	5,001,531	-	18,442,150	25,463,352
- of which Indonesia	-	-	10,014,988	7,502,811	17,517,799
- of which South Korea	435,769,523	-	9,971,110	207,001,410	652,742,043
- of which Malaysia	23,231,946	-	-	613,711	23,845,657
- of which Philippines	20,775,560	-	-	13,244,534	34,020,094
- of which Thailand	24,417,213	-	-	-	24,417,213

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**4. INTERNATIONAL CLAIMS (BY ULTIMATE NATION) (continued)**

At 31 December 2015	Non-bank private sector				
	Banks US\$	Official Sector US\$	Non-bank financial institutions US\$	Non-bank private sector US\$	Total US\$
<b>Developed countries</b>	<b>26,863,467</b>	-	<b>1,729,703</b>	<b>9,695,545</b>	<b>38,288,715</b>
- of which Australia	-	-	-	14,948	14,948
- of which Austria	3,000,029	-	-	-	3,000,029
- of which Belgium	5,955	-	-	-	5,955
- of which France	1,072,158	-	-	-	1,072,158
- of which Germany	161,359	-	-	-	161,359
- of which Japan	20,028,797	-	-	-	20,028,797
- of which Luxembourg	6,294	-	-	-	6,294
- of which Netherlands	-	-	-	9,680,597	9,680,597
- of which United Kingdom	979,077	-	1,729,703	-	2,708,780
- of which United States	1,609,798	-	-	-	1,609,798
<b>Offshore centres</b>	<b>17,255,740</b>	-	<b>93,189,235</b>	<b>110,450,581</b>	<b>220,895,556</b>
- of which Bahrain	1,947,544	-	-	-	1,947,544
- of which Cayman Islands	-	-	15,365,158	19,740,522	35,105,680
- of which Hong Kong	15,308,196	-	72,860,360	90,710,059	178,878,615
- of which Singapore	-	-	4,963,717	-	4,963,717
<b>Developing Latin America and Caribbean</b>	<b>20,067,172</b>	-	-	-	<b>20,067,172</b>
- of which Brazil	20,067,172	-	-	-	20,067,172
<b>Developing Africa and Middle East</b>	<b>10,067,117</b>	-	<b>4,583,843</b>	-	<b>14,650,960</b>
- of which Angola	-	-	4,583,843	-	4,583,843
- of which United Arab Emirates	10,067,117	-	-	-	10,067,117
<b>Developing Asia and Pacific</b>	<b>499,187,083</b>	-	<b>40,323,422</b>	<b>359,538,612</b>	<b>899,049,117</b>
- of which China	63,271,151	-	29,008,939	109,174,846	201,454,936
- of which Indonesia	-	-	1,401,800	10,513,433	11,915,233
- of which South Korea	335,038,761	-	9,912,683	221,670,638	566,622,082
- of which Malaysia	45,492,326	-	-	381,426	45,873,752
- of which Philippines	20,769,075	-	-	17,798,269	38,567,344
- of which Thailand	24,560,053	-	-	-	24,560,053
- of which Vietnam	10,055,717	-	-	-	10,055,717



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**5. CAPITAL DISCLOSURE**

## (i) Capital requirement

The capital requirements on each class of exposures calculated under the basic approach at the end of the reporting period can be analysed as follow:

	2016 US\$	2015 US\$
Classes of exposure:		
- Sovereign	400,122	-
- Public sector entity	197	-
- Bank	13,041,634	12,235,796
- Other exposure	<u>49,841,129</u>	<u>48,654,258</u>
Total capital requirements for on-balance sheet exposures	<u>63,283,082</u>	<u>60,890,054</u>
Trade-related contingencies	332,854	330,654
Other commitments	1,887,221	2,378,799
Exchange rate contracts	29,803	27,726
Interest rate contracts	143,941	196,191
Debt security contracts	<u>30,803</u>	<u>16,887</u>
Total capital requirements for off-balance sheet exposures	<u>2,424,622</u>	<u>2,950,257</u>
	<u>65,707,704</u>	<u>63,840,311</u>

The capital requirements above are calculated on the basis of 8% of risk weighted assets and do not reflect the amount of capital held.

## (ii) Capital charge for credit valuation adjustment

	2016 US\$	2015 US\$
Derivative financial instruments exposures	<u>100,769</u>	<u>164,872</u>

## (iii) Capital charge for operational risk

The capital charge for operational risk calculated at the end of the reporting period is:

	2016 US\$	2015 US\$
Capital charge for operational risk	<u>3,647,949</u>	<u>3,524,231</u>

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**5. CAPITAL DISCLOSURE (continued)**

(iv) Capital charge for market risk	2016 US\$	2015 US\$
Interest rate exposures	1,956,544	1,323,333
Foreign exchange exposures	10,769	278,077
	<u>1,967,313</u>	<u>1,601,410</u>

**6. CORPORATE GOVERNANCE****(i) The Board**

As at 31 December 2016, the Board comprised three executive directors and two non-executive directors. The Board's principal roles include approving and monitoring the Company's strategies, business plan and budget, monitoring compliance with the statutory limits and guidelines, and ensuring the Company's business is conducted with a high degree of integrity. The Board meets at least quarterly.

The Company is in compliance with the guideline in the Supervisory Policy Manual module CG-1 on "Corporate Governance of Locally Incorporated Authorised Institutions" issued by the HKMA.

**(ii) Committees**

The Company's credit review committee and risk management committee are responsible for monitoring its credit risk and market risk respectively. The executive directors are also members of the credit review committee and risk management committee.

The credit review committee is chaired by the managing director and comprises the senior managers in the various business lines. Its responsibilities include formulating and reviewing credit risk policies and procedures, preparing credit proposals for the ultimate holding company's approval, and managing credit risk.

**(iii) Internal audit**

The Company's internal auditor reviews the Company's internal controls system on a regular basis. The Board is responsible for following up the internal auditor's findings and monitoring the progress of the implementation of their recommendations.

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**7. REMUNERATION POLICY**

The remuneration policy and systems of the Company is strictly governed by the Remuneration policy and guidelines of our parent company; Korea Development Bank; for its employees engaged in the business and operations in Hong Kong.

With the Board of Directors undertaking the function of the remuneration committee and is the only authority delegated in accordance with the directives from parent company to be actively involved in overseeing, monitoring and reviewing the design and operation of remuneration system, to ensure the system operates as intended, adjustment for all types of risk, the criteria used for performance measurements, the linkage between pay and performance, deferral policy and vesting criteria and the mix of cash and other forms of remuneration.

Besides the mandate from the parent company, in order to deter excessive risk-taking, when determine the remuneration policy and systems, the Board will also consider the business objectives and strategies, human resources management, business performance, economic environment, leading market practices and the regulatory requirements.

Whilst disclosing the information relating to the remuneration systems, the aggregate quantitative information for senior management and key personnel including deferred remuneration, sign-on and severance payments awarded during 2016 is shown as follow in accordance with the disclosure requirement of CG-5 "Guideline on a Sound Remuneration System" issued by the HKMA.

	2016	2015
Number of beneficiaries:	5	4
Fixed Remuneration:	US\$657,478	US\$546,118
Variable Remuneration:	US\$52,695	US\$123,771
Deferred Remuneration Awarded:	NIL	NIL
Sign-on Payment:	NIL	NIL
Severance Payment:	NIL	NIL