Standard Chartered
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Standard Chartered Bank (Hong Kong) Limited

Directors' Report and Consolidated Financial Statements

For the year ended
31 December 2016

Standard Chartered Bank (Hong Kong) Limited
Contents

Report of the directors

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

Principal place of business

Standard Chartered Bank (Hong Kong) Limited (the "Bank") is a bank incorporated and domiciled in Hong Kong and has its registered office at 32/F., 4 – 4A Des Voeux Road Central, Hong Kong.

Principal activities

The Bank is a licensed bank registered under the Hong Kong Banking Ordinance. The Bank's principal activities are the provision of banking and related financial services. The principal activities and other particulars of the Bank's principal subsidiaries are set out in note 19 to the consolidated financial statements.

Financial statements

The profit of the Bank and its subsidiaries for the year ended 31 December 2016 and the state of the Bank's and its subsidiaries' affairs as at that date are set out in the consolidated financial statements on pages 10 to 132.

During the year ended 31 December 2016, the directors had declared and paid an ordinary dividend of HK$3.17479 (2015: HK$4.0214) per each "A" and "B" ordinary share totalling HK$6,150 million (2015: HK$7,790 million. A total dividend of HK$242 million (2015: HK$242 million) was paid in respect of the US$500 million 6.25% perpetual non-cumulative convertible preference shares classified as equity.

Details of the movements in reserves are set out in the consolidated statement of changes in equity.

Charitable donations

Charitable donations made by the Bank and its subsidiaries during the year amounted to HK$8 million (2015: HK$8 million).

Share capital

Details of the movements in the share capital of the Bank during the year are set out in note 32 to the consolidated financial statements.

Directors

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

Executive directors
Tan Siew Boi
Ling Fou Tsong

Report of the directors (continued)

Non-executive directors
Hung Pi Cheng Benjamin, Chairperson
Sunil Kaushal (resigned on 27 May 2016)
Edward Martin Williams
Anna Elizabeth Marrs
Huen Wai Yi Mary (appointed on 21 September 2016)
Fong Ching*
Stephen Robert Eno*
Cheng Edward Wai Sun*
Tung Lieh Cheung Andrew*

** Independent non-executive directors*

Huen Wai Yi Mary will be subject to re-election at the 2017 annual general meeting in accordance with Article 110 of the Bank's Article of Association.

A full list of the names of the directors of the Bank's subsidiaries is set out in Appendix II.

Directors' service contracts

The maximum term of appointment of independent non-executive directors is 2 years. Their remuneration is determined by the shareholders at the annual general meeting.

Directors' interests in Share Option Schemes

Certain directors of the Bank have been granted options under various share option schemes of Standard Chartered PLC, the ultimate holding company of the Bank. During the year, Anna Elizabeth Marrs, Hung Pi Cheng Benjamin, Edward Martin Williams, Ling Fou Tsong, Huen Wai Yi Mary, Tan Siew Boi and Sunil Kaushal were granted options under these schemes.

Directors' rights to acquire shares

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

Directors' interests in transactions, arrangements or contracts

No transactions, arrangements or contract of significance to which the Bank, its holding companies, subsidiaries or fellow subsidiaries was a party and in which a director of the Bank had a material interest, subsisted at the end of the year or at any time during the year.

Management contracts

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

Report of the directors (continued)

Indemnity of directors

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

Auditor

The consolidated financial statements have been audited by KPMG who will retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as the auditor of the Bank is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

Hung Pi Cheng Benjamin
Chairman

Hong Kong, 24 February 2017

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

(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of Standard Chartered Bank (Hong Kong) Limited (the "Bank") and its subsidiaries (together "the Group") set out on pages 10 to 132, which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and 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 of opinion

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

Key audit matters

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

<table>
<tr><td colspan="2">Impairment of loans and advances</td></tr>
<tr><td colspan="2">Refer to note 15 to the consolidated financial statements and the accounting policies on pages 24 to 26</td></tr>
<tr><td>The Key Audit Matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>The current economic environment in Hong Kong and Mainland China has contributed to an overall increase in the impairment of loans and advances across the banking industry, as counterparties have struggled with downward pressure on the prices of commodities and oil and over-capacity.</td><td>Our audit procedures to assess impairment of loans and advances included the following:

• assessing the design, implementation and operating effectiveness of key internal controls over the approval, recording, monitoring and restructuring of loans and advances, the credit grading process and the measurement of impairment provisions for individually assessed loans and advances;</td></tr>
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Independent auditor's report to the members of
Standard Chartered Bank (Hong Kong) Limited (continued)
(Incorporated in Hong Kong with limited liability)

Key audit matters (continued)

Corporate & Institutional Banking clients, Commercial Banking clients and loans and advances to banks (collectively 'Larger Clients') represent 53 per cent (HK$315,809 million) of the Group's net loan exposure, while Retail Banking clients represent 47 per cent (HK$280,963 million). The Larger Clients' exposure comprises larger loans that are monitored individually, based on the knowledge of each individual borrower. However, the Retail Banking clients' exposure comprises much smaller value loans to a much greater number of customers. Accordingly, these loans are not monitored on an individual basis, but are grouped by product into homogeneous exposures. Exposures are then monitored through delinquency statistics, which also drive the assessment of loan loss provisions. The gross amount of impaired loans and advances of the Group decreased from HK$3,807 million as at 31 December 2015 to HK$3,693 million as at 31 December 2016 and the total portfolio and individual impairment provisions amounted to HK$2,000 million as at 31 December 2016. The impairment of loans and advances is a subjective area due to the level of judgement applied by management in determining provisions. From the Bank's perspective, the impairment allowances of certain portfolios are relatively more sensitive to management judgement, namely those to clients that operate in stressed industries, for example commodities and related exposures, where the loans and advances are unsecured or where the loans and advances are subject to potential collateral shortfalls. The determination of the portfolio impairment provision ("PIP") is heavily dependent on the external macro environment and the Bank's internal credit risk management. The Bank's PIP is derived from estimates including the Bank's historical losses for loans and advances, the historical emergence period (i.e. the time lapse between the occurrence of the event causing eventual default to the actual recording of a loss) and other adjustment factors such as business cycle adjustments and country specific adjustments.	• evaluating the validity of the models used and assumptions adopted by the Bank by assessing the inputs into the models, making comparisons with data from external sources and comparing the historical losses against the Bank's other internal records and our prior year records; • comparing the economic factors used in the models with market information to assess whether they were aligned with market and economic development. We also assessed the emergence period by tracing the lifecycle of overdue accounts from the specific credit event to downgrading the account to either early alert or Group Special Assets Management ("GSAM"); • assessing the emergence period, business cycle adjustments and country specific adjustments to the models, through the benchmarking of PIP coverage against other large banks, comparing the PIP with actual impairment in prior years and discussing with senior management any management overlays; • assessing the IIP balance by selecting a sample, based on specific risk criteria, of individually impaired loans and advances, non-impaired loans and advances from the Bank's Early Alert Report ("EAR") and loans in industries vulnerable to the current economic slowdown in Commercial Banking ("CB") and Corporate and Institutional Banking ("CIB") for credit assessment. For these samples, we assessed the forecast of recoverable cash flows through inquiry, applying judgement and our own research. We also evaluated the consistency of management's application of key assumptions and compared them with our own data sources; • evaluating the experience, independence, competence and integrity of the external valuers engaged by the Bank to value certain property and illiquid collateral. Where possible, we compared the valuations with externally derived data such as commodity prices and real estate valuations;

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

(Incorporated in Hong Kong with limited liability)

Key audit matters (continued)

An individual impairment provision ("IIP") is estimated by management once objective evidence of impairment becomes apparent. Management exercises judgement in determining the quantum of loss based on a range of factors. These include available remedies for recovery, the financial situation of the borrower, collateral valuation, the seniority of the claim and the existence and cooperativeness of other creditors. Whilst the Bank appoints external valuers for the valuation of certain property and other illiquid collateral, enforceability, timing and means of realisation also affect the ultimate collectability and, thereby, the amount of IIP as at the reporting date. We identified impairment of loans and advances as a key audit matter because of the inherent uncertainty and management judgement involved in calculating impairment provisions and because of its significance to the financial results and capital of the Group.	• recalculating the IIP to evaluate the application of the Bank's methodology; and • for the key underlying systems used for the processing of transactions we involved our information technology specialists to test a selection of automated controls within these systems. We also assessed the design, implementation and operating effectiveness of the key internal controls over these underlying systems, for example, controls over access to systems and controls over data and change management.

Assessing the fair value of financial instruments	
Refer to note 38 to the consolidated financial statements and the accounting policies on pages 20 to 24	
The Key Audit Matter	**How the matter was addressed in our audit**
At 31 December 2016 the fair value of the Group's financial instruments totalled HK$280,727 million of which HK$124,198 million, HK$154,332 million and HK$2,197 million were classified under the fair value hierarchy as level 1, 2 and 3 financial instruments respectively. The valuation of the Group's financial instruments is based on a combination of market data and valuation models which often require a considerable number of inputs. Many of these inputs are obtained from readily available data for liquid markets. Where such observable data is not readily available, as in the case of level 3 financial instruments, then estimates need to be developed which can involve significant management judgement.	Our audit procedures to assess the fair value of financial instruments included the following: • assessing the design, implementation and operating effectiveness of key internal controls over valuation, independent price verification, front office/back office reconciliations and model approval; • comparing the fair values applied by the Group with publicly available market data for all level 1 securities and on a sample basis for level 1 derivative positions;

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

(Incorporated in Hong Kong with limited liability)

Key audit matters (continued)

In addition, the Group has developed its own models to value certain level 2 and level 3 financial instruments, which also involves significant management judgement. We identified assessing the fair value of financial instruments as a key audit matter because of the degree of complexity involved in valuing certain financial instruments and because of the degree of judgement exercised by management in determining the inputs used in the valuation models.	• engaging our internal valuation specialists to perform, on a sample basis, independent valuations of level 2 and level 3 financial instruments and comparing these valuations with the Group's valuations. Our independent valuations included developing models, obtaining inputs independently and verifying the inputs; • engaging our internal valuation specialists to evaluate a sample of models key to the independent price verification process of complex financial instruments; • inquiring of management about changes in the credit and funding adjustment methodologies and assessing the inputs into the model and re-performing the netting logic applied by the system; • assessing whether the financial statement disclosures, including fair value hierarchy information and sensitivity to key inputs, appropriately reflected the Group's exposure to financial instrument valuation risk in accordance with the requirements of the prevailing accounting standards, and • for the key underlying systems used for the processing of transactions we involved our information technology specialists to test a selection of automated controls within these systems. We also assessed the design, implementation and operating effectiveness of the key internal controls over these underlying systems, for example, controls over access to systems and controls over data and change management.

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

The Directors are responsible for the other information. The other information comprises all the information included in the Directors' Report and Consolidated Financial Statements, other than the consolidated financial statements and our auditor's report thereon.

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

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

(Incorporated in Hong Kong with limited liability)

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

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

Responsibilities of the directors for the consolidated financial statements

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

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

The Directors are assisted by the Audit and Risk Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

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

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

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

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

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

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

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

(Incorporated in Hong Kong with limited liability)

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Donowho, Simon Christopher.

KPMG

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

24 February 2017

Consolidated income statement
For the year ended 31 December 2016
(Expressed in millions of Hong Kong dollars)

	Note	2016 HK$'M	2015 HK$'M
Interest income	4(a)	13,672	16,103
Interest expense	4(b)	(3,547)	(4,724)
Net interest income		10,125	11,379
Fee and commission income		7,434	9,759
Fee and commission expense		(440)	(382)
Net fee and commission income	4(c)	6,994	9,377
Net trading income	4(d)	1,576	1,143
Net (losses)/gains from financial instruments designated at fair value through profit or loss	4(e)	(751)	13
Net gains from disposal of available-for-sale securities	5	164	85
Other operating income	4(f)	5,651	4,845
		13,634	15,463
Total operating income		23,759	26,842
Staff costs		(6,126)	(6,762)
Premises and equipment		(3,196)	(3,104)
Others		(5,131)	(5,069)
Operating expenses	4(g)	(14,453)	(14,935)
Operating profit before impairment		9,306	11,907
Impairment charges on advances to banks and customers	6(a)	(1,310)	(3,067)
Other impairment charges	6(b)	(412)	(763)
Operating profit after impairment		7,584	8,077
Share of profit of associates		1,360	1,388
Profit before taxation		8,944	9,465
Taxation	7(a)	(1,015)	(975)
Profit after taxation		7,929	8,490

The notes on pages 16 to 132 form part of these consolidated financial statements.

Consolidated statement of comprehensive income
For the year ended 31 December 2016
(Expressed in millions of Hong Kong dollars)

	2016 *HK$'M*	*2015* *HK$'M*
Profit after taxation	7,929	8,490
Other comprehensive income:		
Items that will not be reclassified to the income statement:		
Defined benefit plans:		
– Remeasurement of net defined benefit liability	92	(143)
– Related tax effect	(15)	23
Items that may be reclassified subsequently to the income statement:		
Available-for-sale securities:		
– Changes in fair value recognised during the year	(249)	(298)
– Changes in fair value transferred to the income statement on disposal	(164)	(85)
– Transfer to the income statement on fair value hedged items attributable to hedged risk	128	(7)
– Related tax effect	18	72
Cash flow hedges:		
– Changes in fair value recognised during the year	(215)	(6)
– Transfer to the income statement on termination of hedging derivatives	(36)	(34)
– Related tax effect	41	7
Exchange difference	(652)	(572)
Other comprehensive income for the year, net of tax	(1,052)	(1,043)
Total comprehensive income for the year	6,877	7,447

The notes on pages 16 to 132 form part of these consolidated financial statements.

Consolidated statement of financial position as at 31 December 2016

(Expressed in millions of Hong Kong dollars)

	Note	2016 HK$'M	2015 HK$'M
Assets			
Cash and balances with banks, central banks and other financial institutions	10	15,332	48,769
Placements with banks and other financial institutions	11	156,750	119,658
Hong Kong SAR Government certificates of indebtedness	12	42,211	38,031
Trading assets	13	15,634	18,597
Financial assets designated at fair value	14	370	666
Investment securities	17	207,471	210,572
Advances to customers	15(a)	440,022	414,955
Amounts due from immediate holding company	18	46,521	30,357
Amounts due from fellow subsidiaries	18	16,328	16,105
Interest in associates	20	9,166	9,481
Property, plant and equipment	21	39,471	37,480
Goodwill and intangible assets	22	1,302	1,075
Current tax assets		112	556
Deferred tax assets	27	349	314
Other assets	23	14,983	12,349
		1,006,022	958,965
Liabilities			
Hong Kong SAR currency notes in circulation	12	42,211	38,031
Deposits and balances of banks and other financial institutions		19,674	24,655
Deposits from customers	24	778,242	745,701
Trading liabilities	28	8,289	8,847
Financial liabilities designated at fair value	26	9,568	13,724
Debt securities in issue	25	2,173	1,209
Amounts due to immediate holding company	18	42,282	27,519
Amounts due to fellow subsidiaries	18	11,932	8,314
Current tax liabilities		3	4
Deferred tax liabilities	27	404	274
Other liabilities	29	19,444	15,245
Subordinated liabilities	31	6,088	10,093
		940,310	893,616
Equity			
Share capital	32	20,256	20,256
Reserves	33	45,456	45,093
Shareholders' equity		65,712	65,349
		1,006,022	958,965

Approved and authorised for issue by the Board of Directors on 24 February 2017.

Tan Siew Boi
Director

Ling Fou Tsong
Director

The notes on pages 16 to 132 form part of these consolidated financial statements.

Consolidated statement of changes in equity
For the year ended 31 December 2016
(Expressed in millions of Hong Kong dollars)

	Attributable to equity shareholders of the Bank								
	Share capital HK$'M	Cash flow hedge reserve HK$'M	Available-for-sale investment reserve HK$'M	Revaluation reserve HK$'M	Exchange reserve HK$'M	Property revaluation reserve HK$'M	Retained profits HK$'M	Share option equity reserve HK$'M	Total HK$'M
At 1 January 2015	20,256	51	311	146	369	2	44,494	414	66,043
Total comprehensive income	–	(33)	(318)	–	(572)	–	8,370	–	7,447
Dividend paid	–	–	–	–	–	–	(8,032)	–	(8,032)
Movement in respect of share-based compensation plans	–	–	–	–	–	–	–	(108)	(108)
Disposal of interest in a subsidiary and an associate	–	–	–	–	(1)	(2)	2	–	(1)
At 31 December 2015	20,256	18	(7)	146	(204)	–	44,834	306	65,349
Total comprehensive income	–	(210)	(267)	–	(652)	–	8,006	–	6,877
Dividend paid	–	–	–	–	–	–	(6,392)	–	(6,392)
Movement in respect of share-based compensation plans	–	–	–	–	–	–	–	(122)	(122)
Disposal of interest in a subsidiary	–	–	–	–	–	–	–	–	–
At 31 December 2016	20,256	(192)	(274)	146	(856)	–	46,448	184	65,712

The notes on pages 16 to 132 form part of these consolidated financial statements.

Consolidated cash flow statement
For the year ended 31 December 2016
(Expressed in millions of Hong Kong dollars)

	Note	2016 HK$'M	2015 HK$'M
Operating activities			
Profit before taxation		8,944	9,465
Adjustments for:			
Impairment charges on advances to banks and customers		1,310	3,067
Advances written off net of recoveries		(1,359)	(2,708)
Unwinding of discount on loan impairment provision		(59)	(44)
Other impairment charges		412	763
Depreciation on property, plant and equipment		1,870	1,717
Amortisation of intangible assets		146	121
(Gains)/losses on disposal of property, plant and equipment		(51)	61
Gains on disposal of a subsidiary and an associate		–	(1,758)
Gains on disposal of Mandatory Provident Fund and Occupational Retirement Schemes Ordinance businesses		(1,964)	–
Net gains on revaluation of investment properties		(21)	(3)
Share of profit of associates		(1,360)	(1,388)
Interest expense on subordinated liabilities and other borrowings		675	364
Expense in respect of the defined benefit plan		98	99
Fair value gains transferred from reserves on cash flow hedges		(36)	(34)
Stock dividend from associates		(4)	–
Exchange translation on subordinated liabilities		65	(272)
		8,666	9,450
(Increase)/decrease in operating assets:			
Placements with banks and other financial institutions with original maturity beyond three months		(27,753)	(12,112)
Trading assets		1,893	3,410
Financial assets designated at fair value		296	909
Investment securities		(10,994)	(13,636)
Gross advances to customers		(24,889)	39,740
Amounts due from immediate holding company and fellow subsidiaries		(449)	16,931
Other assets		5,651	13,921
Increase/(decrease) in operating liabilities:			
Deposits and balances of banks and other financial institutions		(5,345)	(7,953)
Deposits from customers		32,532	(105,330)
Debt securities in issue		964	(12,629)
Financial liabilities designated at fair value		(4,156)	(1,191)
Amounts due to immediate holding company and fellow subsidiaries		19,414	16,562
Trading liabilities		(558)	(3,953)
Other liabilities		4,198	(4,707)
Cash used in operations		(530)	(60,588)
Income tax paid		(434)	(1,248)
Net cash used in operating activities		(964)	(61,836)

Consolidated cash flow statement (continued)
For the year ended 31 December 2016
(Expressed in millions of Hong Kong dollars)

	Note	2016 HK$'M	2015 HK$'M
Investing activities			
Dividend received from associates		–	35
Payment for purchase of property, plant and equipment		(8,121)	(6,897)
Payment for purchase of intangible assets		(373)	(80)
Proceeds from disposal of property, plant and equipment		4,003	5,539
Proceeds from disposal of a subsidiary and an associate		2,271	4,437
Net cash (used in)/generated from investing activities		(2,220)	3,034
Financing activities			
Payment for redemption of subordinated liabilities		(4,178)	–
Interest paid on subordinated liabilities		(637)	(348)
Dividend paid to shareholders of the Bank		(6,392)	(8,032)
Net cash used in financing activities		(11,207)	(8,380)
Net decrease in cash and cash equivalents		(14,391)	(67,182)
Cash and cash equivalents at 1 January		162,860	232,850
Effect of foreign exchange		(7,576)	(2,808)
Cash and cash equivalents at 31 December	34	140,893	162,860
Cash flows from operating activities include:			
Interest received		13,030	16,079
Interest paid		2,920	4,660
Dividends received		27	25

The notes on pages 16 to 132 form part of these consolidated financial statements.

Notes to the consolidated financial statements

(Expressed in millions of Hong Kong dollars)

1 Principal activities

The principal activities of Standard Chartered Bank (Hong Kong) Limited (the "Bank") and its subsidiaries (together referred to as the "Bank and its subsidiaries") are the provision of banking and related financial services.

2 Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. As HKFRSs are consistent with International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IAS") and Interpretations issued by the International Accounting Standards Board ("IASB"), these financial statements also comply with IFRSs. A summary of the significant accounting policies adopted by the Bank is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Bank and its subsidiaries. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Bank and its subsidiaries for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

(i) Basis of Preparation

The consolidated financial statements for the year ended 31 December 2016 comprise the Bank and its subsidiaries and its interest in associates.

The measurement basis used in the preparation of the consolidated financial statements is the historical cost convention, as modified by the revaluation of available-for-sale assets, financial assets and liabilities (including derivatives) at fair value through profit or loss and investment properties, which are carried at fair value.

Assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less cost to sell.

The preparation of consolidated financial statements in conformity with adopted HKFRS/IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank and its subsidiaries' accounting policies. Actual results may differ from these estimates. The significant judgements made by management in applying the accounting policies and key sources of uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended 31 December 2015.

The accounting policies set out below have been applied consistently across the Bank and its subsidiaries and to all periods presented in these financial statements.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

2 Significant accounting policies (continued)

(b) Basis of preparation of the financial statements (continued)

(ii) Consolidated Financial Statements

During the year, the Bank had subordinated debts in issue. These subordinated debts were issued under a note issuance programme which is listed on the Stock Exchange of Hong Kong. Consequently, the Bank is required to produce consolidated financial statements in accordance with HKAS 27/IAS 27 "Consolidated and Separate Financial Statements".

(c) Subsidiaries and non-controlling interests

Subsidiaries are all entities which the Bank and its subsidiaries control. The Bank and its subsidiaries control an entity when they are exposed to, or have rights to, variable returns from their involvement with the entity and have the ability to affect those returns through their power over the investee. Subsidiaries are fully consolidated from the date on which the Bank and its subsidiaries effectively obtain control. They are de-consolidated from the date that control ceases, and where any interest in the subsidiary remains, this is remeasured to its fair value and the change in carrying amount is recognised in the income statement. Details of the Bank's principal subsidiaries are given in note 19.

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

Non-controlling interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Bank, whether directly or indirectly through subsidiaries, and in respect of which the Bank and its subsidiaries have not agreed any additional terms with the holders of those interests which would result in the Bank and its subsidiaries as a whole having a contractual obligation in respect of those interests that meet the definition of a financial liability. Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Bank. Non-controlling interests are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Bank.

In the Bank's statement of financial position, investments in subsidiaries are stated at cost less impairment losses, if any.

(d) Associates

Associates are entities in respect of which the Bank has significant influence, but not control, over the financial and operating policies and procedures, generally accompanying a shareholding of between 20 percent and 50 percent of the voting rights.

Details of the Bank and its subsidiaries' interest in associates are provided in note 20.

Investments in associates are accounted for using the equity method of accounting in the consolidated financial statements and are initially recognised at cost. The Bank and its subsidiaries' investment in associates includes goodwill identified on acquisition and accumulated impairment loss.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

2 Significant accounting policies (continued)

(d) Associates (continued)

The Bank and its subsidiaries' share of its associates' post-acquisition profits or losses are recognised in the consolidated income statement, and the share of post-acquisition movements in other comprehensive income are recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment in the consolidated statement of financial position. When the Bank and its subsidiaries' share of losses in an associate is equal to or exceeds its interest in the associate, including any other unsecured receivables, the Bank and its subsidiaries do not recognise further losses, unless they have incurred obligations or made payments on behalf of the associate.

Unrealised gains and losses on transactions between the Bank and its associates and joint ventures are eliminated to the extent of the Bank and its subsidiaries' interest in the associates.

In the Bank's statement of financial position, investments in associates are stated at cost less impairment losses and dividends from pre-acquisition profits received prior to 1 January 2009, if any.

(e) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Bank and its subsidiaries' share of the net identifiable assets and contingent liabilities of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in "Goodwill and intangible assets". Goodwill on acquisitions of associates is included in "Interest in associates".

Goodwill included in "Goodwill and intangible assets" is tested annually for impairment and carried at cost less any accumulated impairment losses. Detailed calculations are performed based on discounting expected pre-tax cash flows of the relevant cash generating units and discounting these at an appropriate discount rate, the determination of which requires the exercise of judgement. Goodwill is allocated to cash generating units for the purpose of impairment testing. Cash generating units represent the lowest level within the Bank and its subsidiaries at which the goodwill is monitored for internal management purposes. Note 22 sets out the major cash-generating units to which goodwill has been allocated.

(ii) Acquired intangibles

At the date of acquisition of a subsidiary or associate, intangible assets which are deemed separable and that arise from contractual or other legal rights are capitalised and included within the net identifiable assets acquired. These intangible assets are initially measured at fair value, which reflects market expectations of the probability that the future economic benefits embodied in the asset will flow to the entity, and are amortised on the basis of their expected useful lives (4 to 16 years). At each reporting date, these assets are assessed for indicators of impairment. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, the asset is written down immediately.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

2 Significant accounting policies (continued)

(e) Intangible assets (continued)

(iii) Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Costs associated with the development of software are capitalised where it is probable that it will generate future economic benefits in excess of its cost. Computer software costs are amortised on the basis of expected useful life (5 years). Costs associated with maintaining software are recognised as an expense as incurred. At each reporting date, these assets are assessed for indicators of impairment. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, the asset is written down immediately.

(f) Investment properties

Investment properties are land and buildings which are owned either to earn rental income or for long term investments or for both. Investment properties are stated in the consolidated statement of financial position at fair value. Any gains or losses arising from a change in fair value or from the disposal of an investment property is recognised in the consolidated income statement.

(g) Other property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment, if any. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

– Buildings, leasehold land and leasehold improvements, are depreciated over the shorter of their estimated useful lives, being 50 years from the date of completion, and the unexpired terms of the lease.

– Equipment and motor vehicles, are depreciated over 3 to 15 years.

– Aircraft and vessels, are depreciated over 18 and 25 years respectively.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

During the year, the Bank and its subsidiaries revised the useful lives and residual value estimate for aircraft leased to third parties under operating leases. Based on the latest industry participant information, the Bank and its subsidiaries reduced the useful lives of aircraft from 25 years to a maximum of 18 years, increasing the depreciation expense for the year ended 31 December 2016 by HK$87 million.

At each reporting date, these assets are assessed for indicators of impairment. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, the asset is written down immediately.

Gains and losses on disposals are included in the consolidated income statement.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

2 Significant accounting policies (continued)

(h) Leases

Where the Bank and its subsidiaries are the lessees

The leases entered into by the Bank and its subsidiaries are primarily operating leases. The total payments made under operating leases are charged to the consolidated income statement on a straight-line basis over the period of the leases.

Where the Bank and its subsidiaries are the lessors

Assets leased to customers under operating leases are included within property, plant and equipment and depreciated over their estimated useful lives. Rental income on these leased assets is recognised in the consolidated income statement on a straight-line basis unless another systematic basis is more representative.

(i) Financial assets and liabilities (excluding derivatives)

Financial assets are classified into the following categories: financial assets held at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. Financial liabilities are classified as either held at fair value through profit or loss, or at amortised cost. Management determines the classification of the financial assets and liabilities on initial recognition or, where appropriate, at the time of reclassification.

(i) Financial assets and liabilities held at fair value through profit or loss

This category has two sub-categories: financial assets and liabilities held for trading, and those designated at fair value through profit or loss at inception. A financial asset or liability is classified as trading if acquired principally for the purpose of selling or repurchasing in the short term or is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.

Financial assets and liabilities may be designated at fair value through profit or loss when:

- the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on a different basis, or
- a group of financial assets and/or liabilities is managed and its performance evaluated on a fair value basis, or
- assets or liabilities include embedded derivatives and such derivatives are not recognised separately.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and it is expected that substantially all of the initial investment will be recovered, other than because of credit deterioration.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

2 Significant accounting policies (continued)

(i) Financial assets and liabilities (excluding derivatives) (continued)

(iii) Available-for-sale assets

Available-for-sale assets are those non-derivative financial assets intended to be held for an indefinite period of time, which may be sold in response to liquidity requirements or changes in interest rates, exchange rates, commodity prices or equity prices.

(iv) Financial liabilities held at amortised cost

Financial liabilities, which include borrowings, not classified as held at fair value through profit or loss are classified as amortised cost instruments.

Initial recognition

Purchases and sales of financial assets and liabilities held at fair value through profit or loss and financial assets classified as available-for-sale are initially recognised using trade date accounting (the date on which the Bank and its subsidiaries commit to purchase or sell the asset). Loans and receivables are recognised when cash is advanced to the borrowers. All financial instruments are initially recognised at fair value, which is normally the transaction price plus, for those financial assets and liabilities not carried at fair value through profit and loss, directly attributable transaction costs.

Subsequent measurement

Financial assets and liabilities held at fair value through profit or loss are subsequently carried at fair value, with gains and losses arising from changes in fair value taken directly to the consolidated income statement.

Available-for-sale financial assets are subsequently carried at fair value, with gains and losses arising from changes in fair value taken to a separate component of equity until the asset is sold, or is impaired, when the cumulative gain or loss is transferred to the consolidated income statement.

Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Financial liabilities other than those held at fair value through profit or loss are subsequently stated at amortised cost, with any difference between proceeds net of directly attributable transaction costs and the redemption value recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

In addition to these instruments, the carrying value of a financial instrument carried at amortised cost that is the hedged item in a qualifying fair value hedge relationship is adjusted by the fair value gain or loss attributable to the hedged risk.

Fair value of financial assets and liabilities

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 in the principal market or in the absence of a principal market the most advantageous market to which the Bank and its subsidiaries have access at that date. The fair value of a liability reflects its non-performance risk.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

2 Significant accounting policies (continued)

(i) Financial assets and liabilities (excluding derivatives) (continued)

Fair value of financial assets and liabilities (continued)

The fair values of quoted financial assets or financial liabilities in active markets are based on current prices. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If the market for a financial asset or financial liability and for unlisted securities, is not active, the Bank and its subsidiaries establish fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Reclassifications

Reclassifications of financial assets, other than as disclosed below, or of financial liabilities between measurement categories are not permitted following their initial recognition.

Held for trading non-derivative financial assets can only be transferred out of the held at fair value through profit or loss category in the following circumstances: (i) to the available-for-sale category, where, in rare circumstances, they are no longer held for the purpose of selling or repurchasing in the near term; or (ii) to the loans and receivables category, where they are no longer held for the purpose of selling or repurchasing in the near term and they would have met the definition of a loan and receivable on initial recognition and the Bank and its subsidiaries have the intent and ability to hold the assets for the foreseeable future or until maturity.

Financial assets can only be transferred out of the available-for-sale category to the loans and receivables category, where they would have met the definition of a loan and receivable on initial recognition and the Bank and its subsidiaries have the intent and ability to hold the assets for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. For financial assets reclassified out of the available-for-sale category into loans and receivables, any gain or loss on those assets recognised in shareholders' equity prior to the date of reclassification is amortised to the consolidated income statement over the remaining life of the financial asset, using the effective interest method.

Renegotiated loans

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

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank and its subsidiaries have transferred substantially all risks and rewards of ownership.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

2 Significant accounting policies (continued)

(i) Financial assets and liabilities (excluding derivatives) (continued)

Financial liabilities are derecognised when they are extinguished, i.e. when the obligation is discharged, cancelled or expires. If the Bank and its subsidiaries purchase their own debt, it is removed from the consolidated statement of financial position, and the difference between the carrying amount of the liability and the consideration paid is included in 'Other operating income'.

(j) Derivative financial instruments and hedge accounting

Derivatives are financial instruments that derive their value in response to changes in interest rates, financial instrument prices, commodity prices, foreign exchange rates, credit risk and indices. Derivatives are categorised as trading unless they are designated as hedging instruments.

Derivative contracts are initially recognised at fair value on the date on which they are entered into and are subsequently re-measured at their fair value. Fair values are obtained from market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when their fair values are positive and as liabilities when their fair values are negative.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the consolidated income statement.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Bank and its subsidiaries designate certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities, or commitments (fair value hedge); or, (2) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

The Bank and its subsidiaries document, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Bank and its subsidiaries also document the assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualified as fair value hedging instruments are recorded in the consolidated income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the consolidated income statement over the period to maturity or derecognition.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

2 Significant accounting policies (continued)

(j) Derivative financial instruments and hedge accounting (continued)

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedging instruments are recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement.

Amounts accumulated in equity are recycled to the consolidated income statement in the periods in which the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated income statement.

Derivatives that do not qualify for hedge accounting

Certain derivative transactions do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the consolidated income statement.

(k) Impairment of financial assets

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

The following factors are considered in assessing objective evidence of impairment:

– whether the counterparty is in default of principal or interest payments;

– a counterparty files for bankruptcy protection (or the local equivalent) where this would avoid or delay repayment of its obligation;

– the Bank and its subsidiaries file to have the counterparty declared bankrupt or file a similar order in respect of a credit obligation;

– the Bank and its subsidiaries consent to a restructuring of the obligation, resulting in a diminished financial obligation, demonstrated by a material forgiveness of debt or postponement of scheduled payments;

– the Bank and its subsidiaries sell a credit obligation at a material credit-related economic loss; or

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

2 Significant accounting policies (continued)

(k) Impairment of financial assets (continued)

– there is observable data indicating that there is a measurable decrease in the estimated future cash flows of a group of financial assets, although the decrease cannot yet be identified with specific individual financial assets.

Assets carried at amortised cost

The Bank and its subsidiaries first assess whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank and its subsidiaries determine 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.

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

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are based on the probability of default inherent within the portfolio of impaired loans or receivables and the historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

To the extent a loan is irrecoverable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the consolidated income statement.

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

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

2 Significant accounting policies (continued)

(k) Impairment of financial assets (continued)

Available-for-sale assets

A significant or prolonged decline in the fair value of an equity security below its cost is considered, amongst other factors in determining whether the equity security is impaired. Where objective evidence of impairment exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the consolidated income statement) is removed from equity and recognised in the consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated income statement, the impairment loss is reversed through the consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

(l) Offsetting financial transactions

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

(m) Fiduciary activities

The Bank and its subsidiaries commonly act as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. The assets and income arising thereon are excluded from these financial statements, as they are not assets and income of the Bank and its subsidiaries.

(n) Cash and cash equivalents

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition, including: cash and balances with banks, central banks and other financial institutions, trading assets, placements with banks and other financial institutions, and amounts due from immediate holding company and fellow subsidiaries.

(o) Revenue recognition

(i) Interest income and expense

Interest income and expense on available-for-sale assets, financial assets or liabilities held at amortised cost and financial assets and liabilities held at fair value through profit or loss excluding derivatives is recognised in the consolidated income statement using the effective interest rate method.

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

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

2 Significant accounting policies (continued)

(o) Revenue recognition (continued)

(i) Interest income and expense (continued)

Where the estimates of cash flows have been revised, the carrying amount of the financial asset or liability is adjusted to reflect the actual and revised cash flows, discounted at the instrument's original effective interest rate. The adjustment is recognised as interest income or expense in the period in which the revision is made.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised at the original effective interest rate of the financial asset applied to the impaired carrying amount.

(ii) Fees and commissions

Fees and commissions are generally recognised on an accrual basis when the service has been provided or significant act performed. Loan syndication fees are recognised as revenue when the syndication has been completed and the Bank and its subsidiaries have retained no part of the loan package for itself or have retained a part at the same effective interest rate as for the other participants. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportioned basis.

(iii) Other income from financial assets and liabilities

Gains and losses arising from changes in the fair value of financial assets and liabilities held at fair value through profit or loss, as well as any interest receivable or payable, are included in the consolidated income statement in the period in which they arise.

Gains and losses arising from changes in the fair value of available-for-sale financial assets other than foreign exchange gains and losses from monetary items, are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity is recognised in the consolidated income statement.

Dividends on equity instruments are recognised in the consolidated income statement when the Bank and its subsidiaries' right to receive payment is established.

(p) Income tax

Income tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which profits arise. The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the reporting date and that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

2 Significant accounting policies (continued)

(p) Income tax (continued)

Current and deferred tax relating to items which are charged or credited directly to equity, are credited or charged directly to equity and are subsequently recognised in the consolidated income statement together with the current or deferred gain or loss.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Bank and its subsidiaries have a legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Bank or its subsidiaries intend either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities for which a legal right of set off exists.

(q) Provisions

The Bank recognises a provision for a present legal or constructive obligation resulting from a past event when it is more likely than not that it will be required to transfer economic benefits to settle the obligation and the amount of the obligation can be estimated reliably.

Contingent liabilities are possible obligations arising from past events, whose existence will be confirmed only by uncertain future events, or present obligations arising from past events that are not recognised because either an outflow of economic benefits is not probable or the amount of the obligation cannot be reliably measured. Contingent liabilities are not recognised but information about them is disclosed unless the possibility of any outflow of economic benefits in settlement is remote.

(r) Employee benefits

(i) Short term employee benefits

Salaries, annual bonuses, and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees.

(ii) Retirement benefit obligations

The Bank and its subsidiaries operate a number of defined contribution and defined benefit plans.

For defined contribution plans, the Bank and its subsidiaries pay contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis, and such amounts are charged to operating expenses. The Bank and its subsidiaries have no further payment obligations once the contributions have been paid.

For funded defined benefit plans, the net liability recognised in the consolidated statement of financial position represents the present value of the defined benefit obligations at the reporting date less the fair value of plan assets. The defined benefit obligations are calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligations is determined by discounting the estimated future cash outflows using an interest rate equal to the yield on government bonds that are denominated in the currency in which the benefits will be paid, and that have a term to maturity approximating to the term of the related pension liability.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

2 Significant accounting policies (continued)

(r) Employee benefits (continued)

(ii) Retirement benefit obligations (continued)

Actuarial gains and losses that arise are recognised in shareholders' equity and presented in the consolidated statement of other comprehensive income in the period they arise. Past service costs are recognised immediately to the extent that benefits are vested and are otherwise recognised over the average period until benefits are vested on a straight-line basis. Current service costs and any past service costs, together with the net interest expense on the net defined benefit liability, are charged to operating expenses.

The Bank determines the net interest expense on the net defined benefit liability for the year by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability, taking into account any changes in the net defined benefit liability during the year as a result of contributions and benefit payment.

(iii) Share-based compensation

The Standard Chartered PLC Group ("Group") operates equity-settled share-based compensation plans in which the Bank and its subsidiaries' employees participate. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. For deferred share awards granted as part of an annual performance award, the expense is recognised over the period from the start of the performance period to the vesting date. For all other awards the expense is recognised over the period from the start of the date of grant to the vesting date.

For equity-settled awards, the total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and growth targets). The fair value of equity instruments granted is based on market prices, if available, at the date of grant. In the absence of market prices, the fair value of the instruments is estimated using an appropriate valuation technique, such as a binomial option pricing model.

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each reporting date, the Bank and its subsidiaries revise its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the consolidated income statement, and a corresponding adjustment to equity over the remaining vesting period. Forfeitures prior to vesting attributable to factors other than the failure to satisfy a non-market vesting condition are treated as a cancellation and the remaining unamortised charge is debited to the consolidated income statement at the time of cancellation.

(s) Translation of foreign currencies

Foreign currency transactions are translated into Hong Kong dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the consolidated income statement.

Non-monetary assets and liabilities are translated at historical exchange rates if held at historical cost or year-end exchange rates if held at fair value, and the resulting foreign exchange gains and losses are recognised in either the consolidated income statement or shareholders' equity depending on the treatment of the gain or loss on the asset or liability.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

2 Significant accounting policies (continued)

(s) Translation of foreign currencies (continued)

The results and financial position of all foreign operations that have a functional currency different from the Bank's presentation currency are accounted for as follows:

– assets and liabilities for each consolidated statement of financial position presented are translated at the closing rate at the reporting date.

– income and expenses for each consolidated income statement are translated at average exchange rates or at rates on the date of the transaction where exchange rates fluctuate significantly; and

– all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is sold, the exchange differences are recognised in the consolidated income statement as part of the gain or loss on disposal.

(t) Related parties

For the purposes of these financial statements, parties are considered to be related to the Bank and its subsidiaries if the Bank and its subsidiaries have the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Bank and its subsidiaries and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include (i) associates and joint ventures of the Group, (ii) entities which are under the significant influence of related parties of the Bank where those parties are individuals, (iii) post-employment benefit plans which are for the benefit of employees of the Bank or of any entity that is a related party of the Bank, and (iv) entities or any member of the Bank and its subsidiaries of which it is a part, provides key management personnel services to the Bank and its subsidiaries or to the Bank and its subsidiaries' parent.

(u) Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Bank and its subsidiaries' most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Bank and its subsidiaries' various lines of business and geographical locations.

(v) Sale and repurchase agreements

Securities sold subject to repurchase agreements ("repos") remain on the consolidated statement of financial position; the counterparty liability is included in "Deposits and balances of banks and other financial institutions", "Deposits from customers" or "Amounts due to Group companies", as appropriate. Securities purchased under agreements to re-sell ("reverse repos") are not recognised on the consolidated statement of financial position and the consideration paid is recorded in "Advances to customers", "Placements with banks and other financial institutions" or "Amounts due from Group Companies" as appropriate. The difference between the sale and repurchase price is treated as interest and recognised over the life of the agreement.

Securities borrowed are not recognised in the consolidated financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

2 Significant accounting policies (continued)

(w) Assets held for sale

Non-current assets (such as property) and disposal groups (including both the assets and liabilities of the disposal groups) are classified as held for sale and measured at the lower of their carrying amount and fair value less cost to sell when: (i) their carrying amounts will be recovered principally through sale; (ii) they are available for sale in their present condition; and (iii) their sale is highly probable.

Immediately before the initial classification as held for sale, the carrying amounts of the assets (or assets and liabilities in the disposal groups) are measured in accordance with the applicable accounting policies described above.

(x) Preference share capital

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the company's option, and any dividends are discretionary. Dividends on preference share capital classified as equity are recognised as distributions within equity.

3 Changes in accounting policies

Amendments to HKFRSs/IFRSs and new interpretation

The HKICPA/IASB has issued the following amendments to HKFRSs/IFRSs that are first effective for the current accounting period commencing 1 January 2016.

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

The Bank and its subsidiaries adopted the above amendments to existing accounting standards from 1 January 2016. The application of these amendments did not have a material impact on these consolidated financial statements.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

4 Operating profit

The operating profit for the year is stated after taking into account the following:

	2016 HK$'M	2015 HK$'M
(a) Interest income		
Interest income on listed securities	789	1,112
Interest income on unlisted securities	1,409	1,424
Other interest income (note)	11,474	13,567
Amount shown in the consolidated income statement	13,672	16,103
Less: interest income arising from trading assets	(293)	(359)
Less: interest income on financial assets designated at fair value	(26)	(49)
Total interest income on financial assets that are not measured at fair value through profit or loss	13,353	15,695

(note) The amount includes interest income on unwinding of discounts on loan impairment provisions of HK$59 million (note 16) (2015: HK$44 million), and fair value gains of HK$33 million transferred from reserves on cash flow hedges (2015: HK$31 million).

	2016 HK$'M	2015 HK$'M
(b) Interest expense		
Interest expense on customer deposits, deposits of banks, certificates of deposit issued, debt securities issued, trading liabilities and financial liabilities designated at fair value (note)	2,872	4,360
Interest expense on subordinated liabilities	624	364
Interest expense on other borrowings	51	–
Amount shown in the consolidated income statement	3,547	4,724
Less: interest expense arising from trading liabilities	(68)	(66)
Less: interest expense arising from financial liabilities designated at fair value	(23)	(119)
Total interest expense on financial liabilities that are not measured at fair value through profit or loss	3,456	4,539

(note) The amount includes fair value gains of HK$3 million transferred from reserve on cash flow hedges (2015: HK$3 million).

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

4 Operating profit (continued)

	2016 HK$'M	2015 HK$'M
(c) Net fee and commission income		
Net fee and commission income (other than amounts included in determining the effective interest rate) arising from financial assets or financial liabilities that are not held for trading or designated at fair value		
– fee and commission income	1,961	2,880
– fee and commission expense	144	112
Net fee and commission income from trust and other fiduciary activities where the Bank and its subsidiaries hold or invest assets on behalf of its customers		
– fee and commission income	396	605
– fee and commission expense	99	159

	2016 HK$'M	2015 HK$'M
(d) Net trading income		
Gains less losses from dealing in foreign currencies	1,765	1,008
Gains less losses from trading securities	15	168
Gains less losses from other dealing activities	(204)	(33)
Amount shown in the consolidated income statement	1,576	1,143
Add: interest income arising from trading assets	293	359
Less: interest expense arising from trading liabilities	(68)	(66)
Net income from trading instruments	1,801	1,436

	2016 HK$'M	2015 HK$'M
(e) Net gains from financial instruments designated at fair value		
Net (losses)/gains as shown in the consolidated income statement	(751)	13
Add: interest income arising from financial assets designated at fair value	26	49
Less: interest expense arising from financial liabilities designated at fair value	(23)	(119)
	(748)	(57)

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

4 Operating profit (continued)

	2016 HK$'M	2015 HK$'M
(f) Other operating income		
Rental income from operating lease assets	3,513	3,120
Dividend income from listed available-for-sale securities	3	–
Dividend income from unlisted available-for-sale securities	24	25
Net gains/(losses) on disposal of fixed assets	51	(61)
Net losses on disposal of financial instruments measured at amortised cost	(51)	(76)
Net gains on revaluation of investment properties (note 21)	21	3
Net gains on disposal of a subsidiary and an associate	–	1,758
Net gains on disposal of Mandatory Provident Fund and Occupational Retirement Schemes Ordinance businesses	1,964	–
Others	126	76
	5,651	4,845

	2016 HK$'M	2015 HK$'M
(g) Operating expenses		
Staff costs		
– contributions to defined contribution plans	197	39
– expense in respect of the defined benefits plan (note 30(c))	98	99
– equity-settled share-based payment expenses	100	226
– salaries and other staff costs	5,731	6,398
Depreciation (note 21)	1,870	1,717
Premises and equipment expense, excluding depreciation		
– rental of premises	948	998
– others	378	389
Amortisation		
– other intangible assets (note 22)	146	121
Auditor's remuneration	18	19
Others	4,967	4,929
	14,453	14,935

5 Net gains from disposal of available-for-sale securities

	2016 HK$'M	2015 HK$'M
Net gains transferred from reserves	164	85

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

6 Impairment charges

	2016 HK$'M	2015 HK$'M
(a) Impairment charges on advances to banks and customers		
Individual impairment provisions (note 16)		
– additions	1,916	2,804
– releases	(155)	(19)
– recoveries	(206)	(173)
	1,555	2,612
Portfolio impairment (releases)/charges (note 16)	(245)	455
	1,310	3,067
(b) Other impairment charges		
Charges for an interest in an associate	–	357
Charges for risk participation transactions	83	270
Charges for property, plant and equipment (note 21)	329	133
Others	–	3
	412	763

7 Taxation in the consolidated income statement

(a) Taxation in the consolidated income statement represents:

	2016 HK$'M	2015 HK$'M
Current tax		
Hong Kong profits tax	849	1,008
Overseas taxation	15	20
Under/(over)-provision in respect of prior years	13	(44)
	877	984
Deferred tax (note 27)		
Origination/reversal of temporary differences	45	4
Under/(over)-provision in respect of prior years	93	(13)
	138	(9)
	1,015	975

The provision for Hong Kong profits tax for 2016 is calculated at 16.5% (2015: 16.5%) of the estimated assessable profits for the year. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

7 Taxation in the consolidated income statement (continued)

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

	2016 HK$'M	2015 HK$'M
Profit before taxation	8,944	9,465
Notional tax on profit before taxation, calculated at Hong Kong profits tax rate of 16.5%	1,476	1,562
Tax effect of non-deductible expenses	252	253
Tax effect of non-taxable revenue	(802)	(762)
Under/(over)-provision in prior years	106	(57)
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	(24)	(26)
Others	7	5
Actual tax expense	1,015	975

8 Directors' remuneration

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

	Bank	
	2016 HK$'M	2015 HK$'M
Fees	2	1
Short-term employment benefits	35	45
Post-employment benefits	1	1
Equity compensation benefits	4	4
	42	51

9 Segmental reporting

The Bank and its subsidiaries manage its businesses by four client segments: Corporate and Institutional, Commercial, Private Banking and Retail:

- **Corporate & Institutional Banking (CIB)** comprises International Corporates (major multinational corporations and large business groups which have sophisticated, cross-border needs requiring high levels of international service); and Financial Institutions (Banks, Investor clients, Insurance companies, Broker Dealers, Public Sector names (including Central Banks, Sovereign Wealth Funds and Development Organisations) and other types of financial institutions). The majority of CIB client income is generated by Transaction Banking, Financial Markets and Corporate Finance products.

- **Commercial Banking** segment serves Local Corporates (typically clients with operations in three geographies or less); medium-sized business clients, Mid Markets clients and High Value Segment clients providing products across Transaction Banking, Financial Markets and Lending.

- **Private Banking** segment is dedicated to giving high net worth clients highly personalised service and a comprehensive suite of products and services tailored to meet their financial needs. Income from Private Banking clients primarily relates to Wealth Management and Retail products.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

9 Segmental reporting (continued)

- **Retail Banking** comprises:
  - Personal & Priority clients, providing banking products and services to a broader consumer market; and
  - Business clients, serving small business clients, sole proprietors and private companies, offering solutions such as working capital, business expansion, businesses protection and yield enhancement.

Besides the four client segments, Asset and Liability Management and certain items which are not managed directly by a client segment, including unallocated central costs are reported in "Central & Other Items". Financial information is presented internally to the Bank's senior management using these segments.

The Bank and its subsidiaries comprise only one geographical segment as over 90% of the business is based in Hong Kong. Geographical segment is classified by the location of the principal operations of the subsidiary or, in the case of the Bank, the location of the branch responsible for reporting the results or advancing the funds.

In November 2015, Standard Chartered PLC (the "Group" or the Bank's ultimate holding company) announced a reorganisation of its business to better align the Group's structure to client segments with clear local or global needs and to streamline the geographic regions. This approach aligns with how the client segments and geographies are managed internally. These changes became effective on 1 January 2016. The comparative figures have been restated to reflect these changes for the year ended 31 December 2015.

(a) Segment results, assets and liabilities

Revenue and expenses are allocated to the reportable segments with reference to income generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

2016	*Corporate & Institutional Banking HK$'M*	*Commercial Banking HK$'M*	*Private Banking HK$'M*	*Retail Banking HK$'M*	*Central & Other Items HK$'M*	*Consolidated Total HK$'M*
Operating income						
– Net interest income	1,838	1,482	590	5,802	960	10,672
– Other operating income	6,786	1,037	545	4,742	2,100	15,210
	8,624	2,519	1,135	10,544	3,060	25,882
Operating expenses (note)	(5,485)	(1,681)	(1,349)	(5,433)	(102)	(14,050)
Operating profit before impairment	3,139	838	(214)	5,111	2,958	11,832
Impairment (charges)/releases	(1,057)	(434)	1	(487)	1	(1,976)
Profit/(loss) before taxation	2,082	404	(213)	4,624	2,959	9,856
Segment assets	367,669	56,308	27,698	258,183	354,364	1,064,222
Segment liabilities	361,012	108,680	54,344	379,011	71,648	974,695

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

9 Segmental reporting (continued)

(a) Segment results, assets and liabilities (continued)

2015 (Restated)	Corporate & Institutional Banking HK$'M	Commercial Banking HK$'M	Private Banking HK$'M	Retail Banking HK$'M	Central & Other Items HK$'M	Consolidated Total HK$'M
Operating income						
– Net interest income	3,047	1,695	444	5,488	1,264	11,938
– Other operating income	7,538	1,834	617	5,169	1,296	16,454
	10,585	3,529	1,061	10,657	2,560	28,392
Operating expenses (note)	(5,398)	(2,065)	(926)	(5,250)	(102)	(13,741)
Operating profit before impairment	5,187	1,464	135	5,407	2,458	14,651
Impairment charges	(150)	(1,623)	(725)	(765)	(2)	(3,265)
Profit/(loss) before taxation	5,037	(159)	(590)	4,642	2,456	11,386
Segment assets	323,578	52,374	27,956	247,319	368,080	1,019,307
Segment liabilities	385,357	84,837	49,836	355,870	65,302	941,202

(note) Operating expenses in Corporate & Institutional Banking segment included depreciation charges of HK$1,662 million (2015: HK$1,538 million) for commercial aircraft and vessels leased to customers under operating leases.

(b) Reconciliation of reportable segment operating income, profit before taxation, assets and liabilities

	2016 HK$'M	2015 HK$'M
Operating income		
Reportable segment revenue	25,882	28,392
Income relating to Financial Market products	(225)	(1,134)
Cost of free funds	84	78
Others	(1,982)	(494)
Total operating income	23,759	26,842

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

9 Segmental reporting (continued)

(b) Reconciliation of reportable segment operating income, profit before taxation, assets and liabilities (continued)

	2016 HK$'M	2015 HK$'M Restated
Profit before taxation		
Reportable segment profit before taxation	9,856	11,386
Income relating to Financial Market products	(225)	(1,134)
Cost of free funds	84	78
Reallocations of impairment charges	253	(452)
Others	(1,024)	(413)
Profit before taxation	8,944	9,465

	2016 HK$'M	2015 HK$'M
Assets		
Reportable segment assets	1,064,222	1,019,307
Assets of group companies not included in consolidated total assets	(2,066)	(1,804)
Amounts due from immediate holding company and fellow subsidiaries	62,849	46,462
Others	(118,983)	(105,000)
Total assets	1,006,022	958,965

	2016 HK$'M	2015 HK$'M
Liabilities		
Reportable segment liabilities	974,695	941,202
Liabilities of group companies not included in consolidated total liabilities	(1,437)	(1,386)
Amounts due to immediate holding company and fellow subsidiaries	54,214	35,833
Others	(87,162)	(82,033)
Total liabilities	940,310	893,616

Income and profit before taxation recognised in the consolidated financial statements represent an arm's length compensation for the services provided and risks borne. For internal management reporting purposes, income and profit before taxation are allocated on a global perspective. In addition, for internal management reporting purposes, a charge is allocated to reportable segments for the use of interest-free funds.

Reportable segment assets and liabilities include assets and liabilities which are not booked on the Bank and its subsidiaries' statement of financial position but which contribute to the reportable segment's income and profit before taxation.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

10 Cash and balances with banks, central banks and other financial institutions

	2016 HK$'M	2015 HK$'M
Cash in hand	2,095	1,572
Balances with central banks	8,352	38,290
Balances with banks and other financial institutions	4,885	8,907
	15,332	48,769

11 Placements with banks and other financial institutions

	2016 HK$'M	2015 HK$'M
Gross placements with banks and other financial institutions		
– maturing within one month	64,658	64,774
– maturing between one month to one year	87,100	53,090
– maturing between one year to five years	4,992	1,794
	156,750	119,658
Less: impairment provision – individually assessed	–	–
	156,750	119,658

12 Hong Kong SAR Government certificates of indebtedness and currency notes in circulation

The Hong Kong Special Administrative Region currency notes in circulation are secured by the deposit of funds in respect of which the Government of Hong Kong Special Administrative Region certificates of indebtedness are held.

Notes to the consolidated financial statements (continued)
(Expressed in millions of Hong Kong dollars)

13 Trading assets

	2016 *HK$'M*	*2015* *HK$'M*
Trading securities	14,484	16,721
Advances to customers	116	163
Positive fair values of trading derivatives	1,034	1,713
	15,634	18,597
Trading securities:		
Treasury bills	4,345	3,127
Certificates of deposit held	2,127	388
Debt securities	8,008	12,897
Equity securities	4	309
	14,484	16,721
Issued by:		
Central governments and central banks	8,619	13,808
Public sector entities	61	–
Banks and other financial institutions	4,286	1,490
Corporate entities	1,518	1,423
	14,484	16,721
By place of listing:		
Listed in Hong Kong	6,160	7,191
Listed outside Hong Kong	1,426	7,036
	7,586	14,227
Unlisted	6,898	2,494
	14,484	16,721

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

14 Financial assets designated at fair value

	2016 HK$'M	2015 HK$'M
Debt securities	370	666
Issued by:		
Corporate entities	370	666
By place of listing:		
Listed outside Hong Kong	228	453
Unlisted	142	213
	370	666

The above financial assets designated at fair value represent certain debt securities with embedded derivatives that are not separately recognised.

15 Advances to customers

(a) Advances to customers

	2016 HK$'M	2015 HK$'M
Gross advances to customers	440,347	415,278
Trade bills	1,675	1,785
	442,022	417,063
Less : Impairment provision		
– individually assessed (note 16)	(1,437)	(1,300)
– collectively assessed (note 16)	(563)	(808)
	440,022	414,955

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

15 Advances to customers (continued)

(b) Impaired advances to customers

	2016 HK$'M	2015 HK$'M
Gross impaired advances to customers	3,693	3,807
Impairment provision – individually assessed	(1,437)	(1,300)
	2,256	2,507
Gross impaired advances to customers as a % of gross advances to customers	0.84%	0.91%
Fair value of collateral held against the covered portion of impaired advances to customers	1,340	1,967
Covered portion of impaired advances to customers	934	1,452
Uncovered portion of impaired advances to customers	2,759	2,355

The covered portion of impaired advances to customers represents the amount of collateral held against outstanding balances. It does not include any collateral held over and above outstanding exposures.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

16 Movement in impairment provision on advances to banks and customers

Advances to customers

	2016 Individually assessed HK$'M	2016 Collectively assessed HK$'M	2016 Total HK$'M
At 1 January 2016	1,300	808	2,108
Amounts written off	(1,565)	–	(1,565)
Recoveries of advances written off in previous years	206	–	206
Net charge/(release) to the consolidated income statement (note 6(a))	1,555	(245)	1,310
Unwind of discount on loan impairment provision (note 4(a))	(59)	–	(59)
At 31 December 2016 (note 15(a))	1,437	563	2,000

	2015 Individually assessed HK$'M	2015 Collectively assessed HK$'M	2015 Total HK$'M
At 1 January 2015	1,440	353	1,793
Amounts written off	(2,881)	–	(2,881)
Recoveries of advances written off in previous years	173	–	173
Net charge to the consolidated income statement (note 6(a))	2,612	455	3,067
Unwind of discount on loan impairment provision (note 4(a))	(44)	–	(44)
At 31 December 2015 (note 15(a))	1,300	808	2,108

As at 31 December 2016 and 31 December 2015, there were no individually assessed provision to banks and other financial institutions.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

17 Investment securities

	2016 HK$'M	2015 HK$'M
Available-for-sale securities		
Treasury bills	60,393	60,737
Certificates of deposit held	25,291	14,952
Debt securities	113,236	126,441
Equity shares	480	632
Less: impairment provision	(6)	(11)
	199,394	202,751
Loans and receivables – Debt securities	8,077	7,821
	207,471	210,572
Issued by:		
Available-for-sale securities		
Central governments and central banks	115,808	121,623
Public sector entities	5,094	4,686
Banks and other financial institutions	61,387	49,286
Corporate entities	17,105	27,156
	199,394	202,751
Loans and receivables – Debt securities		
Corporate entities	8,077	7,821
	207,471	210,572
By place of listing:		
Available-for-sale securities		
Listed in Hong Kong	7,895	8,095
Listed outside Hong Kong	87,043	105,257
	94,938	113,352
Unlisted	104,456	89,399
	199,394	202,751
Loans and receivables – Debt securities		
Listed outside Hong Kong	4,329	3,278
Unlisted	3,748	4,543
	8,077	7,821
	207,471	210,572

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

18 Amounts due from/to immediate holding company, fellow subsidiaries and subsidiaries of the Bank

During the year, the Bank and its subsidiaries entered into transactions with related parties in the ordinary course of its banking business including lending, acceptance and placement of inter-bank deposits, correspondent banking transactions, banking operation/outsourcing activities and off-balance sheet transactions.

The Bank has entered into various risk participation transactions with related companies. For funded risk participation transactions, the Bank undertakes to deposit an amount equal to the participating balances with the related companies. When there is a default, under the undertaking clause of the agreement, the Bank is obligated to honor the risk participation by transferring such deposits to the related companies.

During the year, HK$269 million of the above deposits were transferred from a related company (2015: HK$270 million transferred to). As at 31 December 2016, the amount due from group company shown on the consolidated statement of financial position is stated net of HK$912 million (2015: HK$1,819 million) in respect of such obligations.

The amounts of material transactions during the year are set out below:

	Immediate holding company		*Fellow subsidiaries*	
	2016	*2015*	*2016*	*2015*
	HK$'M	*HK$'M*	*HK$'M*	*HK$'M*
Operating income	1,767	2,280	(111)	130
Operating expenses	1,726	2,042	584	578

Material transactions entered during the year between the Bank and its subsidiaries included operating income of HK$1,816 million (2015: HK$1,660 million) and operating expense of HK$85 million (2015: HK$97 million). Intra-group transactions are eliminated in full in the consolidated income statement.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

18 Amounts due from/to immediate holding company, fellow subsidiaries and subsidiaries of the Bank (continued)

The amounts due from/to immediate holding company and fellow subsidiaries stated on the consolidated statement of financial position included the following:

	2016		2015	
	Immediate holding company HK$'M	Fellow subsidiaries HK$'M	Immediate holding company HK$'M	Fellow subsidiaries HK$'M
Amounts due from:				
Cash and balances with banks and other financial institutions	3,626	1,962	1,733	628
Placements with banks and other financial institutions	17,202	14,240	12,024	13,687
Trading assets				
– Positive fair values of trading derivatives	22,083	54	14,390	–
Investment securities				
– Listed available-for-sale debt securities	–	–	–	1,395
Other assets				
– Positive fair values of hedging derivatives	1,567	7	1,214	92
– Others	2,043	65	996	303
	46,521	16,328	30,357	16,105

	2016		2015	
	Immediate holding company HK$'M	Fellow subsidiaries HK$'M	Immediate holding company HK$'M	Fellow subsidiaries HK$'M
Amounts due to:				
Deposits and balances of banks and other financial institutions	2,500	10,070	4,991	6,630
Trading liabilities:				
– Negative fair values of trading derivatives	22,643	10	15,405	–
Debt securities in issue	–	1,494	–	1,387
Subordinated liabilities (note)	6,204	–	–	–
Other liabilities				
– Negative fair values of hedging derivatives	1,108	–	1,755	27
– Others	9,827	358	5,368	270
	42,282	11,932	27,519	8,314

(note) Interest rate at 3 month USD Libor plus 250 bps, payable quarterly in arrear, to the maturity date on 19 December 2026.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

18 Amounts due from/to immediate holding company, fellow subsidiaries and subsidiaries of the Bank (continued)

The contractual amounts of contingent liabilities and commitments to the immediate holding company and fellow subsidiaries are set out below:

	2016		*2015*	
	Immediate holding company HK$'M	*Fellow subsidiaries HK$'M*	*Immediate holding company HK$'M*	*Fellow subsidiaries HK$'M*
Financial guarantees and other credit related contingent liabilities	3,728	27	4,615	89
Loan commitments and other credit related commitments	–	27,520	–	29,866

19 Investments in subsidiaries of the Bank

	Bank	
	2016 HK$'M	*2015 HK$'M*
Unlisted shares, at cost less impairment provision, if any	886	853

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Bank and its subsidiaries.

Name of company	*Place of incorporation*	*Particulars of issued and paid up capital*	*Proportion of ownership interest held by the Bank*	*Principal activity*
Standard Chartered APR Limited	United Kingdom	21,971,715 ordinary shares of US$1 each	100%	Investment holdings
Standard Chartered Securities (Hong Kong) Limited	Hong Kong	1,000,000 ordinary shares	100%	Institutional brokerage
Standard Chartered Leasing Group Limited	Hong Kong	30,000 ordinary shares	100%	Provision of leasing services
Standard Chartered Trade Support (HK) Limited	Hong Kong	53,431 ordinary shares	100%	Provision of financing and other services and activities closely related to banking to clients for inventory and extended payment

Notes to the consolidated financial statements (continued)
(Expressed in millions of Hong Kong dollars)

20 Interest in associates

	2016 HK$'M	2015 HK$'M
Share of net assets	9,907	9,206
Goodwill	1,717	1,717
Less: Impairment provision	(1,442)	(1,442)
	10,182	9,481
Less: Transferred to assets held for sale (Note 46)		
Share of net assets	741	–
Goodwill	1,717	–
Less: Impairment provision	(1,442)	–
	1,016	–
	9,166	9,481

The following contains only the particulars of the material associate:

Name of associate	*Place of establishment and operation*	*Particulars of issued and paid up capital*	*Proportion of ownership interest*	*Principal activity*
China Bohai Bank Company Limited ("Bohai")	The People's Republic of China	13,855,000,000 ordinary shares of RMB1 each	19.99%	Provision of banking and related financial services (Note 1)

Note 1: Bohai is a strategic partner for the Group to develop its China business.

The Bank's investment in Bohai is less than 20% but the company is considered to be an associate because of the significant influence the Bank is able to exercise over the management of the company and its financial and operating policies. Significant influence is evidenced largely through the presence of management personnel and the provision of expertise.

In respect of the year ended 31 December 2016, Bohai's result was included in the consolidated financial statements based on accounts drawn up to 30 November 2016. The Bank has taken advantage of the provision contained in HKAS 28/IAS 28 "Investments in Associates" whereby it is permitted to include the attributable share of associates' results based on accounts drawn up to a non-coterminous period and where the difference is not greater than three months.

The associate is accounted for using the equity method in the consolidated financial statements.

In 2016, the Bank reclassified its interest in Asia Commercial Joint Stock Bank ("ACB") as "Assets held for sale". The analysis of the results of the assets held for sale is summarised in note 46.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

20 Interest in associates (continued)

Summary of financial information of the material associates and reconciliation to the carrying amounts in the consolidated financial statements

	2016	2015	
	Bohai	ACB	Bohai
	HK$'M	HK$'M	HK$'M
Gross amounts of the associates			
Assets	979,959	66,572	959,690
Liabilities	(934,105)	(62,220)	(917,098)
Net assets	45,854	4,352	42,592
Operating income	25,006	2,353	23,012
Profit after taxation	6,495	341	6,677
Other comprehensive income	(67)	–	67
Total comprehensive income	6,428	341	6,744
Dividends received from the associate	–	35	–
Gross amount of net assets of the associate	45,854	4,352	42,592
Effective interest of the Bank and its subsidiaries	19.99%	15%	19.99%
Share of net assets of the associate attributable to the Bank and its subsidiaries	9,166	653	8,514
Fair value adjustment on acquisition	–	39	–
Goodwill	–	1,717	–
Less: Impairment provision	–	(1,442)	–
Carrying amount in the consolidated financial statements	9,166	967	8,514

Reconciliation to the Bank and its subsidiaries' total interest in associates:

	2016	2015
	HK$'M	HK$'M
Carrying amount of material associates		
- ACB	–	967
- Bohai	9,166	8,514
Interest in associates in the consolidated financial statements	9,166	9,481

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

21 Property, plant and equipment

	2016					
	Buildings and leasehold land held for own use HK$'M	*Equipment, furniture & fixtures HK$'M*	*Operating lease assets HK$'M*	*Sub-total HK$'M*	*Investment properties HK$'M*	*Total property, plant and equipment HK$'M*
Cost or valuation:						
At 1 January 2016	2,878	483	38,108	41,469	937	42,406
Additions	112	77	7,932	8,121	–	8,121
Disposals and write-offs	(29)	(104)	(4,351)	(4,484)	–	(4,484)
Reclassifications	(2)	2	–	–	–	–
Fair value adjustments (note 4(f))	–	–	–	–	21	21
At 31 December 2016	2,959	458	41,689	45,106	958	46,064
Representing:						
Cost	2,959	458	41,689	45,106	–	45,106
Valuation	–	–	–	–	958	958
	2,959	458	41,689	45,106	958	46,064
Accumulated depreciation:						
At 1 January 2016	837	263	3,826	4,926	–	4,926
Charge for the period (note 4(g))	130	78	1,662	1,870	–	1,870
Impairments (note 6(b))	–	–	329	329	–	329
Attributable to assets sold or written off	(25)	(104)	(403)	(532)	–	(532)
At 31 December 2016	942	237	5,414	6,593	–	6,593
Net book value:						
At 31 December 2016	2,017	221	36,275	38,513	958	39,471

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

21 Property, plant and equipment (continued)

	2015					
	Buildings and leasehold land held for own use HK$'M	Equipment, furniture & fixtures HK$'M	Operating lease assets HK$'M	Sub-total HK$'M	Investment properties HK$'M	Total property, plant and equipment HK$'M
Cost or valuation:						
At 1 January 2015	2,921	518	39,116	42,555	934	43,489
Additions	23	37	6,837	6,897	–	6,897
Transferred to asset classified as asset held for sale	–	–	(2,049)	(2,049)	–	(2,049)
Disposals and write-offs	(41)	(97)	(5,796)	(5,934)	–	(5,934)
Reclassifications	(25)	25	–	–	–	–
Fair value adjustments (note 4(f))	–	–	–	–	3	3
At 31 December 2015	2,878	483	38,108	41,469	937	42,406
Representing:						
Cost	2,878	483	38,108	41,469	–	41,469
Valuation	–	–	–	–	937	937
	2,878	483	38,108	41,469	937	42,406
Accumulated depreciation:						
At 1 January 2015	721	255	2,563	3,539	–	3,539
Charge for the period (note 4(g))	91	88	1,538	1,717	–	1,717
Impairments (note 6(b))	64	17	52	133	–	133
Transferred to asset classified as asset held for sale	–	–	(129)	(129)	–	(129)
Attributable to assets sold or written off	(39)	(97)	(198)	(334)	–	(334)
At 31 December 2015	837	263	3,826	4,926	–	4,926
Net book value:						
At 31 December 2015	2,041	220	34,282	36,543	937	37,480

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

21 Property, plant and equipment (continued)

(a) Buildings and leasehold land held for own use

	2016 HK$'M	2015 HK$'M
Leasehold in Hong Kong, at cost		
– medium-term leases	1,771	1,847
– short-term leases	131	83
	1,902	1,930
Freehold outside Hong Kong, at cost	115	111
	2,017	2,041

(b) Investment properties

	2016 HK$'M	2015 HK$'M
Freehold outside Hong Kong, at fair value	958	937

The investment property outside Hong Kong was revalued as at 31 December 2016 on an open market value basis. The valuation was carried out by an independent firm, CBRE Limited, which has among its staff members of the Royal Institute of Chartered Surveyors with recent experience in the location and category of the property being valued.

The fair value of the investment property is primarily determined using comparable recent market transactions on arm's length terms.

These fair values are categorised as level 2 valuations using observable inputs.

(c) Operating lease assets:

Assets leased to customers under operating leases consist of commercial aircraft and vessels. At 31 December, the total future minimum lease receivables under operating leases are as follows:

	2016 HK$'M	2015 HK$'M
Within 1 year	3,836	3,730
After 1 year but within 5 years	14,461	13,779
After 5 years	8,474	10,814
	26,771	28,323

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

22 Goodwill and intangible assets

	2016 Capitalised software and other intangible assets HK$'M	Goodwill HK$'M	Total HK$'M
Cost:			
At 1 January 2016	685	729	1,414
Additions	373	–	373
Disposals and write-offs	(81)	–	(81)
At 31 December 2016	977	729	1,706
Accumulated amortisation:			
At 1 January 2016	339	–	339
Charge for the year (note 4(g))	146	–	146
Attributable to intangible assets sold or written off	(81)	–	(81)
At 31 December 2016	404	–	404
Carrying amount:			
At 31 December 2016	573	729	1,302

	2015 Capitalised software and other intangible assets HK$'M	Goodwill HK$'M	Total HK$'M
Cost:			
At 1 January 2015	668	729	1,397
Additions	80	–	80
Disposals and write-offs	(63)	–	(63)
At 31 December 2015	685	729	1,414
Accumulated amortisation:			
At 1 January 2015	281	–	281
Charge for the year (note 4(g))	121	–	121
Attributable to intangible assets sold or written off	(63)	–	(63)
At 31 December 2015	339	–	339
Carrying amount:			
At 31 December 2015	346	729	1,075

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

22 Goodwill and intangible assets (continued)

Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the Bank and its subsidiaries' cash-generating units ("CGUs") as follows:

	2016 *HK$'M*	*2015* *HK$'M*
Lending	611	611
Private Banking	118	118
	729	729

The recoverable amounts of the CGUs are determined based on value in use calculations. The key assumptions and approach to determining value in use calculations, as set out below, are solely used for the purpose of assessing impairment on acquired goodwill. These calculations use cash flow projections over a 20-year period based on budgets and forecasts approved by management. These budgets and forecasts cover periods of five year and are extrapolated forward using steady growth rates of 2.8 per cent (2015: 3.0 per cent).

In assessing impairment of goodwill, the Bank and its subsidiaries assumed growth at a steady rate in line with long-term forecast GDP growth. A discount rate of 12.1 per cent (2015: 14.1 per cent) was used.

23 Other assets

	2016 *HK$'M*	*2015* *HK$'M*
Prepayments and accrued income	4,754	2,631
Sundry debtors	3,414	2,642
Acceptances and endorsements	3,745	2,588
Unsettled trades and others	2,050	2,568
Assets held for sale (note)	1,020	1,920
	14,983	12,349

(note) Assets held for sale as of 31 December 2016 included interest in an associate held for sale. The analysis of the results of the assets held for sale is summarised in note 46.

Assets held for sale as of 31 December 2015 included commercial aircraft and vessels held for sale.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

24 Deposits from customers

	2016 HK$'M	2015 HK$'M
Current accounts	164,374	158,967
Savings accounts	437,750	432,975
Time, call and notice deposits	164,354	144,672
Deposits and balances of central banks	11,764	9,087
	778,242	745,701

25 Debt securities in issue

	2016 HK$'M	2015 HK$'M
Other debt securities	2,173	1,209

26 Financial liabilities designated at fair value

	2016 HK$'M	2015 HK$'M
Structured deposits from banks and customers	3,420	6,542
Debt securities issued	6,148	7,182
	9,568	13,724

The Bank designates certain financial liabilities at fair value where either the liabilities:

– have fixed rates of interest and interest rate swaps or other interest related derivatives have been transacted with the intention of significantly reducing interest rate risk; or

– are exposed to equity price risk, foreign currency risk or credit risk and derivatives have been transacted with the intention of significantly reducing exposure to market changes;

At 31 December 2016, the contractual amount payable at maturity of these financial liabilities exceeded the carrying amount by HK$718 million (2015: HK$1,328 million). Of this, the cumulative fair value movement relating to changes in credit risk was a gain of HK$433 million (2015: a gain of HK$1,112 million). The amount of fair value movement relating to changes in credit risk recognised in the consolidated income statement during the year was a loss of HK$679 million (2015: a gain of HK$387 million).

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

27 Taxation in the consolidated statement of financial position

Deferred tax assets and liabilities:

The components of gross deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Depreciation allowances in excess of related depreciation HK$'M	*Impairment losses on financial assets HK$'M*	*Available-for-sale securities HK$'M*	*Others HK$'M*	*Total HK$'M*
			2016		
Deferred tax arising from:					
At 1 January 2016	888	(134)	(35)	(759)	(40)
Charge/(release) to consolidated income statement (note 7(a))	327	40	–	(229)	138
Release to reserves	–	–	(18)	(26)	(44)
Others	–	1	(2)	2	1
At 31 December 2016	1,215	(93)	(55)	(1,012)	55
			2015		
At 1 January 2015	688	(59)	37	(595)	71
Charge/(release) to consolidated income statement (note 7(a))	200	(75)	–	(134)	(9)
Release to reserves	–	–	(72)	(30)	(102)
At 31 December 2015	888	(134)	(35)	(759)	(40)

	2016 HK$'M	*2015 HK$'M*
Analysed by:		
Net deferred tax asset recognised on the consolidated statement of financial position	(349)	(314)
Net deferred tax liability recognised on the consolidated statement of financial position	404	274
	55	(40)

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

28 Trading liabilities

	2016 HK$'M	2015 HK$'M
Short positions in securities	7,710	8,476
Negative fair values of trading derivatives	579	371
	8,289	8,847

29 Other liabilities

	2016 HK$'M	2015 HK$'M
Accruals and deferred income	4,078	3,340
Provision for liabilities and charges	397	314
Acceptances and endorsements	3,745	2,588
Unsettled trades and others	11,224	9,003
	19,444	15,245

30 Employee retirement benefits

The Bank makes contributions to a defined benefit retirement scheme, namely Standard Chartered Bank Hong Kong Retirement Scheme (“the Scheme”), which provides lump sum benefits based on a multiple of a member’s final salary and years of service upon the member’s retirement, death, disability or leaving service. The Scheme is closed to new employees.

The Scheme was established under a trust arrangement. It is registered under the Occupational Retirement Schemes Ordinance (“ORSO”). The Bank is the sole employer participating in the Scheme.

The Bank has an unconditional right to the Scheme’s surplus and the Scheme has no minimum funding requirements.

The key responsibilities of the Scheme’s trustees are to ensure that the Scheme is administered in accordance with the trust deed and to act on behalf of all members impartially, prudently and in good faith.

The Scheme exposes the Bank to interest rate risk, investment risk and salary risk.

The Bank’s contributions are determined with reference to the funding valuation carried out by the Scheme’s actuary in accordance with the ORSO requirements. The last funding valuation of the Scheme was carried out as at 31 December 2014.

Notes to the consolidated financial statements (continued)
(Expressed in millions of Hong Kong dollars)

30 Employee retirement benefits (continued)

(a) Amounts recognised in the consolidated statement of financial position

	2016 HK$'M	2015 HK$'M
Fair value of plan assets	1,813	1,970
Present value of wholly or partly funded obligations	(2,045)	(2,226)
Net liability recognised in the consolidated statement of financial position (included in "Other liabilities")	(232)	(256)

(b) Movements in the fair value of plan assets and the present value of the defined benefit obligations

	2016 Assets HK$'M	2016 Obligations HK$'M	2016 Total HK$'M
At 1 January 2016	1,970	(2,226)	(256)
Contributions	30	–	30
Benefits paid	(229)	229	–
Current service cost	–	(94)	(94)
Net interest income/(cost)	23	(26)	(3)
Administrative expenses	(1)	–	(1)
Return on plan assets, excluding amounts included in interest income	20	–	20
Actuarial gain – from experience	–	24	24
Actuarial gain – from financial assumptions	–	48	48
At 31 December 2016	1,813	(2,045)	(232)

	2015 Assets HK$'M	2015 Obligations HK$'M	2015 Total HK$'M
At 1 January 2015	2,173	(2,229)	(56)
Contributions	40	–	40
Benefits paid	(244)	244	–
Current service cost	–	(98)	(98)
Net interest income/(cost)	36	(36)	–
Administrative expenses	(1)	–	(1)
Return on plan assets, excluding amounts included in interest income	(34)	–	(34)
Actuarial loss – from experience	–	(58)	(58)
Actuarial loss – from financial assumptions	–	(49)	(49)
At 31 December 2015	1,970	(2,226)	(256)

The weighted average duration of the defined benefit obligation as at 31 December 2016 is 5 years (2015: 5 years).

The Bank expects to contribute approximately HK$28 million to the Scheme in 2017.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

30 Employee retirement benefits (continued)

(c) Amounts recognised in the consolidated income statement for the year

	2016 HK$'M	2015 HK$'M
Current service cost	94	98
Net interest cost	3	–
Administrative expenses	1	1
	98	99

(d) Principal actuarial assumptions used in the valuation and sensitivity analysis

	2016 HK$'M	2015 HK$'M
Discount rate	1.70%	1.30%
Future salary increases	4.00%	4.00%

These assumptions are likely to change in the future and thus will affect the value placed on the defined benefit obligations. Changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

- if the discount rate increased by 25 basis points the obligation would reduce by approximately HK$27 million (2015: HK$31 million).

- if the rate of growth of salaries was higher by 25 basis points the obligation would increase by approximately HK$26 million (2015: HK$29 million).

The above sensitivity analysis is based on the assumption that changes in actuarial assumptions are not correlated and therefore it does not take into account the correlations between the actuarial assumptions.

(e) Major categories of assets

	2016 HK$'M	2015 HK$'M
Equities	61%	59%
Bonds	37%	37%
Cash	2%	4%
	100%	100%

As at 31 December 2016, the Scheme did not invest in the Bank's own financial instruments and properties (2015: Nil). The Scheme has a benchmark asset allocation of 60% in equities and 40% in bonds and cash (2015: 60% in equities and 40% in bonds and cash). The long term strategic asset allocations of the Scheme are set and reviewed from time to time by the trustees taking into account the Scheme's membership, liability profile, liquidity requirements, and the risk appetite of the Bank.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

31 Subordinated liabilities

	2016 HK$'M	2015 HK$'M
US$750 million 5.875% Fixed Rate Notes 2020 (note 1)	6,088	6,191
SGD750 million 4.15% Fixed Rate Notes 2021 (note 2)	–	3,902
	6,088	10,093

All subordinated liabilities are unsecured and subordinated to the claims of other creditors.

(note 1) Interest rate at 5.875 per cent per annum, payable semi-annually, to the maturity date on 24 June 2020.

(note 2) Interest rate at 4.15 per cent per annum, payable semi-annually, to the maturity date on 27 October 2021. The notes were redeemed in full in 2016.

32 Share capital

	2016		2015	
	No. of share	HK$'M	No. of share	HK$'M
Issued and fully paid				
A' ordinary shares	706 million	12,500	706 million	12,500
B' ordinary shares	1,231 million	78	1,231 million	78
US$500 million 6.25% perpetual non-cumulative convertible preference shares	10	3,878	10	3,878
Fully repurchased in prior years				
HK$3,800 million 8.25% non-cumulative preference shares	–	3,800	–	3,800
		20,256		20,256

In accordance with section 135 of the Hong Kong Companies Ordinance, the ordinary shares of the Bank do not have a par value.

On 30 December 2014, 10 perpetual non-cumulative convertible preference shares were issued to Standard Chartered Bank at an aggregate issue price of US$500 million with a liquidation preference of US$500 million. Each preference share will be converted to 12,500,000 'A' Shares of US$4.00 each upon a non-viability event as set out in the subscription agreement. The preference shares qualify as Additional Tier 1 capital under the Banking (Capital) Rules.

The convertible preference shares rank in priority to the 'A' ordinary shares and 'B' ordinary shares with respect to the payment of dividends and any return of capital. The 'B' ordinary shares rank in priority to the 'A' ordinary shares with respect to any return of capital.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

33 Reserves

Nature and purpose of reserves

(i) Cash flow hedge reserve

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flow in accordance with the accounting policy adopted for cash flow hedges in note 2(j).

(ii) Available-for-sale investment reserve

The available-for-sale investment reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the reporting date and is dealt with in accordance with the accounting policy in note 2(i).

(iii) Revaluation reserve

The revaluation reserve comprises the share of the change in fair value of an associate's identifiable net assets prior to the Bank and its subsidiaries obtaining significant influence in a step-acquisition.

(iv) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the consolidated financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 2(s).

(v) Property revaluation reserve

The property revaluation reserve represents the revaluation surplus arising upon the reclassification of a property previously included in "Buildings and leasehold land held for own use" to "Investment properties".

(vi) Share option equity reserve

The Group operates equity-settled share-based compensation plans in which the Bank and its subsidiaries' employees participate. The fair value of the employee services received in exchange for the grant of the share awards is recognised as an expense with the corresponding amount credited to the share option equity reserve.

The HKMA requires the Bank and its subsidiaries to maintain a minimum level of impairment allowances which is in excess of the impairment allowances required under Hong Kong Financial Reporting Standards. Of the retained profits as at 31 December 2016, an amount of HK$5,208 million (2015: HK$5,428 million) has been reserved for this purpose.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

34 Cash and cash equivalents

	2016 HK$'M	2015 HK$'M
(a) Components of cash and cash equivalents in the consolidated cash flow statement		
Cash and balances with banks, central banks and other financial institutions	15,332	48,769
Trading assets with original maturity within three months	50	1,120
Placements with banks and other financial institutions with original maturity within three months	52,263	42,925
Investment securities with original maturity within three months	47,468	60,346
Amounts due from immediate holding company and fellow subsidiaries with original maturity within three months	26,787	10,824
Less: Overdrafts included in "deposits and balances of banks and other financial institutions	(367)	(3)
Less: Overdrafts included in "amounts due to immediate holding company"	(640)	(1,121)
	140,893	162,860

	2016 HK$'M	2015 HK$'M
(b) Reconciliation with the consolidated statement of financial position		
Cash and balances with banks, central banks, and other financial institutions	15,332	48,769
Trading assets	15,634	18,597
Placements with banks and other financial institutions	156,750	119,658
Investment securities	207,471	210,572
Amounts due from immediate holding company and fellow subsidiaries	62,849	46,462
Overdrafts included in "deposits and balances of banks and other financial institutions"	(367)	(3)
Overdrafts included in "amounts due to immediate holding company"	(640)	(1,121)
Amounts shown in the consolidated statement of financial position	457,029	442,934
Less: amounts with an original maturity of beyond three months	(316,136)	(280,074)
Cash and cash equivalents in the consolidated cash flow statement	140,893	162,860

35 Derivative financial instruments

The use of derivatives for trading and their sale to customers as risk management products is an integral part of the Bank's business activities. These instruments are also used to manage the Bank's own exposures to market risk as part of its asset and liability management process. The principal derivative instruments used by the Bank are foreign exchange related and interest rate related contracts, which are primarily over-the-counter derivatives. Most of the Bank's derivative positions have been entered into to meet customer demand and to hedge these and other trading positions. For accounting purposes, derivatives are classified as either held for trading or held for hedging.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

35 Derivative financial instruments (continued)

(a) Notional amounts of derivatives

The notional amounts of these instruments indicate the volume of transactions outstanding and do not represent amounts at risk.

The following is a summary of the notional amounts of each significant type of derivative entered into by the Bank and its subsidiaries:

	2016			
	Qualifying for hedge accounting HK$'M	*Managed in conjunction with financial instruments designated at fair value through profit or loss HK$'M*	*Others, including held for trading HK$'M*	*Total HK$'M*
Exchange rate contracts				
Forwards	–	–	1,012,402	1,012,402
Cross currency swaps	32,607	2,491	1,001,251	1,036,349
Options purchased	–	1,986	874	2,860
Options written	–	631	5,285	5,916
Interest rate contracts				
Swaps	75,072	–	98,458	173,530
Options purchased	–	31	–	31
Options written	–	4,929	128	5,057
Other derivatives	–	4,355	3,254	7,609
	107,679	14,423	2,121,652	2,243,754

	2015			
Exchange rate contracts				
Forwards	630	–	1,646,789	1,647,419
Cross currency swaps	39,252	2,224	12,944	54,420
Options purchased	–	2,661	–	2,661
Options written	–	4	4,317	4,321
Interest rate contracts				
Swaps	97,206	1,744	38,706	137,656
Options purchased	–	143	276	419
Options written	–	4,983	–	4,983
Other derivatives	–	6,710	6,074	12,784
	137,088	18,469	1,709,106	1,864,663

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

35 Derivative financial instruments (continued)

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

	2016			2015		
	Fair value assets HK$'M	*Fair value liabilities HK$'M*	*Credit risk weighted amount HK$'M*	*Fair value assets HK$'M*	*Fair value liabilities HK$'M*	*Credit risk weighted amount HK$'M*
Exchange rate contracts	21,941	21,867	2,691	14,931	14,749	3,801
Interest rate contracts	2,653	2,372	818	2,170	2,600	701
Other derivatives	151	101	305	308	209	463
	24,745	24,340	3,814	17,409	17,558	4,965

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 calculated is dependent upon the status of the counterparty and maturity characteristics of each type of contract.

(c) Fair value of derivative financial instruments 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 Bank and its subsidiaries:

	2016	
	Assets (Included in Amounts due from immediate holding company and fellow subsidiaries) HK$'M	*Liabilities (Included in Amounts due to immediate holding company and fellow subsidiaries) HK$'M*
Exchange rate contracts	1,225	824
Interest rate contracts	349	284
	1,574	1,108

	2015	
	Assets (Included in Amounts due from immediate holding company and fellow subsidiaries) HK$'M	*Liabilities (Included in Amounts due to immediate holding company and fellow subsidiaries) HK$'M*
Exchange rate contracts	826	944
Interest rate contracts	480	838
	1,306	1,782

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

35 Derivative financial instruments (continued)

(c) Fair value of derivative financial instruments designated as hedging instruments (continued)

Fair value hedges

The fair value hedges principally consist of interest rate swaps and cross currency swaps. The interest rate swaps are used to protect against changes in the fair value of certain fixed rate assets and liabilities due to movements in market interest rates. The cross currency swaps are used to manage foreign exchange exposures. At 31 December 2016, the net positive fair value of derivatives held as fair value hedges was HK$543 million (2015: negative HK$495 million) comprising assets of HK$1,402 million (2015: HK$1,261 million) and liabilities of HK$859 million (2015: HK$1,756 million). The losses on the hedging instruments for the year were HK$606 million (2015: losses of HK$272 million). The gains on the hedged item attributable to the hedged risk were HK$611 million (2015: gains of HK$233 million).

Cash flow hedges

The cash flow hedges principally consist of interest rate swaps and cross currency swaps that are used to hedge against the variability in cash flows of certain floating rate assets and liabilities. At 31 December 2016, the net negative fair value of derivatives held as cash flow hedges was HK$77 million (2015: positive HK$19 million) comprising assets of HK$172 million (2015: HK$45 million) and liabilities of HK$249 million (2015: HK$26 million). During the year, there was no ineffectiveness recognised in the consolidated income statement that arose from cash flow hedges (2015: Nil).

The time periods in which the hedged cash flows are expected to occur and affect the consolidated statement of comprehensive income are as follows:

	Less than 1 year HK$'M	*1 to 2 years HK$'M*	*2 to 3 years HK$'M*	*3 to 4 years HK$'M*	*4 to 5 years HK$'M*	*Total HK$'M*
			2016			
Forecast receivable cash flows	276	147	109	40	31	603
Forecast payable cash flows	(35)	(45)	(19)	(5)	(1)	(105)
	241	102	90	35	30	498
			2015			
Forecast receivable cash flows	129	72	6	–	68	275
Forecast payable cash flows	(14)	(26)	(24)	(6)	–	(70)
	115	46	(18)	(6)	68	205

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

36 Contingent liabilities and commitments

(a) The following is a summary of the contractual amounts of each significant contingent liability and commitment:

	2016 *HK$'M*	*2015* *HK$'M*
Direct credit substitutes	8,079	7,288
Transaction-related contingencies	7,312	6,259
Trade-related contingencies	13,522	13,124
Forward asset purchases	196	105
Forward forward deposits placed	–	358
Other commitments:		
which are not unconditionally cancellable:		
with original maturity of not more than one year	4,898	1,761
with original maturity of more than one year	19,259	15,726
which are unconditionally cancellable	332,358	339,269
	385,624	383,890
Credit risk weighted amount	35,726	38,333

Contingent liabilities and commitments are credit-related instruments, which include letters of credit, guarantees and commitments to extend credit. The risk involved is similar to the credit risk involved in extending loan facilities to customers. These transactions are, therefore, subject to the same credit application, portfolio maintenance and collateral requirements as for customers applying for loans. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client defaults. As the facilities may expire without being drawn upon, the contracted amounts do not represent expected future cash flows.

(b) Capital commitments

Capital commitments outstanding at 31 December in respect of property, plant and equipment purchases (other than operating lease assets) not provided for in the consolidated financial statements were as follows:

	2016 *HK$'M*	*2015* *HK$'M*
Contracted for	12	5
Authorised but not contracted for	14	4
	26	9

Standard Chartered Leasing Group Limited, a subsidiary of the Bank, has committed to purchase 16 aircrafts for delivery in 2017 and 2018. The combined purchase commitment for these orders totals a maximum of HK$13,446 million. Pre-delivery payments of HK$2,923 million have been made to date with respect of these aircraft.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

36 Contingent liabilities and commitments (continued)

(c) Lease commitments

The Bank and its subsidiaries lease a number of properties under operating leases. The leases typically run for an initial period of two to ten years, with an option to renew the lease when all terms are renegotiated. At 31 December, total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2016 HK$'M	2015 HK$'M
Within 1 year	787	845
After 1 year but within 5 years	1,839	1,882
After 5 years	319	643
	2,945	3,370

During the year, HK$1,005 million (2015: HK$1,031 million) was recognised as an expense in the consolidated income statement in respect of operating leases. The Bank and its subsidiaries lease various premises and equipment under non-cancellable operating lease agreements.

(d) Contingencies

The Bank and its subsidiaries receive legal claims against it arising in the normal course of business. The Bank and its subsidiaries consider none of these matters as material. Where appropriate the Bank and its subsidiaries recognise a provision for liabilities when it is probable that an outflow of economic resources embodying economic benefits will be required and for which a reliable estimate can be made of the obligation.

The Securities and Futures Commission ("SFC") in Hong Kong has been investigating Standard Chartered Securities (Hong Kong) Limited's ("SCSHK") role as a joint sponsor of an initial public offering of a company listed on The Stock Exchange of Hong Kong in 2009. In October 2016 SFC informed the Bank that it intends to commence action against SCSHK and other parties. On 16 January 2017 a writ was filed by the SFC with Hong Kong's High Court. The writ names SCSHK as one of six defendants from whom the SFC is seeking compensation for an unspecified amount of losses incurred by certain shareholders in relation to the initial public offering. There may be financial consequences for SCSHK in connection with this matter.

37 Risk management

The management of risk lies at the heart of the Bank's business. One of the principal risks the Bank incurs arises from extending credit to customers through its trading and lending operations. Beyond credit risk, the Bank is also exposed to a range of other risk types such as cross-border country, market, liquidity, operational, pensions, reputational and other risks that are inherent to the Bank's strategy, product range and business coverage.

Risk management framework

Effective risk management is essential consistent and sustainable performance for all of our stakeholders and is therefore a central part of the financial and operational management of the Bank. The Bank adds value to clients and therefore the communities in which they operate, generating returns for shareholders by taking and managing risk.

Notes to the consolidated financial statements (continued)
(Expressed in millions of Hong Kong dollars)

37 Risk management (continued)

Risk management framework (continued)

Through its Risk Management Framework (“RMF”) the Bank manages enterprise-wide risks, with the objective of maximising risk-adjusted returns while remaining within its risk appetite.

As part of this framework, the Board has approved a set of principles that describe the risk management culture the Bank wishes to sustain:

Balancing risk and return

- We manage our risks to build a sustainable franchise, in the interests of all our stakeholders
- We only take risk within our risk appetite and risk tolerance, and where consistent with our approved strategy
- We manage our risk profile so as to maintain a low probability of an unexpected loss event that would materially undermine the confidence of our investors

Conduct of business

- We demonstrate we are “Here for Good” through our conduct, and are mindful of the reputational consequences of inappropriate conduct
- We seek to achieve good outcomes for clients, investors, and the markets in which we operate, while abiding by the spirit and letter of laws and regulations
- We treat our colleagues fairly and with respect

Responsibility and Accountability

- We take individual responsibility to ensure risk-taking is disciplined and focused, particularly within our area of authority
- We make sure risk taking is transparent, controlled and reported in line with the Risk Management Framework, within risk appetite and risk tolerance boundaries, and only where there is appropriate infrastructure and resource

Anticipation

- We seek to anticipate material future risks, learn lessons from events that have produced adverse outcomes and ensure awareness of known risks

Competitive advantage

- We seek to achieve competitive advantage through efficient and effective risk management and control

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

37 Risk management (continued)

Risk governance

Ultimate responsibility for setting the Bank's risk appetite statement and for the effective management of risk rests with the Board.

Acting within an authority delegated by the Board, the Board's Audit and Risk Committee ("BARC"), whose membership is comprised exclusively of non-executive directors, has responsibility for oversight and review of prudential risks, including but not limited to credit, country cross-border, market, pension, capital, liquidity and funding and operational risks. It reviews the Bank's overall risk appetite statement and makes recommendations thereon to the Board.

Acting within an authority delegated by the Board via the Executive Committee ("ExCo"), the Bank's Executive Risk Committee ("ERC") is responsible for the management of all risks other than those delegated to the Asset and Liability Committee ("ALCO") and the Country Pensions Committee ("CPC").

The ERC is responsible for the management of all risks other than those delegated to ALCO and CPC. The ERC is responsible for the establishment of, and compliance with policies relating to credit risk, country cross-border risk, market risk, operational risk and reputational risk. The ERC also defines the overall Risk Management Framework.

The ALCO is responsible for determining the Bank's approach to balance sheet management and ensuring that, in executing the Bank's strategy, the Bank operates within the internally approved and externally required capital, liquidity and leverage risk appetite. It is also the responsible for policies relating to balance sheet management, including management of our liquidity, capital adequacy and structural foreign exchange and interest rate risk and tax exposure. The CPC is responsible for the management of Pensions Risk.

The committee governance structure ensures that risk-taking authority and risk management policies are cascaded down from the Board through to the appropriate functional, client segment and country-level senior management and committees. Information regarding material risk issues and compliance with policies and standards is communicated to the appropriate client segment, functional and senior management and committees.

Roles and responsibilities for risk management are defined under a Three Lines of Defence model. Each line of defence describes a specific set of responsibilities for risk management and control.

- First line of defence: all employees are required to ensure the effective management of risks within the scope of their direct organisational responsibilities. Business unit, function and geographic heads are accountable for risk management in their respective businesses and functions, and for countries where they have governance responsibilities.

- Second line of defence: this comprises the risk control owners, supported by their respective control functions. Risk control owners are responsible for ensuring that the residual risks within the scope of their responsibilities remain within risk appetite and risk tolerance boundaries. The scope of a risk control owner's responsibilities is defined by a given risk type and the risk management processes that relate to that risk type. These responsibilities cut across the Bank and are not constrained by functional and business boundaries. The major risk types are described individually in the following sections.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

37 Risk management (continued)

Risk governance (continued)

- Third line of defence: the independent assurance provided by the Internal Audit ("IA") function. Its role is defined and overseen by the BARC.

  IA provides independent assurance of the effectiveness of management's control of its own business activities (the first line) and of the processes maintained by the risk control functions (the second line). As a result, IA provides assurance that the overall system of control effectiveness is working as required within the Risk Management Framework.

The Risk function

The Country Chief Risk Officer ("CCRO") directly manages a Risk function that is separate from and independent from the origination, trading and sales functions of the businesses. The CCRO chairs the ERC and is a member of ExCo.

The role of the Risk function is:

- To maintain the RMF, ensuring it remains appropriate to the Bank's activities, is effectively communicated and implemented across the Bank and to administer related governance and reporting processes.

- To uphold the overall integrity of the Bank's risk/return decisions, and in particular ensure that risks are properly assessed, that risk/return decisions are made transparently on the basis of this proper assessment, and are controlled in accordance with the Bank's standards and risk appetite.

- To exercise direct risk control ownership for credit, market, country cross-border and operational risk types.

The independence of the Risk function is to ensure that the necessary balance in risk/return decisions is not compromised by short-term pressures to generate revenues. This is particularly important given that revenues are recognised from the point of sale, while losses arising from risk positions typically manifest themselves over time.

In addition, the Risk function is a centre of excellence that provides specialist capabilities of relevance to risk management processes in the wider organisation.

Credit, country cross-border, market, liquidity and funding, operational, reputational, pension and strategic risk are covered in pages 73 to 101 and the approach to capital risk on pages 101 to 102.

Risk appetite and tolerance

In 2016 our risk appetite and risk tolerance definitions were updated. We recognise three sets of constraints which determine the risks that we are willing to take in pursuit of our strategy and the development of a sustainable business:

- Risk capacity defines externally imposed constraints within which the Bank must operate. It is the maximum level of risk the Bank can assume, given its current capabilities and resources, before breaching constraints determined by regulatory capital and liquidity requirements, or otherwise failing to meet the expectations of regulators and law enforcement agencies.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

37 Risk management (continued)

Risk appetite and tolerance (continued)

- Risk appetite is defined by the Board that determines the maximum amount and type of risk that the Bank is willing to assume in pursuit of its strategy. Risk appetite cannot exceed risk capacity.

- Risk tolerances are outer constraints defined by the Bank for each risk type via metrics and thresholds. The Risk Tolerance are a reflection of the Bank's Risk Appetite.

The Bank's risk profile is the Bank's overall exposure to risk, at a given point in time, covering all applicable risk types. Risk control tools such as exposure limits, underwriting standards, scorecard cut-offs and policies and other operational control parameters are used to keep the Bank's risk profile within risk appetite (and therefore also risk capacity). Status against risk appetite is reported to the BARC. This includes the reporting of breaches.

The Board has approved a Risk Appetite Statement, which is underpinned by a set of financial and operational control parameters, known as risk tolerances. These risk tolerances directly constrain the aggregate risk exposures that can be taken across the Bank. The number of risk tolerances has been increased in 2016 to include greater breath and greater granularity for credit, capital, market and operational risks. A strategic risk statement has been introduced for the first time.

The Bank's Risk Appetite Statement, and the related risk tolerance categories approved by the Board, are as follows:

- General: the Bank will not compromise adherence to its risk tolerances in order to pursue revenue growth or higher returns.

- Credit and country cross-border: the Bank manages its credit and country cross-border exposures, following the principles of diversification across products, client segments and industry sectors.

- Capital and earnings volatility: the Bank should maintain a strong capital position including the maintenance of management buffers sufficient to support its strategic aims.

- Market risk: the Bank should control its trading portfolio and activities to ensure that market risk losses (financial or reputational) do not cause material damage to the Bank's franchise or the Group franchise.

- Liquidity risk: the Bank should be able to meet its payment and collateral obligations under extreme but plausible liquidity stress scenarios without recourse to extraordinary central bank support (or support from the Group).

- Operational risk: the Bank aims to control operational risks to ensure that operational losses (financial or reputational), including any related to conduct of business matters, do not cause material damage to the Bank's franchise or the Group's franchise.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

37 Risk management (continued)

Risk appetite and tolerance (continued)

- Reputational risk: the Bank will protect its reputation to ensure that there is no material damage to the Bank's franchise or the Group franchise.

- Pension Risk: the Bank will manage its pension plans such that:

  - There is no material unexpected deterioration in the funding requirements or other financial metrics.

  - Members' benefits will continue in their current form although management actions such as a removal of discretionary benefits are allowable in the case of a market stress event.

The ERC and ALCO are responsible for ensuring that the Bank's risk profile is managed in compliance with the risk tolerances set by the Board.

Stress testing

Stress testing and scenario analysis are used to assess the ability of the Bank to continue operating effectively under extreme but plausible macro-financial conditions.

The Bank's approach to stress testing is designed to:

- Contribute to the setting and monitoring of executive level risk appetite and risk management more generally.

- Identify key risks to capital and liquidity position, strategy, franchise, and reputation.

- Support the development of management actions and contingency plans, including business continuity, to ensure the Bank can recover from extreme but plausible conditions.

- Meet regulatory requirements.

The Bank's stress testing focuses on the potential impact of macro-financial, geo-political and physical events on relevant geographies, client segments and risk types including amongst others credit risk which is discussed in more detail below.

(a) Credit risk

Credit risk is the potential for loss due to the failure of a counterparty to meet its obligations to pay the Bank in accordance with agreed terms. Credit exposures may arise from both the banking and trading books.

Credit risk is managed through a framework that sets out policies and procedures covering the measurement and management of credit risk. There is a clear segregation of duties between transaction originators in the businesses and the approvers in the Risk function. All credit exposure limits are approved within a defined credit approval authority framework. The Bank manages its credit exposures following the principle of diversification across products, geographies, industries, collateral types and client segments.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

37 Risk management (continued)

(a) Credit risk (continued)

Group-wide credit policies and standards are considered and approved by recognized second line risk committees or individual with appropriate delegated authority. The Group Risk Committee ("GRC") oversees the delegation of credit approval and loan impairment provisioning authorities. The principles for the delegation, review and maintenance of credit approval authorities are defined in the Risk Authorities policy. In addition, there are other Group-wide policies integral to credit risk management such as those relating to stress testing, risk measurement and impairment provisioning.

The ERC approves policies and standards based on those approved by GRC, risk limits and risk exposure delegated approval authority frameworks. When approving risk policies and standards, the ERC takes into account the requirements of the Hong Kong Banking Ordinance and the guidelines issued by the HKMA with respect to large exposures, connected lending and provisioning requirements.

Credit rating and measurement

Risk measurement plays a central role, along with judgement and experience, in informing risk-taking and portfolio management decisions.

Since 1 January 2008, the Bank has used the Advanced Internal Ratings-Based (IRB) approach under the Basel II regulatory framework to calculate credit risk capital requirements.

A standard alphanumeric credit risk-grade ("CG") system for Corporate & Institutional Banking and Commercial Banking is used. The numeric grades run from 1 to 14 and some of the grades are further sub-classified. Lower credit grades are indicative of a lower likelihood of default. Credit grades 1 to 12 are assigned to performing customers or accounts, while credit grades 13 and 14 are assigned to non-performing or defaulted customers.

Retail Banking IRB portfolios use application and behaviour credit scores that are calibrated to generate a probability of default and then mapped to the standard alphanumeric credit risk grade system. We refer to external ratings from credit bureau, however, we do not rely solely on these to determine Retail Banking CGs.

Advanced IRB models cover a substantial majority of the Bank's exposure and are used in assessing risks at customer and portfolio level, setting strategy and optimising the Bank's risk-return decisions.

IRB risk measurement models are approved by the ERC, on the recommendation of the Group Model Assessment Committee ("MAC") and the Bank's Model Assessment Forum ("MAF"). The Bank's MAF supports the ERC in ensuring risk identification and measurement capabilities are objective and consistent, so that risk control and risk origination decisions are properly informed. Prior to review by the MAF, all IRB models are validated in detail by a model validation team, which is separate from the teams which develop and maintain the models. Models undergo annual periodic review. Reviews are also triggered if the performance of a model deteriorates materially against predetermined thresholds during the ongoing model performance monitoring process.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

37 Risk management (continued)

(a) Credit risk (continued)

Credit Approval

The Bank has been locally incorporated since 1 July 2004. Since then, the approval process reflects that strategic decisions are being made in accordance with individual managers' delegated authorities and the terms of reference of the appropriate committees. It is recognised that, as a major part of the Group, all significant risk decisions emanating from Hong Kong will have an impact to the Group, be it regulatory, concentration, strategic, etc. It is therefore recognised that it is essential for the Group to consider such transactions to ensure that these Group issues are included as part of the decision making process. Delegated authorities approved by the ERC are delegated to the key risk managers to ensure that all risk decisions are made within the Bank. Where proposals fall outside of the individual's authorities, the advice and guidance of the Group is sought. In such cases, the relevant Group authority, whether an individual or a committee, will review the proposal from a Group perspective and give their recommendation. On receipt of such recommendation, the Bank's Excess Approval Committee ("EAC"), being a sub-committee of the ERC, will meet to consider such advice and reach a suitable decision. All the credit applications approved by the EAC will be reported at each ERC meeting for noting.

All credit proposals are subject to a robust credit risk assessment. It includes a comprehensive evaluation of the client's credit quality, including willingness, ability and capacity to repay. The primary lending consideration is usually based on the client's credit quality and the repayment capacity from operating cash flows for counterparties; and leverage position. Where applicable, the assessment includes a detail analysis of the credit risk mitigation arrangements to determine the level of reliance on such arrangements as the secondary source of repayment in the event of a significant deterioration in a client's credit quality leading to default. Lending activities that are considered as high risk or non-standard are subjected to stricter minimum requirements and require escalation to a senior credit officer or authorized body.

Credit concentration risk

Credit concentration risk may arise from a single large exposure to a counterparty or a group of connected counterparties, or from multiple exposures across the portfolio that are closely correlated.

Large exposure concentration risk is managed through concentration limits set by counterparty or groups of connected counterparties.

At the portfolio level, credit concentration thresholds are set and monitored to control concentration, where appropriate, by country, industry, product, tenor, collateral type, collateralization level and credit risk profile.

Credit concentrations are monitored by the ERC and concentration limits that are material to the Bank are reviewed and approved at least annually by the ERC.

Credit monitoring

The Bank and its subsidiaries regularly monitor credit exposures, portfolio performance, and external trends that may impact risk management outcomes.

Internal risk management reports that are presented to risk committees contain information on key environmental, political and economic trends across major portfolios and countries; portfolio delinquency and loan impairment performance.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

37 Risk management (continued)

(a) Credit risk (continued)

Credit monitoring (continued)

The Bank's Credit Issues Committee ("CIC") meets regularly to assess the impact of external events and trends on the Corporate & Institutional Banking and Commercial Banking credit risk portfolio and to define and implement the Bank's response in terms of appropriate changes to portfolio shape, portfolio and underwriting standards, risk policy and procedures.

Client accounts are placed on Early Alert when they display signs of actual or potential weakness. For example where there is a decline in the client's position within the industry, a financial deterioration, a breach of covenants, non-performance of an obligation within the stipulated period, or there are concerns relating to ownership or management.

Such accounts and portfolios are subjected to a dedicated process overseen by the CIC. This is to maintain an effective oversight over the existing Early Alert portfolio. Client account plans and credit grades are re-evaluated. In addition, remedial actions are agreed and monitored. Remedial actions include, but are not limited to, exposure reduction, security enhancement, exiting the account or immediate movement of the account into the control of Group Special Assets Management ("GSAM"), the Bank's specialist recovery unit.

The Retail Banking Credit Issues Forum ("CIF") is a sub-forum of the ERC. The CIF meets regularly to assess relevant credit matters, which include market developments with direct credit implications, credit policy changes, prominent or emerging credit concerns, portfolio performance monitoring, and mitigating actions.

For Retail Banking exposures, portfolio delinquency trends are monitored continuously at a detailed level. Individual customer behaviour is also tracked and considered for lending decisions. Accounts that are past due or charge-off are subject to a collections or recovery process respectively, and managed independently by the Risk function.

Credit mitigation

Potential credit losses from any given account, client or portfolio are mitigated using a range of tools such as collateral, netting agreements, credit insurance, credit derivatives and guarantees. The reliance that can be placed on risk mitigants is carefully assessed in light of issues such as legal certainty and enforceability, market valuation correlation and counterparty risk of the protection provider. The requirement for risk mitigation is, however, not a substitute for the ability to pay, which is the primary consideration for any lending decisions.

Credit policies set out the key consideration for eligibility, enforceability and effectiveness of credit risk mitigation arrangements.

Collateral types which are eligible for risk mitigation include: cash; residential, commercial and industrial property; fixed assets such as motor vehicles, aircraft, plant and machinery; marketable securities; commodities; bank guarantees; and standby letters of credit.

The bank has credit policies and procedures in place setting out the criteria for collateral to be recognised as a credit risk mitigant, including requirements concerning legal certainty, priority, concentration, correlation, liquidity and valuation parameters such as frequency of review and independence.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

37 Risk management (continued)

(a) Credit risk (continued)

Credit mitigation (continued)

All items pledged as collateral must be valued independently and an active secondary resale market for the collateral must exist. The collateral must be independently valued prior to drawdown and regularly thereafter. The valuation frequency is at minimum annual and more frequent valuations are driven by the level of price volatility of each type of collateral and the nature of the underlying product or risk exposure. Risk mitigation benefits may be reduced or removed where the collateral value is not supported by a recent independent valuation.

For financial collateral to be eligible for recognition, the collateral must be sufficiently liquid and its value over time sufficiently stable to provide appropriate certainty as to the credit protection achieved.

Documentation must be held to enable the Bank to realise the collateral without the cooperation of the obligor in the event that this is necessary.

For certain types of lending, typically mortgages or asset financing where a first charge over the risk mitigant must be attained, the right to take charge over physical assets is significant in terms of determining appropriate pricing and recoverability in the event of default. The requirement for collateral is, however, not a substitute for the ability to pay, which is the primary consideration for any lending decisions (except in Private Banking and Wealth Management Lending).

Collateral values are, where appropriate, adjusted to reflect current market conditions, the probability of recovery and the period of time to realise the collateral in the event of liquidation. Stress tests are performed on changes in collateral values for key portfolios to assist senior management in managing the risks in those portfolios. The Group also seeks to diversify its collateral holdings across asset classes and markets.

Where guarantees, credit insurance or credit derivatives are used as credit risk mitigation, the creditworthiness of the protection provider is assessed and monitored using the same credit approval process applied to the obligor. The main types of guarantors include banks, insurance companies, parent companies, governments and export credit agencies.

Traded Products

Credit risk from traded products derives from the positive mark-to-market value of the underlying instruments, and an additional component to cater for potential market movements. This counterparty credit risk is managed within the Bank's overall credit risk appetite for corporate and financial institutions and relies on various single and multi-risk factor stress test scenarios to measure, identify and risk manage counterparty credit risk across derivatives and securities financing transactions.

The Bank uses bilateral and multilateral netting to reduce pre settlement and settlement counterparty credit risk. Pre-settlement risk exposures are normally netted using bilateral netting documentation in legally approved jurisdictions. Settlement exposures are generally netted using Delivery versus Payments or Payment versus Payments systems. Master netting agreements are generally enforced only in the event of default. In line with HKAS 32 / IAS 32, derivative exposures are presented on a gross basis in the financial statements as such transactions are not intended to be settled net in the ordinary course of business.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

37 Risk management (continued)

(a) Credit risk (continued)

Credit mitigation (continued)

Traded Products (continued)

In addition, the Bank enters into Credit Support Annexes ("CSA") with counterparties where collateral is deemed a necessary or desirable mitigant to the exposure.

Wrong way risk occurs when an exposure increase is coupled with a decrease in the credit quality of the obligor. Specifically, as the mark-to-market on a derivative contract increases in favour of the Bank, the driver of this mark-to-market change also reduces the ability of the counterparty to meet its payment, margin call or collateral posting requirements. The Bank employs various policies and procedures to ensure that wrong way risk exposures are recognised upfront and monitored.

Securities

Within Corporate & Institutional Banking and Commercial Banking, the portfolio limits and parameters for the underwriting and purchase of all pre-defined securities assets to be held for sale are approved by the Bank's Excess Approval Committee with support by the Group's Underwriting Committee ("UC"). The Excess Approval Committee is established under the authority of ERC. Corporate & Institutional Banking and Commercial Banking business operates within set limits, which include country, single issuer, holding period and credit grade limits.

Day to day credit risk management activities for traded securities are carried out by a specialist team within the Risk function whose activities include oversight and approval within the levels delegated by the UC. Issuer credit risk, including settlement and pre-settlement risk, and price risk are controlled by the Risk function.

The UC approves individual proposals to underwrite new corporate security issues for clients. Where an underwritten security is held for a period longer than the target sell-down period, the final decision on whether to sell the position rests within the Risk function.

<u>Maximum exposure to credit risk</u>

The maximum exposures to credit risk of on-balance sheet financial instruments, before taking account of any collateral or other credit enhancements is the carrying amount reported on the consolidated statement of financial position. For off-balance sheet instruments, the maximum exposure to credit risk, which excludes loan commitments which are unconditionally cancellable, is the contractual nominal amounts as set out below:

	2016 *HK$'M*	*2015* *HK$'M*
Financial guarantees and other credit related contingent liabilities	28,913	26,671
Loan commitments and other credit related commitments	24,353	17,950
	53,266	44,621

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

37 Risk management (continued)

(a) Credit risk (continued)

(i) Loans and advances

The requirement for collateral is not a substitute for the ability to pay, however, which is the primary consideration for any lending decisions. In determining the financial effect of collateral held against loans neither past due nor impaired, the Bank have assessed the significance of the collateral held in relation to the type of lending.

Loans neither past due nor impaired

At 31 December 2016, the Bank and its subsidiaries have HK$221,870 million (2015: HK$214,572 million) of mortgage loans in Retail Banking that are neither past due nor impaired. These are generally fully secured exposures (2015: fully secured).

In Corporate & Institutional Banking and Commercial Banking, the Bank and its subsidiaries have HK$156,713 million (2015: HK$141,857 million) of corporate exposures that are neither past due nor impaired. Based on the fair value of the collateral held, 23% (2015: 28%) of these exposures are secured by tangible collateral.

The Bank and its subsidiaries also undertake collateralised lending and borrowing (reverse repos and repos) arrangements, and the collateral held against these types of loans are set out in note 39 to the consolidated financial statements.

Non-tangible collateral – such as guarantees and letters of credit – may also be held against corporate exposures although the financial effect of this type of collateral is less significant in terms of recoveries. It is not practicable to quantify the effect of this collateral as the value of the collateral is conditional on circumstances at the time of default and other credit related factors.

Loans past due or impaired

The fair value of collateral held against past due or impaired loans is detailed in the table below as at 31 December:

	2016		*2015*	
	Advances to customers HK$'M	*Advances to banks HK$'M*	*Advances to customers HK$'M*	*Advances to banks HK$'M*
Estimated fair value of collateral (Note):				
Held against impaired advances	934	–	1,452	–
Held against past due but not impaired advances	2,101	–	1,399	–

(Note) The fair value of the collateral held represents fair value, after taking into account the effects of over-collateralisation where it is not available for offset against other loans.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

37 Risk management (continued)

(a) Credit risk (continued)

(i) Loans and advances (continued)

Repossessed Collateral

As at 31 December, the amount of assets obtained by taking possession of collateral held as security were as follows:

	2016 HK$'M	*2015 HK$'M*
Property, plant and equipment	298	185

Loan collateral acquired from borrowers due to restructuring or their inability to repay, continues to be recorded as "Advances to customers" in the consolidated statement of financial position at the lower of fair value (less costs to sell) and the carrying amount of the loan (net of any impairment allowances), until the collateral is realised.

Repossessed collateral obtained are intended to be realised in an orderly fashion to repay the impaired loans and are not held for the own use of the Bank and its subsidiaries.

(ii) Off-balance sheet exposures

For certain types of exposures such as letters of credit and guarantees, the Bank and its subsidiaries obtain collateral such as cash depending on internal credit risk assessments. However, for trade finance products such as letters of credit, the Bank and its subsidiaries will normally hold legal title to the underlying assets should a default take place.

Credit quality

(i) Analysis of the loan portfolio

	2016		*2015*	
	Advances to customers HK$'M	*Advances to banks HK$'M*	*Advances to customers HK$'M*	*Advances to banks HK$'M*
Loans and advances				
– neither past due nor impaired	435,229	154,359	411,174	119,653
– past due but not impaired	3,100	2,391	2,082	5
– impaired, net of individually assessed impairment provision	2,256	–	2,507	–
Less: collectively assessed impairment provision	(563)	–	(808)	–
	440,022	156,750	414,955	119,658

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

37 Risk management (continued)

(a) Credit risk (continued)

(i) Analysis of the loan portfolio (continued)

The following tables set out an analysis of the internal credit gradings for advances which are not past due and for which no individual impairment provision has been raised. The credit gradings set out in the tables below are based on a probability of default measure as set out on page 74.

	2016		2015	
	Advances to customers HK$'M	Advances to banks HK$'M	Advances to customers HK$'M	Advances to banks HK$'M
Credit grades:				
1 to 5	323,671	149,015	294,070	118,920
6 to 8	85,214	5,287	88,339	676
9 to 11	25,449	57	27,891	57
12	895	–	874	–
	435,229	154,359	411,174	119,653

The following tables set out the ageing of advances which are past due and for which no individual impairment provision has been raised. A loan is considered to be past due when the counterparty has failed to make a principal or interest payment when contractually due. Past due does not necessarily mean that the counterparty is impaired.

	2016		2015	
	Advances to customers HK$'M	Advances to banks HK$'M	Advances to customers HK$'M	Advances to banks HK$'M
Past due				
– up to 30 days	2,695	2,391	1,775	5
– 31 - 60 days	280	–	165	–
– 61 - 90 days	54	–	58	–
– 91 - 120 days	35	–	48	–
– 121 - 150 days	36	–	36	–
	3,100	2,391	2,082	5

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

37 Risk management (continued)

(a) Credit risk (continued)

(ii) Analysis of debt securities (including certificates of deposit), equity shares and treasury bills

	2016			
	Treasury bills HK$'M	*Debt securities HK$'M*	*Equity shares HK$'M*	*Total HK$'M*
Impaired securities	–	–	12	12
Impairment provisions	–	–	(6)	(6)
Net impaired securities	–	–	6	6
Securities neither past due nor impaired	64,738	157,109	472	222,319

	2015			
	Treasury bills HK$'M	*Debt securities HK$'M*	*Equity shares HK$'M*	*Total HK$'M*
Impaired securities	–	–	19	19
Impairment provisions	–	–	(11)	(11)
Net impaired securities	–	–	8	8
Securities neither past due nor impaired	63,864	164,560	922	229,346

The following table analyses debt securities (including certificates of deposit) and treasury bills which are neither past due nor impaired by external credit rating. The standard credit ratings used by the Bank are those used by Standard & Poors or their equivalent. Debt securities held which have a short-term rating are reported against the long-term rating of the issuer.

	2016		2015	
	Treasury bills HK$'M	*Debt securities HK$'M*	*Treasury bills HK$'M*	*Debt securities HK$'M*
AAA	–	60,818	–	48,203
AA - to AA +	56,958	27,813	62,618	58,082
A - to A +	7,780	64,374	1,246	53,863
Lower than A -	–	2,651	–	2,595
Unrated	–	1,453	–	1,817
	64,738	157,109	63,864	164,560

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

37 Risk management (continued)

(b) Country cross-border risk

Country cross-border risk is the risk that the Bank will be unable to obtain payment from our customers or third parties on their contractual obligations as a result of certain actions taken by foreign governments, chiefly relating to convertibility and transferability of foreign currency.

The ERC is responsible for country cross-border risk limits and delegates the setting and management of those limits to the country's Risk function. The business heads and chief executive officer manage exposures within these limits and policies. Countries designated as higher risk are subject to increased monitoring.

Assets that generate country cross-border exposure are those where the main source of repayment or security is derived from a country other than the country in which the asset is booked. These cover a wide range of products including loans and advances, interest-bearing deposits with other banks, trade and other bills, acceptances, amounts receivable under finance leases, derivatives, certificates of deposit and other negotiable paper, investment securities and formal commitments. Cross-border assets also include exposures to local residents denominated in currencies other than the local currency and local currency assets funded by intra-group funding. Cross-border exposure also includes the value of commodity, aircraft and shipping assets owned by the Bank that are held in a given country.

(c) Market risk management

Market risk is the potential for loss of economic value due to adverse changes in financial market rates or prices. The Bank's exposure to market risk arises predominantly from providing clients access to financial markets, facilitation of which entails the Bank taking moderate market risk positions. All trading teams support client activity; there are no proprietary trading teams. Hence, income earned from market risk related activities is primarily driven by the volume of client activity rather than risk-taking. Market risk also arises in the non-trading book from the requirement to hold a large liquid assets buffer of high-quality liquid debt securities and from the translation of foreign currency denominated assets, liabilities and earnings.

The primary categories of market risk for the Bank are:

- interest rate risk: arising from changes in yield curves, credit spreads and implied volatilities on interest rate options;

- currency exchange rate risk: arising from changes in exchange rates and implied volatilities on foreign exchange options.

Market risk governance

The Bank sets the Bank's risk appetite for market risk. Subject to the risk appetite set for market risk, the ERC approves the Bank's overall market risk VaR and stress loss triggers taking account of market volatility, the range of products and asset classes, business volumes and transaction sizes. The ERC is responsible for setting business and desk level VaR, and stress loss triggers for market risk. The ERC is also responsible for policies and other standards for the control of market risk and overseeing their effective implementation. These policies cover both trading and non-trading books of the Bank.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

37 Risk management (continued)

Market risk governance (continued)

The Market and Traded Credit Risk function ("MTCR") approves the limits within delegated authorities and monitors exposures against these limits. Additional limits are placed on specific instruments and position concentrations where appropriate. Sensitivity measures are used in addition to VaR as risk management tools. For example, interest rate sensitivity is measured in terms of exposure to a one basis point increase in yields.

Value at Risk

The Bank measures the risk of losses arising from future potential adverse movements in market rates, prices and volatilities using a VaR methodology. VaR, in general, is a quantitative measure of market risk that applies recent historical market conditions to estimate the potential future loss in market value that will not be exceeded in a set time period at a set statistical confidence level. VaR provides a consistent measure that can be applied across trading businesses and products over time and can be set against actual daily trading profit and loss outcome.

VaR is calculated for expected movements over a minimum of one business day and to a confidence level of 97.5 per cent. This confidence level suggests that potential daily losses in excess of the VaR measure are likely to be experienced six times per year.

The Bank applies two VaR methodologies:

- Historical simulation: involves the revaluation of all existing positions to reflect the effect of historically observed changes in market risk factors on the valuation of the current portfolio. This approach is applied for general market risk factors and the majority of specific (credit spread) risk VaR.

- Monte Carlo simulation: this methodology is similar to historical simulation but with considerably more input risk factor observations. These are generated by random sampling techniques, but the results retain the essential variability and correlations of historically observed risk factor changes. This approach is applied for some of the specific (credit spread) risk VaR in relation to idiosyncratic exposures in credit markets.

In both methods, an historical observation period of one year is chosen and applied.

Stress Testing

Losses beyond the 97.5 per cent confidence interval are not captured by a VaR calculation, therefore VaR calculation gives no indication of the size of unexpected losses in these situations.

MTCR complements the VaR measurement by weekly stress testing of market risk exposures to highlight the potential risk that may arise from extreme market events that are rare but plausible.

Stress testing is an integral part of the market risk management framework and considers both historical market events and forward-looking scenarios. A consistent stress testing methodology is applied to trading and non-trading books. The stress testing methodology assumes that scope for management action would be limited during a stress event, reflecting the decrease in market liquidity that often occurs.

Stress scenarios are regularly updated to reflect changes in risk profile and economic events. MTCR reviews stress exposures and, where necessary, enforces reductions in overall market risk exposure. The ERC considers the results of stress tests as part of its supervision of risk appetite.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

37 Risk management (continued)

(c) Market risk management (continued)

Stress Testing (continued)

Regular stress test scenarios are applied to interest rates, credit spreads, and exchange rates. This covers all asset classes in the Financial Markets banking and trading books.

Ad hoc scenarios are also prepared reflecting specific market conditions and for particular concentrations of risk that arise within the business.

Market risk VaR coverage

Interest rate risk from non-trading book portfolios is transferred to Financial Markets where it is managed by the Asset and Liability Management (ALM) desk under the supervision of ALCO. ALM deals in the market in approved financial instruments in order to manage the net interest rate risk, subject to approved VaR and risk limits.

VaR and stress tests are therefore applied to these non-trading book exposures (except Group Treasury, see below) in the same way as for the trading book, including available-for-sale securities. Securities classed as Loans and Receivables or Held to Maturity are not reflected in VaR or stress tests since they are accounted on an amortised cost basis, so market price movements have limited effect on either profit and loss or reserves.

Structural foreign exchange currency risks are managed by Group Treasury, and are not included within VaR. Otherwise, the non-trading book does not run open foreign exchange positions.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

37 Risk management (continued)

(c) Market risk management (continued)

Market risk VaR coverage (continued)

Trading and Non-trading (VaR at 97.5%, 1 day)

Value at risk:	*2016*				*2015*			
	Average HK$'M	*High** HK$'M*	*Low** HK$'M*	*Actual* HK$'M*	*Average HK$'M*	*High** HK$'M*	*Low** HK$'M*	*Actual* HK$'M*
Interest rate risk ^	57.5	74.4	42.9	56.1	51.3	67.9	35.1	54.9
Foreign exchange risk	5.5	17.7	1.9	7.7	3.8	10.6	0.9	7.7
Total ^^	56.3	73.6	41.6	55.9	51.9	67.9	35.2	57.1

Trading (VaR at 97.5%, 1 day)

Value at risk:	*2016*				*2015*			
	Average HK$'M	*High** HK$'M*	*Low** HK$'M*	*Actual* HK$'M*	*Average HK$'M*	*High** HK$'M*	*Low** HK$'M*	*Actual* HK$'M*
Interest rate risk	11.8	24.7	5.3	11.0	9.6	12.9	6.0	11.0
Foreign exchange risk	5.5	17.7	1.9	7.7	3.8	10.6	0.9	7.7
Total ^^	13.4	25.6	6.6	16.8	11.1	20.0	7.0	15.9

Non-trading (VaR at 97.5%, 1 day)

Value at risk:	*2016*				*2015*			
	Average HK$'M	*High** HK$'M*	*Low** HK$'M*	*Actual* HK$'M*	*Average HK$'M*	*High** HK$'M*	*Low** HK$'M*	*Actual* HK$'M*
Interest rate risk ^	54.2	72.6	37.8	57.2	47.2	63.9	30.9	47.1

* Actual one day VaR at period end date.

** Highest and lowest VaR for each risk factor are independent and usually occur on different days.

^ Interest rate risk VaR includes credit spread risk arising from securities held for trading or available-for-sale.

^^ The total VaR shown in the tables above is not a sum of the component risks due to offsets between them. Total included trading book equity risk is insignificant.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

37 Risk management (continued)

(d) Foreign exchange risk

The foreign exchange positions of the Bank and its subsidiaries arise from foreign exchange trading and commercial banking operations. Foreign exchange trading exposures are principally derived from customer driven transactions.

Foreign exchange risk in the non-trading book portfolios is minimised by matching funding assets and liabilities in the same currency.

The Bank and its subsidiaries had the following non-structural foreign currency positions which exceeded 10% of the net non-structural position in all foreign currencies:

	2016 HK$'M	*2015 HK$'M*
US dollars exposure		
Spot assets	364,096	278,272
Spot liabilities	(324,498)	(293,469)
Forward purchases	995,460	838,812
Forward sales	(1,031,735)	(819,270)
Net option position	–	–
Net long non-structural position	3,323	4,345

	2016 HK$'M	*2015 HK$'M*
Chinese renminbi exposure		
Spot assets	57,399	83,495
Spot liabilities	(61,396)	(55,165)
Forward purchases	605,830	564,160
Forward sales	(602,494)	(590,802)
Net option position	–	–
Net (short)/long non-structural position	(661)	1,688

The Bank and its subsidiaries had the following structural foreign currency positions which exceeded 10% of the net structural position in all foreign currencies:

	2016 HK$'M	*2015 HK$'M*
Chinese Renminbi	9,167	8,515
US dollars	2,283	2,147
	11,450	10,662

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

37 Risk management (continued)

(e) Interest rate risk in the banking book

Interest rate risk in the banking book is managed chiefly by the Asset and Liability Management ("ALM") function within Financial Markets. These interest rate risk positions are measured, reported and monitored independently against limits on a daily basis.

Assumptions on loan prepayment and behaviour of deposits are country and product specific. Transfer pricing of interest rate risk is overseen by local ALCOs in accordance with the Bank's Fund Transfer Pricing Policy.

(f) Liquidity and funding risk

Liquidity and Funding Risk is the potential that the Bank does not have sufficient financial resources or stable sources of funding in the medium or long term, to meet its obligations as they fall due, or can access these financial resources only at excessive cost.

- Liquidity Risk is "Potential for loss because the Bank, although solvent, does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can access these financial resources only at excessive cost".

- Funding risk "Potential for actual or opportunity loss because the Bank does not have stable or diversified sources of funding in the medium and long term to enable it to meet its financial obligations, in pursuit of its desired business strategy or growth objectives".

Liquidity and funding risk management

The Bank seeks to manage liquidity and funding prudently. Exceptional market events could impact the Bank adversely, thereby potentially affecting the Bank's ability to fulfill obligations as they fall due.

The Bank has a robust risk type framework for managing the liquidity and funding risk. Through this framework the Bank controls and optimises the risk-return profile. This is principally achieved by:

- Setting Board Risk Appetite aligned with strategic objectives

- Identifying, measuring and monitoring liquidity risks:

  - Assessment of regulatory requirements and internal balance sheet characteristics driving liquidity risk

  - The Bank's liquidity stress testing framework covering both internal and regulatory scenarios

- Constraining risk profile within Board risk appetite:

  - Development of policies to address the liquidity and funding risks identified

  - Implementation of associated risk measures that act as mitigants of these risks

  - Ongoing monitoring of risk measures against limits

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

37 Risk management (continued)

(f) Liquidity and funding risk (continued)

The principal uncertainties for liquidity and funding risk are that customers withdraw their deposits at a substantially faster rate than expected, or that asset repayments are not received on the expected maturity date. To mitigate these uncertainties, the Bank seeks to maintain a well diversified, customer-driven funding base and, access to wholesale funds under normal market conditions.

In addition, the Bank maintains a diversified portfolio of marketable securities that can be monetised or pledged as collateral in the event of a liquidity stress. The Bank's Recovery Plan, reviewed and approved annually, includes a broad set of Recovery Indicators, an escalation framework and a set of management actions that could be effectively implemented by senior management in the event of a liquidity stress.

Liquidity and funding risk governance

The Board approves the Bank's Risk Appetite for liquidity and funding risk along with supporting metrics. The oversight under the liquidity and funding framework resides with the Asset and Liability Committee ("ALCO"), supported by the Asset and Liability Management ("ALM") desk so to ensure they operate within predefined liquidity limits and remain in compliance with Group liquidity policies and practices, as well as local regulatory requirements.

Liquidity management – stress scenarios

The Bank intends to maintain a prudent and sustainable funding and liquidity position such that it can withstand a severe yet plausible liquidity stress.

Regular stress testing is conducted to demonstrate that the Bank's liquidity exposure remains within the approved Board risk appetite.

The internal liquidity stress testing framework includes multiple stress scenarios with varied survival periods and stressed conditions, to appropriately reflect the liquidity risks undertaken by the Bank. The framework includes an idiosyncratic stress, a market-wide stress and a combined stress. The combined stress assumes both idiosyncratic and market-wide events affect the Bank simultaneously and hence is typically the most severe scenario.

The Bank's liquidity stress testing also considers potential currency mismatches between outflows and inflows. Particular focus is paid to mismatches in less liquid currencies and those that are not freely convertible. Mismatches are controlled by management action triggers set by Group Treasury.

ALCO is the primary forum where stress testing results are reviewed and considered for relevant decision making such as determining funding requirements / mix, business strategy, balance sheet growth etc.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

37 Risk management (continued)

(f) Liquidity and funding risk (continued)

Liquidity and funding risk framework

The liquidity and funding risk framework requires the Bank to operate on a standalone basis without implicit reliance on Group support or recourse to extraordinary central bank support.

The Bank achieves this through a combination of setting Board Risk Appetite and associated limits, policy formation, risk measuring and monitoring, prudential and internal stress testing, governance and review.

The liquidity position of the Bank remained strong in 2016 and the Bank continued to maintain good access to wholesale market.

Liquidity metrics

The Bank monitors key liquidity metrics on a regular basis.

Stress Coverage

The Bank intends to maintain a prudent and sustainable funding and liquidity position such that it can withstand a severe but plausible liquidity stress.

The Bank's internal liquidity stress testing framework covers the following scenarios:

Name-specific – This scenario captures the liquidity impact from an idiosyncratic event affecting the Bank only i.e. rest of the market is assumed to operate normally.

Market-wide – This scenario captures the liquidity impact from a market wide crisis affecting all participants in a country, region or globally.

Combined – This scenario is a Board risk tolerance metric. This scenario assumes both a name-specific and a market-wide crisis affecting the Bank simultaneously and hence the most severe scenario.

All scenarios include, but are not limited to, modelled outflows for retail and wholesale funding, off balance sheet funding risk, cross currency funding risk, intraday risk, franchise risk and risks associated with a deterioration of a firm's credit rating.

Stress testing results shows that a positive surplus was maintained under all scenarios at 31 December 2016. The combined scenario at 31 December 2016 showed the Bank maintained liquidity resources to survive greater than 60 days, as per the Bank's Board Risk Appetite.

The Bank's credit ratings as at the end of December 2016 were A+ with stable outlook (S&P) and Aa3 with negative outlook (Moody's). A downgrade in credit rating would increase derivative collateral requirements and outflows due to rating-linked liabilities. The impact of a two-notch downgrade has a minimal impact on the Bank's derivative collateral requirements.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

37 Risk management (continued)

(f) Liquidity and funding risk (continued)

Liquidity Coverage Ratio ("LCR")

The Bank monitors the LCR in line with the Bank of International Settlements and Hong Kong Monetary Authority's guidelines. The Bank reports the LCR on a monthly basis to the Hong Kong Monetary Authority ("HKMA").

Advances-to-deposits ratio

This is defined as the ratio of total loans and advances to customers relative to total customer deposits. An advances-to-deposit ratio of below 100 per cent demonstrates that customer deposits exceed customer loans as a result of the emphasis placed on generating a high level of stable funding from customers. Customer deposits tend to be more stable than wholesale funding and a core portion of these deposits is likely to remain within the Bank for the medium term.

	2016 *HK$'M*	*2015* *HK$'M*
Advances to customers	440,022	414,955
Deposits from customers	778,242	745,701
Advances to deposits ratio	57%	56%

Liquidity Pool

Liquidity assets are the total cash (less restricted balances), treasury bills, loans and advances to banks (less deposits by banks) and debt securities (less illiquid securities). Illiquid securities are debt securities that cannot be sold or exchange easily for cash without substantial loss in value. The Bank keeps sufficient liquid assets to survive a number of stress scenarios.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

37 Risk management (continued)

(f) Liquidity and funding risk (continued)

(i) Contractual maturity of assets and liabilities

The table analyses assets and liabilities in relevant maturity groupings based on the remaining period to the contractual maturity date as at the reporting date on a discounted basis. Contractual maturities do not necessarily reflect actual repayments or cash flow. Within the tables below cash and balances with banks, central banks, interbank placements, and investment securities that are available-for-sale are used by the Bank principally for liquidity management purposes.

	2016							
	Repayable on demand HK$'M	Due within 1 month HK$'M	Due between 1 month to 3 months HK$'M	Due between 3 months to 1 year HK$'M	Due between 1 year to 5 years HK$'M	Due after 5 years HK$'M	Undated HK$'M	Total HK$'M
Assets								
Cash and balances with banks, central banks and other financial institutions	15,332	–	–	–	–	–	–	15,332
Placements with banks and other financial institutions	863	63,795	54,503	32,597	4,078	914	–	156,750
Hong Kong SAR Government certificates of indebtedness	–	–	–	–	–	–	42,211	42,211
Trading assets	116	795	1,533	6,157	3,787	3,242	4	15,634
Financial assets designated at fair value	–	–	–	–	–	370	–	370
Advances to customers	16,238	75,695	32,585	38,453	102,136	176,915	(2,000)	440,022
Investment securities	234	24,702	55,787	64,802	51,685	9,787	474	207,471
Amounts due from group companies	5,313	17,829	17,122	15,853	6,013	1,540	(821)	62,849
Others	1,192	1,401	5,773	6,054	752	10	50,201	65,383
Total Assets	39,288	184,217	167,303	163,916	168,451	192,778	90,069	1,006,022
Liabilities								
Hong Kong SAR currency notes in circulation	–	–	–	–	–	–	42,211	42,211
Deposits and balances of banks and other financial institutions	18,760	2	1	–	911	–	–	19,674
Deposits from customers	613,902	47,772	63,511	50,413	2,429	215	–	778,242
Trading liabilities	–	7,900	300	57	29	3	–	8,289
Financial liabilities designated at fair value	–	156	247	4,011	1,444	3,710	–	9,568
Debt securities in issue	–	7	14	1,041	1,111	–	–	2,173
Amounts due to group companies	11,320	4,456	16,525	12,888	883	8,142	–	54,214
Subordinated liabilities	–	–	–	–	6,088	–	–	6,088
Others	6,540	2,625	5,781	3,993	550	130	232	19,851
Total Liabilities	650,522	62,918	86,379	72,403	13,445	12,200	42,443	940,310

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

37 Risk management (continued)

(f) Liquidity and funding risk (continued)

(i) Contractual maturity (continued)

	2015							
	Repayable on demand HK$'M	Due within 1 month HK$'M	Due between 1 month to 3 months HK$'M	Due between 3 months to 1 year HK$'M	Due between 1 year to 5 years HK$'M	Due after 5 years HK$'M	Undated HK$'M	Total HK$'M
Assets								
Cash and balances with banks, central banks and other financial institutions	48,769	–	–	–	–	–	–	48,769
Placements with banks and other financial institutions	12	64,762	39,993	13,097	1,794	–	–	119,658
Hong Kong SAR Government certificates of indebtedness	–	–	–	–	–	–	38,031	38,031
Trading assets	–	259	1,506	6,094	6,783	3,646	309	18,597
Financial assets designated at fair value	–	–	–	–	–	666	–	666
Advances to customers	11,337	70,496	27,664	53,656	91,205	162,705	(2,108)	414,955
Investment securities	234	20,866	49,071	41,139	83,570	15,071	621	210,572
Amounts due from group companies	2,384	9,235	15,494	13,116	6,877	1,175	(1,819)	46,462
Others	532	1,242	7,440	990	321	679	50,051	61,255
Total Assets	63,268	166,860	141,168	128,092	190,550	183,942	85,085	958,965
Liabilities								
Hong Kong SAR currency notes in circulation	–	–	–	–	–	–	38,031	38,031
Deposits and balances of banks and other financial institutions	22,637	1,107	–	–	911	–	–	24,655
Deposits from customers	595,324	62,853	51,438	35,237	849	–	–	745,701
Trading liabilities	–	8,537	73	139	87	11	–	8,847
Financial liabilities designated at fair value	–	68	2,051	3,356	2,978	5,271	–	13,724
Debt securities in issue	–	–	–	–	1,209	–	–	1,209
Amounts due to group companies	7,778	5,750	8,411	8,796	2,637	2,461	–	35,833
Subordinated liabilities	–	–	–	–	6,191	3,902	–	10,093
Others	5,985	1,459	5,178	2,107	256	282	256	15,523
Total Liabilities	631,724	79,774	67,151	49,635	15,118	11,927	38,287	893,616

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

37 Risk management (continued)

(f) Liquidity and funding risk (continued)

(i) Contractual maturity (continued)

	2016							
	Repayable on demand HK$'M	Due within 1 month HK$'M	Due between 1 month to 3 months HK$'M	Due between 3 months to 1 year HK$'M	Due between 1 year to 5 years HK$'M	Due after 5 years HK$'M	Undated HK$'M	Total HK$'M
Of which:								
Certificates of deposit held								
– included in Trading assets	–	646	844	431	206	–	–	2,127
– included in Investment securities as available-for-sale securities	–	1,318	2,592	21,221	160	–	–	25,291
	–	1,964	3,436	21,652	366	–	–	27,418
Treasury bills								
– included in Trading assets	–	–	71	4,274	–	–	–	4,345
– included in Investment securities as available-for-sale securities	–	12,583	40,104	7,706	–	–	–	60,393
	–	12,583	40,175	11,980	–	–	–	64,738
Debt securities								
– included in Trading assets	–	77	85	1,252	3,361	3,233	–	8,008
– included in Financial assets designated at fair value	–	–	–	–	–	370	–	370
– included in Investment securities classified as:								
– available-for-sale securities	–	10,801	12,703	34,681	47,073	7,978	–	113,236
– loans and receivables	234	–	388	1,195	4,451	1,809	–	8,077
	234	10,878	13,176	37,128	54,885	13,390	–	129,691

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

37 Risk management (continued)

(f) Liquidity and funding risk (continued)

(i) Contractual maturity (continued)

	2015							
	Repayable on demand	Due within 1 month	Due between 1 month to 3 months	Due between 3 months to 1 year	Due between 1 year to 5 years	Due after 5 years	Undated	Total
	HK$'M	HK$'M	HK$'M	HK$'M	HK$'M	HK$'M	HK$'M	HK$'M
Of which:								
Certificates of deposit held								
– included in Trading assets	–	1	6	301	80	–	–	388
– included in Investment securities as available-for-sale securities	–	–	2,089	12,863	–	–	–	14,952
	–	1	2,095	13,164	80	–	–	15,340
Treasury bills								
– included in Trading assets	–	40	1,225	1,862	–	–	–	3,127
– included in Investment securities as available-for-sale securities	–	19,017	41,720	–	–	–	–	60,737
	–	19,057	42,945	1,862	–	–	–	63,864
Debt securities								
– included in Trading assets	–	94	160	3,100	6,149	3,394	–	12,897
– included in Financial assets designated at fair value	–	–	–	–	–	666	–	666
– included in Investment securities classified as:								
– available-for-sale securities	–	1,849	5,262	26,339	77,920	15,071	–	126,441
– loans and receivables	234	–	–	1,937	5,650	–	–	7,821
– included in Amounts due from fellow subsidiaries classified as:								
– available-for-sale securities	–	1,395	–	–	–	–	–	1,395
	234	3,338	5,422	31,376	89,719	19,131	–	149,220

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

37 Risk management (continued)

(f) Liquidity and funding risk (continued)

(ii) Behavioural maturity of financial liabilities on a discounted basis

The cash flows presented in note 37(f)(i) reflect the cash flows which will be contractually payable over the residual maturity of the instruments. However, contractual maturities do not necessarily reflect the timing of actual repayments or cash flow. In practice, certain liability instruments behave differently from their contractual terms and, especially for short-term customer accounts, which extend to a longer period than their contractual maturity. Such behavioural adjustments are identified and managed through analysis of the historic behaviour of balances. The Bank's expectation of when liabilities are likely to become due is provided below. No information has been presented for financial liabilities which will become payable on their contractual due dates.

	2016				
	Within 3 months HK$'M	*Between 3 months and 1 year HK$'M*	*Between 1 year and 5 years HK$'M*	*After 5 years HK$'M*	*Total HK$'M*
Deposits and balances of banks and other financial institutions	18,763	–	911	–	19,674
Deposits from customers	110,288	73,204	594,750	–	778,242
Total	129,051	73,204	595,661	–	797,916

	2015				
	Within 3 months HK$'M	*Between 3 months and 1 year HK$'M*	*Between 1 year and 5 years HK$'M*	*After 5 years HK$'M*	*Total HK$'M*
Deposits and balances of banks and other financial institutions	23,745	–	910	–	24,655
Deposits from customers	104,097	71,801	569,803	–	745,701
Total	127,842	71,801	570,713	–	770,356

(iii) Financial liabilities (excluding derivative financial instruments on an undiscounted basis)

The following tables analyse the contractual cash flows payable for the Bank's financial liabilities by remaining contractual maturity on an undiscounted basis. The financial liability balances in the tables below will not agree to the balances reported in the consolidated statement of financial position as the tables incorporate all contractual cash flows, on an undiscounted basis, relating to both principal and interest payments. The cash flows presented in the tables reflect the cash flows which will be contractually payable over the residual maturity of the instruments. In practice, however, the liability instruments behave differently from their contractual terms and typically, for short term customer accounts, extend to a longer period than their contractual maturity.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

37 Risk management (continued)

(f) Liquidity and funding risk (continued)

(iii) Financial liabilities excluding derivative financial instruments on an undiscounted basis (continued)

	2016						
	Repayable on demand HK$'M	Due within 3 months HK$'M	Due between 3 months to 1 year HK$'M	Due between 1 year to 5 years HK$'M	Due after 5 years HK$'M	Undated HK$'M	Total HK$'M
Deposits and balances of banks and other financial institutions	18,760	3	–	968	–	–	19,731
Deposits from customers	613,902	111,694	50,836	2,468	215	–	779,115
Trading liabilities	–	7,728	–	–	–	–	7,728
Financial liabilities designated at fair value	–	406	4,068	1,465	3,710	–	9,649
Debt securities in issue	–	22	1,093	1,154	–	–	2,269
Amounts due to group companies	11,320	21,042	13,050	1,750	9,226	–	56,388
Subordinated liabilities	–	–	374	6,982	–	–	7,356
Others	6,282	8,141	3,982	551	128	42,443	61,527
	650,264	149,036	73,403	15,338	13,279	42,443	943,763

	2015						
	Repayable on demand HK$'M	Due within 3 months HK$'M	Due between 3 months to 1 year HK$'M	Due between 1 year to 5 years HK$'M	Due after 5 years HK$'M	Undated HK$'M	Total HK$'M
Deposits and balances of banks and other financial institutions	22,638	1,107	–	949	–	–	24,694
Deposits from customers	595,325	114,630	35,556	871	–	–	746,382
Trading liabilities	–	8,494	–	–	–	–	8,494
Financial liabilities designated at fair value	–	2,163	3,370	3,589	5,761	–	14,883
Debt securities in issue	–	–	41	1,298	–	–	1,339
Amounts due to group companies	7,778	14,162	8,796	2,643	2,461	–	35,840
Subordinated liabilities	–	–	510	8,068	4,064	–	12,642
Others	5,824	6,336	2,067	254	282	38,287	53,050
	631,565	146,892	50,340	17,672	12,568	38,287	897,324

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

37 Risk management (continued)

(f) Liquidity and funding risk (continued)

(iv) Derivative financial instruments on an undiscounted basis

The following tables show the maturity of derivative financial instruments including those net-settled derivative contracts in a net liability position, together with the pay leg of gross settled contracts regardless of whether the overall contract is in an asset or liability position. The receiving leg is not shown in this table and as a result the derivative amounts in this table are inflated by their exclusion.

	Due within 3 months HK$'M	*Due between 3 months to 1 year HK$'M*	*Due between 1 year to 5 years HK$'M*	*Due after 5 years HK$'M*	*Total HK$'M*
			2016		
Derivative financial instruments	1,295,346	743,224	11,163	3,667	2,053,400
			2015		
Derivative financial instruments	946,903	718,835	37,099	6,606	1,709,443

(g) Operational risk

We define Operational risk as the potential for loss resulting from inadequate or failed internal processes, people, and systems or from the impact of external events, including legal risks. The potential for operational risk events to occur is a constant challenge as operational risk arises from all activities carried out within the Bank. To address this we map risks across the Bank at a processes level with control installed to mitigate these risks. We benchmark practices against peers, and regulatory requirements.

Operational Risk Governance

The ERC provides oversight of operational risk management across the Bank. It is supported by the Country Operational Risk Committee ("CORC") and the Financial Crime Risk Committee ("FCRC"), which oversee operational risks arising from businesses and functions, and financial crime compliance respectively.

Risk Tolerance approach

Operational risk is managed to achieve the Risk Appetite Statement approved by the Board. The Bank aims to control operational risks to ensure that operational losses (financial or reputational), including any related to conduct of business matters, do not cause material damage to the Bank.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

37 Risk management (continued)

(g) Operational risk (continued)

Risk classification

Operational Risk sub-types are the different ways that the Bank may be operationally exposed to loss. The Bank uses operational risk sub-types principally as an aid to ensure comprehensive and consistent identification of operational risks, wherever they may arise. Operational risk sub-types are listed in the table:

OPERATIONAL RISK SUB-TYPES

External Rules & Regulations	Potential for actual or opportunity loss due to failure to comply with laws or regulations, or as a result of changes in laws or regulations or in their interpretation or application
Liability	Potential for loss or sanction due to a legal claim against any part of the Group or individuals within the Group
Legal enforceability	Potential for loss due to failure to protect legally the Group's interests or from difficulty in enforcing the Group's rights
Damage or loss of physical assets	Potential for loss or damage or denial of use of property or other physical assets
Safety & security	Potential for loss or damage relating to health and safety or physical security
Internal fraud or dishonesty	Potential for loss due to action by staff that is intended to defraud, or to circumvent the law or company policy
External fraud	Potential for loss due to criminal acts by external parties such as fraud or theft of financial assets
Information security	Potential for loss due to unauthorized access, use, disclosure, disruption, modification or destruction of information
Processing failure	Potential for loss due to failure of an established process or a process design weakness
Model	Potential for loss due to a significant discrepancy between the output of credit and market risk measurement models and actual experience Potential for regulatory breach due to a significant discrepancy between the output of financial crime client risk scoring and financial crime transaction monitoring models and actual experience

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

37 Risk management (continued)

(g) Operational risk (continued)

Conduct

Conduct of business, or conduct, is a term that is used in a broad number of ways across the financial services industry. At its broadest, good conduct is the appropriate execution of business, by the Bank or any individual acting on its behalf, in accordance with our strategic intent, risk management principles and risk appetite. More narrowly, it refers to specific regulations designed to achieve fair outcomes for customers and the effective operation of markets.

Good conduct is evidenced through disciplined adherence to our overall systems and controls outlined in the Risk Management Framework and the standards of individual behaviour set out in the Code of Conduct (the 'Code').

Specifically for operational risk:

- External rules and regulations classifications defined in the Operational Risk Framework include specific categories of regulation designed to achieve fair outcomes for clients (client conduct) and the effective operation of markets (market conduct). This ensures that each category of regulation is properly classified and aligned to the Bank's systems and control structures. Risk control owners and policy owners are responsible for defining the Bank's minimum standards and controls in respect of each category.

- Conduct is considered in the Bank's top risks. The Bank aims to prevent the risks of failure to deliver the conduct of business standards expected by the Bank's clients, investors and markets in which we operate. Many of the top risks can be driven by poor conduct so the Bank is focused on its control standards around these risks.

(h) Reputational risk

Reputational risk could arise from the failure by the Bank to effectively mitigate the risks in its businesses including one or more of country, credit, liquidity, market, regulatory, legal, strategic or other operational risk. Damage to the Bank's reputation could cause existing clients to reduce or cease to do business with the Bank and prospective clients to be reluctant to do business with the Bank. All employees are responsible for day to day identification and management of reputational risk. These responsibilities form part of the Code of Conduct and are further embedded through values-based performance assessments. Risk Control Owners must identify material reputational risks arising from any business activity or transaction that they control and ensure that these are escalated and controlled in accordance with the Reputational Risk Policy and applicable procedures.

Reputational risk may also arise from a failure to comply with environmental and social standards. The Bank's primary environmental and social impacts arise through relationship with clients and customers and the financing decisions the Bank takes. The Group has published a series of Position statements that we apply in the provision of financial services to clients who operate in sectors with specific risks, and for key issues. The Bank have mechanisms in the origination and credit processes to identify and assess environmental and social risks, and a dedicated Environmental and Social Risk Management team that reviews proposed transactions with identified risks.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

37 Risk management (continued)

(h) Reputational risk (continued)

The ERC and its sub-committee, the SCBHK Reputational Risk Sub-committee, provides Bank-wide oversight on reputational risk, sets policy and monitors material risks. The Head of Corporate Affairs is the overall risk control owner for reputational risk. The ExCo provides additional oversight of reputational risk on behalf of the Board.

The Head of Corporate Affairs as risk control owner is responsible for the protection of the Bank's reputation with the support of the country management team. The Head of Corporate Affairs and Chief Executive Officer must actively:

- Promote awareness and application of the Bank's policies and procedures regarding reputational risk.
- Encourage businesses and functions to take account of the Bank's reputation in all decision-making, including dealings with customers and suppliers.
- Implement effective in-country reporting systems to ensure they are aware of all potential issues in tandem with respective business committees.
- Promote effective, proactive stakeholder management through ongoing engagement.

(i) Pension risk

Pension risk is the potential for loss due to having to meet an actuarially assessed shortfall in the Bank's pension scheme. Pension risk exposure is not concerned with the financial performance of the Bank's pension scheme but is focused upon the risk to the Bank's financial position arising from the need to meet pension scheme funding obligations. The risk assessment is focused on the obligations towards the Bank's pension scheme, ensuring that the Bank's funding obligation is comfortably within the Bank's financial capacity. Pension risk is monitored on a semi-annual basis taking account of the actual variations in asset values and updated expectations regarding the progression of the pension fund assets and liabilities.

The CPC is the body responsible for governance of pension risk and it receives its authority from ExCo.

(j) Capital management

The HKMA sets and monitors capital requirements for the Bank and certain subsidiaries specified by the HKMA. In implementing current capital requirements, the HKMA requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets. The Bank calculates its capital adequacy ratios in accordance with the Banking (Capital) Rules of the Hong Kong Banking Ordinance.

In addition to meeting the regulatory requirements, the Bank's primary objectives when managing capital are to safeguard the Bank and its subsidiaries' 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. The Bank 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.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

37 Risk management (continued)

(j) Capital management (continued)

The process of allocating capital to specific operations and activities is undertaken by ALCO and is reviewed regularly by the Board.

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

The Bank and its subsidiaries have complied with all externally imposed capital requirements throughout the years ended 31 December 2016 and 2015.

The Bank uses the IRB approach for both the measurement of credit risk capital and the management of credit risk for the majority of its portfolios. The Bank also uses the standardised (credit risk) approach for certain insignificant portfolios exempted from IRB. The Bank adopts the internal ratings-based (securitization) approach to calculate its credit risk for securitization exposures.

For market risk, the Bank uses an internal models approach for two guaranteed funds and the standardized (market risk) approach for other exposures. In addition, the Bank adopts the standardized (operational risk) approach for operational risk.

The Banking (Capital) Rules issued by the HKMA require all authorized institutions in Hong Kong to meet three levels of minimum capital ratios, namely common equity tier 1, tier 1 and total capital ratios.

The Bank's consolidated capital as at 31 December 2016 consists of tier 1 capital after deduction of HK$51,890 million (2015: HK$51,412 million) and tier 2 capital after deductions of HK$13,654 million (2015: HK$9,618 million). Tier 2 capital includes subordinated debt and collective impairment allowances for impaired assets.

38 Financial instruments

(a) Valuation of financial instruments carried at fair value

Valuation of financial assets and liabilities held at fair value are subject to a review independent of the business by Valuation Control. For those financial assets and liabilities whose fair value is determined by reference to externally quoted prices or market observable pricing inputs to valuation models, an assessment is made against external market data and consensus services. Financial instruments held at fair value in the consolidated statement of financial position have been classified into a valuation hierarchy that reflects the significance of the inputs used in the fair value measurements.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

38 Financial instruments (continued)

(a) Valuation of financial instruments carried at fair value (continued)

Valuation methodologies

The valuation hierarchy, and the types of instruments classified into each level within that hierarchy, is set out below:

	Level 1	Level 2	Level 3
Fair value determined using:	Unadjusted quoted price in an active market for identical assets and liabilities	Directly or indirectly observable inputs other than unadjusted quoted prices included within Level 1 that are observable (note 1)	Significant inputs for the asset or liability that are not based on observable market data (unobservable inputs) (see note 38 (a) (i))
Types of financial assets	Actively traded government, agency and other securities Listed equities Quoted derivative instruments	Asset backed securities Corporate and other government bonds and loans Over-the-counter derivatives	Asset backed securities in illiquid markets Corporate bonds and loans in illiquid markets Unlisted equities Over-the-counter derivatives with unobservable inputs
Types of financial liabilities	Short positions in actively traded government and agency securities Short positions in listed equities Quoted derivative instruments	Structured bank and customer deposits Debt securities in issue Over-the-counter derivatives	Structured bank and customer deposits Debt securities issued Over-the-counter derivatives with unobservable inputs

(Note 1) These included valuation models such as discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. These models incorporate assumptions and inputs that other market participants would use in their valuations, such as discount rates, default rates, credit spreads and option volatilities. These inputs need to be directly or indirectly observable in order to be classified as Level 2.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

38 Financial instruments (continued)

(a) Valuation of financial instruments carried at fair value (continued)

The tables below show the classification of financial instruments held at fair value into the valuation hierarchy set out above as at 31 December:

	2016			
	Level 1 HK$'M	*Level 2 HK$'M*	*Level 3 HK$'M*	*Total HK$'M*
Trading assets				
– Trading securities	6,023	8,461	–	14,484
– Advances to customers	–	116	–	116
– Positive fair values of trading derivatives	–	1,034	–	1,034
Amounts due from immediate holding company				
– Positive fair values of trading derivatives	61	21,998	24	22,083
– Positive fair values of hedging derivatives	–	1,567	–	1,567
Amounts due from fellow subsidiaries				
– Positive fair values of trading activities	–	54	–	54
– Positive fair values of hedging derivatives	–	7	–	7
Financial assets designated at fair value				
– Debt securities	–	370	–	370
Available-for-sale securities				
– Treasury bills	60,393	–	–	60,393
– Certificates of deposit held	449	24,842	–	25,291
– Debt securities	55,277	57,939	20	113,236
– Equity shares, net of impairment	7	–	467	474
Total assets measured at fair value	122,210	116,388	511	239,109
Trading liabilities				
– Short positions in securities	1,954	5,756	–	7,710
– Negative fair values of trading derivatives	–	579	–	579
Financial liabilities designated at fair value				
– Structured bank and customer deposits	–	3,420	–	3,420
– Debt securities issued	–	4,462	1,686	6,148
Amounts due to immediate holding company				
– Negative fair values of trading derivatives	34	22,609	–	22,643
– Negative fair values of hedging derivatives	–	1,108	–	1,108
Amounts due to fellow subsidiaries				
– Negative fair values of trading activities	–	10	–	10
Total liabilities measured at fair value	1,988	37,944	1,686	41,618

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

38 Financial instruments (continued)

(a) Valuation of financial instruments carried at fair value (continued)

	2015			
	Level 1 *HK$'M*	*Level 2* *HK$'M*	*Level 3* *HK$'M*	*Total* *HK$'M*
Trading assets				
– Trading securities	9,010	7,711	–	16,721
– Advances to customers	–	163	–	163
– Positive fair values of trading derivatives	–	1,713	–	1,713
Amounts due from immediate holding company				
– Positive fair values of trading derivatives	–	13,919	471	14,390
– Positive fair values of hedging derivatives	–	1,214	–	1,214
Amounts due from fellow subsidiaries				
– Listed available-for-sale debt securities	–	1,395	–	1,395
– Positive fair values of hedging derivatives	–	92	–	92
Financial assets designated at fair value				
– Debt securities	–	666	–	666
Available-for-sale securities				
– Treasury bills	60,737	–	–	60,737
– Certificates of deposit held	–	14,952	–	14,952
– Debt securities	60,921	65,380	140	126,441
– Equity shares, net of impairment	8	1	612	621
Total assets measured at fair value	130,676	107,206	1,223	239,105
Trading liabilities				
– Short positions in securities	3,198	5,278	–	8,476
– Negative fair values of trading derivatives	–	371	–	371
Financial liabilities designated at fair value				
– Structured bank and customer deposits	–	6,533	9	6,542
– Debt securities issued	–	5,367	1,815	7,182
Amounts due to immediate holding company				
– Negative fair values of trading derivatives	–	15,393	12	15,405
– Negative fair values of hedging derivatives	–	1,755	–	1,755
Amounts due to fellow subsidiaries				
– Negative fair values of hedging derivatives	–	27	–	27
Total liabilities measured at fair value	3,198	34,724	1,836	39,758

The Bank transferred government bonds with a carrying value of HK$9,348 million during 2015 from Level 1 into Level 2 where the market for such bonds became inactive.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

38 Financial instruments (continued)

(a) Valuation of financial instruments carried at fair value (continued)

(i) Valuation of financial instruments with significant unobservable inputs

The movements during the year for level 3 financial assets and liabilities are as follows:

	2016		
	Amounts due from immediate holding company HK$'M	*Available-for-sale securities HK$'M*	*Total level 3 assets HK$'M*
Financial assets			
At 1 January 2016	471	752	1,223
Total gains recognised in the consolidated income statement			
– Net trading income	4	–	4
– Net gains from disposal of available-for-sale securities	–	54	54
Sales	–	(237)	(237)
Total (losses)/gains recognised in the available-for-sale investment reserve	–	(53)	(53)
Purchases	–	91	91
Settlements	–	(120)	(120)
Transferred out of level 3 (note)	(451)	–	(451)
At 31 December 2016	24	487	511
Total gains recognised in the consolidated income statement relating to assets held at 31 December 2016			
– Net trading income	4	–	4

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

38 Financial instruments (continued)

(a) Valuation of financial instruments carried at fair value (continued)

(i) Valuation of financial instruments with significant unobservable inputs (continued)

	Financial liabilities designated at fair value HK$'M	*Amounts due to immediate holding company* HK$'M	*Total level 3 liabilities* HK$'M
Financial liabilities			
At 1 January 2016	1,824	12	1,836
Total gains recognised in the consolidated income statement			
– Net gains from financial instruments designated at fair value through profit or loss	(129)	–	(129)
Issuances	404	–	404
Settlements	(404)	(1)	(405)
Transferred out of Level 3	(9)	(11)	(20)
At 31 December 2016	1,686	–	1,686
Total gains recognised in the consolidated income statement relating to liabilities held at 31 December 2016			
– Net gains from financial instruments designated at fair value through profit or loss	(129)	–	(129)

(note) Transfers into/(out of) level 3 during the year relate to financial instruments where the valuation parameters became unobservable/(observable) during the year.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

38 Financial instruments (continued)

(a) Valuation of financial instruments carried at fair value (continued)

(i) Valuation of financial instruments with significant unobservable inputs (continued)

	2015			
	Financial assets designated at fair value HK$'M	*Amounts due from immediate holding company HK$'M*	*Available-for-sale securities HK$'M*	*Total level 3 assets HK$'M*
Financial assets				
At 1 January 2015	62	33	381	476
Total gains recognised in the consolidated income statement				
– Net trading income	–	80	–	80
– Net gains from financial instruments designated at fair value through profit or loss	1	–	–	1
Total (losses)/gains recognised in the available-for-sale investment reserve	–	–	38	38
Purchases	–	358	190	548
Settlements	(63)	–	(295)	(358)
Transferred into level 3 (note)	–	–	438	438
At 31 December 2015	–	471	752	1,223
Total gains recognised in the consolidated income statement relating to assets held at 31 December 2015				
– Net trading income	–	438	–	438
– Net gains from financial instruments designated at fair value through profit or loss	–	–	–	–

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

38 Financial instruments (continued)

(a) Valuation of financial instruments carried at fair value (continued)

(i) Valuation of financial instruments with significant unobservable inputs (continued)

	Financial liabilities designated at fair value	*Amounts due to immediate holding company*	*Total level 3 liabilities*
	HK$'M	*HK$'M*	*HK$'M*
Financial liabilities			
At 1 January 2015	661	10	671
Total losses recognised in the consolidated income statement			
– Net losses from financial instruments designated at fair value through profit or loss	65	–	65
Issuances	1,098	2	1,100
At 31 December 2015	1,824	12	1,836
Total losses recognised in the consolidated income statement relating to liabilities held at 31 December 2015			
– Net losses from financial instruments designated at fair value through profit or loss	65	–	65

(note) Transfers into/(out of) level 3 during the year relate to financial instruments where the valuation parameters became unobservable/(observable) during the year.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

38 Financial instruments (continued)

(a) Valuation of financial instruments carried at fair value (continued)

(i) Valuation of financial instruments with significant unobservable inputs (continued)

The following table presents the key valuation techniques used to measure the fair value of level 3 financial instruments which are held at fair value, the significant unobservable inputs and the range of values for those inputs and the weighted average of those inputs.

Type of instruments	Principal valuation technique	Significant unobservable inputs	Range (Note 1)	Weighted average (Note 2)
Debt securities	Discounted cash flows	Price/Yield	0.4% (2015: 2.1%)	0.4% (2015: 2.1%)
Structured bank and customer deposits	Internal pricing model	Equity-equity correlation	Nil (2015: Nil)	Nil (2015: Nil)
		Equity-foreign exchange correlation	40% to 63% (2015: 40% to 75%)	Nil (2015: 58%)
Debt securities in issue	Discounted cash flows	Credit spreads	2.0% to 4.0% (2015: 1.9% to 4.0%)	2.4% (2015: 2.1%)
Derivative financial Instruments	Internal pricing model	Equity-equity correlation	Nil (2015: Nil)	Nil (2015: Nil)
		Equity-foreign exchange correlation	40.0% to 63.0% (2015: 40% to 75%)	Nil (2015: 58%)
	Discounted cash flows	Credit spreads	4.0% (2015: 1.9% to 4.0%)	4.0% (2015: 2.4%)

(Note 1) The ranges of values shown represent the highest and lowest levels used in the valuation of the level 3 financial instruments as at 31 December 2016 and 2015. The ranges of values used are reflective of the underlying characteristics of these level 3 financial instruments based on the market conditions at the reporting date. However, these ranges of values may not represent the uncertainty in fair value measurements of these level 3 financial instruments.

(Note 2) Weighted average for non-derivative financial instruments have been calculated by weighting inputs by the relative fair value. Weighted average for derivatives has been provided by weighting inputs by the risk relevant to that variable.

(Note 3) Level 3 equity shares, which are mainly measured using unadjusted net asset value, are excluded.

The following section describes the significant unobservable inputs identified in the above valuation technique table.

Yield

Yield is the interest rate that is used to discount the future cash flows in a discounted cash flow model. An increase in the yield, in isolation, would result in a decrease in a fair value measurement.

Correlation

Correlation is the measure of how movement in one variable influences the movement in another variable. In derivative products, where the payoff is subject to the value of more than one underlying, the correlation between two variables is used as an input in determining the value of the product. Examples include correlation between two stocks, a stock and an index, an index and another index etc. Correlation can be high or low as well as positive or negative. Positive high correlation between two variables means that an increase in one variable is expected to cause a similar increase in other variable.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

38 Financial instruments (continued)

(a) Valuation of financial instruments carried at fair value (continued)

(i) Valuation of financial instruments with significant unobservable inputs (continued)

Credit spreads

Credit spreads represent the additional yield that a market participant would demand for taking exposures to the credit risk of an instrument.

(ii) Sensitivities in respect of the fair values of level 3 assets and liabilities

	2016					
	Held at fair value through profit or loss			*Available-for-sale securities*		
	Net exposure HK$'M	*Favourable changes HK$'M*	*Unfavourable changes HK$'M*	*Net exposure HK$'M*	*Favourable changes HK$'M*	*Unfavourable changes HK$'M*
Amounts due from immediate holding company	24	32	11	–	–	–
Debt securities	–	–	–	20	20	20
Equity securities	–	–	–	467	514	421
Amounts due to immediate holding company	–	–	–	–	–	–
Structured bank and customer deposits	–	–	–	–	–	–
Debt securities issued	(1,685)	(1,623)	(1,710)	–	–	–
	(1,661)	(1,591)	(1,699)	487	534	441

	2015					
	Held at fair value through profit or loss			*Available-for-sale securities*		
	Net exposure HK$'M	*Favourable changes HK$'M*	*Unfavourable changes HK$'M*	*Net exposure HK$'M*	*Favourable changes HK$'M*	*Unfavourable changes HK$'M*
Amounts due from immediate holding company	471	533	401	–	–	–
Debt securities	–	–	–	140	141	140
Equity securities	–	–	–	612	673	551
Amounts due to immediate holding company	(12)	(12)	(12)	–	–	–
Structured bank and customer deposits	(9)	(8)	(9)	–	–	–
Debt securities issued	(1,815)	(1,746)	(1,885)	–	–	–
	(1,365)	(1,233)	(1,505)	752	814	691

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

38 Financial instruments (continued)

(a) Valuation of financial instruments carried at fair value (continued)

Where the fair value of financial instruments are measured using valuation techniques that incorporate one or more significant inputs which are based on unobservable market data, we apply a 10 per cent increase or decrease on the values of these unobservable parameter inputs, to generate a range of reasonably possible alternative valuations in accordance with the requirements of HKFRS 7/IFRS 7. The percentage shift is determined by statistical analyses performed on a set of reference prices, which included certain equity indices, credit indices and volatility indices, based on the composition of our level 3 financial instruments. Favourable and unfavourable changes are determined on the basis of changes in the value of the instrument as a result of varying the levels of the unobservable parameters. This level 3 sensitivity analysis assumes a one way market move and does not consider offsets for hedges.

As of 31 December 2016, these reasonably possible alternatives could have increased the net fair values of financial instruments held at fair value through profit or loss by HK$70 million (2015: HK$132 million) or decreased them by HK$38 million (2015: HK$140 million); and increased the fair values of available-for-sale securities by HK$47 million (2015: HK$62 million) or decreased them by HK$46 million (2015: HK$61 million).

(b) Valuation of financial instruments carried at amortised cost

All financial instruments are stated at fair value or amounts not materially different from their fair value as at 31 December 2016 and 2015, except for subordinated liabilities.

The following table summarises the carrying amounts and fair values (including the valuation hierarchy) of subordinated liabilities. The values in the table below are stated as at 31 December and may be different from the actual amounts that will be received on the settlement or maturity of the subordinated liabilities.

	2016		2015	
	Carrying amount	Fair value Level 1	Carrying amount	Fair value Level 1
	HK$'M	HK$'M	HK$'M	HK$'M
Subordinated liabilities	6,088	6,298	10,093	10,579

The following sets out the Bank's basis of establishing the fair value of its financial assets and liabilities which are not carried at fair value. The basis for establishing the fair value of financial assets and liabilities held at fair value and of derivatives is set out in note 2(i) and note 2(j), respectively.

Cash and balances with banks, central banks and other financial institutions

The fair value of cash and balances with banks, central banks and other financial institutions is their carrying amounts.

Placements with banks and other financial institutions

The fair value of floating rate placements and overnight deposits is their carrying amounts. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using the prevailing money market rates for debts with a similar credit risk and remaining maturity.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

38 Financial instruments (continued)

(b) Valuation of financial instruments carried at amortised cost (continued)

Advances to customers

Advances are net of provisions for impairment. The estimated fair value of advances represents the discounted amount of future cash flows expected to be received, including assumptions relating to prepayment rates and, where appropriate, credit spreads. Expected cash flows are discounted at current market rates to determine fair value.

Deposits and balances of banks, other financial institutions and customers

The estimated fair value of deposits with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits and other borrowings without quoted market prices is based on discounted cash flows using the prevailing market rates for debts with a similar credit risk and remaining maturity.

Debt securities in issue and subordinated liabilities

The aggregate fair values are calculated based on quoted market prices. For those securities where quoted market prices are not available, a discounted cash flow model is used based on a current market yield curve appropriate for the remaining term to maturity.

(c) Transfers of financial assets

The Bank enters into collateralised repurchase agreements (repos). These transactions typically entitle the Bank and its counterparties to have recourse to assets similar to those provided as collateral in the event of a default. Assets pledged in respect of repos continue to be recognised on the consolidated statement of financial position as the Bank retains substantially the associated risk and rewards of these assets. The associated liability is included in “Amounts due to immediate holding company”.

The table below sets out the financial assets provided by the bank as collateral for repurchase transactions:

	2016 HK$'M	*2015 HK$'M*
Collateral pledged against repurchase agreements		
On balance sheet		
Cash	–	–
Investment securities	2,051	–
Off balance sheet		
Repledged collateral received	–	–
	2,051	–
Balance sheet liabilities – repurchase agreements		
Amount due to central banks	2,006	–
	2,006	–

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

38 Financial instruments (continued)

(d) Offsetting financial assets and financial liabilities

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

	2016				
Assets	*Gross amounts of recognised financial assets*	*Gross amounts of recognised financial liabilities offset in the consolidated statement of financial position*	*Net amounts of financial assets presented in the consolidated statement of financial position*	*Related amounts not offset in the consolidated statement of financial position*	*Net amount*
	HK$'M	*HK$'M*	*HK$'M*	*HK$'M*	*HK$'M*
Positive fair values of derivative financial instruments	24,745	–	24,745	(23,927)	818
Reverse repos, securities borrowing and similar agreements	22,689	–	22,689	(22,504)	185
	47,434	–	47,434	(46,431)	1,003

Liabilities	*Gross amounts of recognised financial liabilities*	*Gross amounts of recognised financial assets offset in the consolidated statement of financial position*	*Net amounts of financial liabilities presented in the consolidated statement of financial position*	*Related amounts not offset in the consolidated statement of financial position*	*Net amount*
	HK$'M	*HK$'M*	*HK$'M*	*HK$'M*	*HK$'M*
Negative fair values of derivative financial instruments	24,340	–	24,340	(23,916)	424
Repos and similar agreements	2,006	–	2,006	(2,006)	–
	26,346	–	26,346	(25,922)	424

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

38 Financial instruments (continued)

(d) Offsetting financial assets and financial liabilities (continued)

	2015				
Assets	*Gross amounts of recognised financial assets*	*Gross amounts of recognised financial liabilities offset in the consolidated statement of financial position*	*Net amounts of financial assets presented in the consolidated statement of financial position*	*Related amounts not offset in the consolidated statement of financial position*	*Net amount*
	HK$'M	*HK$'M*	*HK$'M*	*HK$'M*	*HK$'M*
Positive fair values of derivative financial instruments	17,409	–	17,409	(15,900)	1,509
Reverse repos, securities borrowing and similar agreements	34,924	–	34,924	(34,722)	202
	52,333	–	52,333	(50,622)	1,711

Liabilities	*Gross amounts of recognised financial liabilities*	*Gross amounts of recognised financial assets offset in the consolidated statement of financial position*	*Net amounts of financial liabilities presented in the consolidated statement of financial position*	*Related amounts not offset in the consolidated statement of financial position*	*Net amount*
	HK$'M	*HK$'M*	*HK$'M*	*HK$'M*	*HK$'M*
Negative fair values of derivative financial instruments	17,558	–	17,558	(17,343)	215
Repos and similar agreements	–	–	–	–	–
	17,558	–	17,558	(17,343)	215

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

38 Financial instruments (continued)

(d) Offsetting financial assets and financial liabilities (continued)

The Bank and its subsidiaries are able to offset assets and liabilities which do not meet the HKAS32/IAS 32 netting criteria (see note 2(l)). Such arrangements include master netting arrangements for derivatives and global master repurchase agreements for repos and reverse repos. These agreements generally allow that all outstanding transactions with a particular counterparty can be offset but only in the event of default or other pre-determined events, therefore the related financial assets and financial liabilities are not offset in the consolidated statement of financial position.

Under repos and reverse repos, the Bank and its subsidiaries would pledge (legally sell) and obtain (legally purchase) financial collateral which are mainly highly liquid assets which can be sold in the event of a default.

The related amounts not offset in the consolidated statement of financial position which are disclosed in the table above include financial instruments covered by master netting arrangements and financial collateral pledged and obtained, but exclude the effect of over collateralisation.

39 Assets pledged as security for liabilities

The Bank maintains pledged cash and securities accounts to secure any borrowings or other obligations resulting from the Bank's use of clearing systems and to cover short positions. As at 31 December 2016, the Bank had securities amounting to HK$7,710 million (2015: HK$8,476 million) to cover the short positions.

Reverse repos and securities borrowing transactions

The Bank also undertakes reverse repos and securities borrowing transactions as set out in the table below:

	2016	*2015*
	HK$'M	*HK$'M*
Consolidated statement of financial position assets - reverse repos and securities borrowing		
Placements with banks and other financial institutions	14,295	29,499
Advances to customers	3,741	5,425
Amounts due from Group Companies	4,653	–
	22,689	34,924

Under reverse repos and securities borrowing arrangements, the Bank obtains securities on terms that permit it to repledge or resell the securities to others. The amount of securities which the Bank is able to repledge or resell are as follows:

	2016	*2015*
	HK$'M	*HK$'M*
Securities and collateral that can be repledged or sold (at fair value)	22,925	34,802
Thereof repledged/transferred to others under repos (at fair value)	–	–

These transactions are conducted under terms that are usual and customary to standard lending and stock borrowing activities.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

40 Material related party transactions

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Bank and its subsidiaries entered into the following material related party transactions. The transactions of the Bank are materially the same as those appearing in the consolidated financial statements in 2016 and 2015.

(a) Key management personnel remuneration

Remuneration for key management personnel of the Bank, including amounts paid to the directors as disclosed in note 8 is as follows:

	2016 *HK$'M*	*2015* *HK$'M*
Short-term employee benefits	69	94
Post-employment benefits	2	3
Equity compensation benefits	5	8
Termination benefits	1	3
	77	108

Total remuneration is included in staff costs (see note 4(g)).

(b) Credit facilities and loans to key management personnel

During the year, the Bank provided credit facilities to key management personnel of the Bank and their close family members and companies controlled or significantly influenced by them. The credit facilities were provided in the ordinary course of business and on substantially the same terms as for comparable transactions with persons of a similar standing or, where applicable, with other employees.

	2016 *HK$'M*	*2015* *HK$'M*
Loan balances:		
At 1 January	1,468	203
At 31 December	65	1,468
Average balance during the year	1,184	1,627
Income earned	24	15

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

40 Material related party transactions (continued)

(c) Share based payments

The Group operates a number of share-based arrangements for its directors and employees.

2011 Standard Chartered Share Plan (the ‘2011 Plan’)

The 2011 Plan was approved by shareholders in May 2011 and is the Group’s main share plan. Since approval, it has been used to deliver various types of share awards:

Long Term Incentive Plan (‘LTIP’)

Awards granted with vesting subject to performance measures. Performance measures attached to awards granted previously include: total shareholder return (‘TSR’); return on equity (‘RoE’) with a common equity tier 1 (‘CET 1’) underpin; strategic measures; earnings per share (‘EPS’) growth; and return on risk-weighted assets (‘RoRWA’). Each measure is assessed independently over a three year period. Awards granted from 2016 have an individual conduct gateway that results in the award lapsing if not met.

Performance shares

Awards of performance shares vest after a three-year period and are subject to a combination of three performance measures, Total Shareholder Return (TSR), Earnings per share (EPS) and Return on Risk Weighted Assets (RoRWA). The three performance measures are equally weighted with one third of the award depending on each measure, assessed independently. Performance share awards form part of the variable compensation awarded to executive directors. In line with regulatory requirements, discretionary variable compensation for executive directors will not exceed 200 per cent of fixed pay.

Deferred share awards/Restricted shares

Deferred awards are used to deliver the deferred portion of variable remuneration, in line with both market practice and regulatory requirements. These awards vest in instalments on anniversaries of the award date specified at the time of grant. Deferred awards are not subject to any plan limit. This enables the Group to meet regulatory requirements relating to deferral levels, and is in line with market practice.

Restricted share awards, made outside of the annual performance process as replacement buy-out awards to new joiners who forfeit awards on leaving their previous employers, vest in instalments on the anniversaries of the award date specified at the time of grant. This enables the Group to meet regulatory requirements relating to buy-outs, and is in line with market practice. In line with similar plans operated by our competitors, restricted share awards are not subject to an annual limit and do not have any performance measures.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

40 Material related party transactions (continued)

(c) Share based payments (continued)

1997/2006 Restricted Share Scheme (2006 RSS)/ 2007 Supplementary Restricted Share Scheme (2007 SRSS)

The Group's previous plans for delivering restricted shares were the 2006 RSS and 2007 SRSS, both of which are now replaced by the 2011 Plan. There are vested awards outstanding under these plans. Awards will generally be in the form of nil cost options and do not have any performance conditions. Generally deferred restricted share awards vest equally over three years and for non-deferred awards half vests two years after the date of grant and the balance after three years. No further awards will be granted under the 2006 RSS and 2007 SRSS.

2000 Executive Share Option Scheme (2000 ESOS)

The 2000 ESOS is designed to be internationally competitive and focus executive directors and their senior management teams on delivering long-term performance. An EPS performance criterion must be met before options can be exercised.

Executive share options to purchase ordinary shares in the ultimate holding company are exercisable after the third, but before the tenth anniversary of the date of grant. The exercise price per share is the share price at the date of grant and options can only be exercised if a performance condition is satisfied. No further awards may be granted to the employees of the Bank and its subsidiaries under the 2000 ESOS. There are no outstanding awards under this plan.

2001 Performance Share Plan (2001 PSP)

The Group's previous plan for delivering performance shares was the 2001 PSP. Although the 2001 PSP was replaced in 2011, there are still outstanding vested awards under the plan.

Under the 2001 PSP, half the award is dependent upon TSR performance and the balance is subject to a target of defined EPS growth. Both measures use the same three-year period and are assessed independently. No further awards can be granted under the plan.

All Employee Sharesave Plan (2004 International Sharesave, 2004 UK Sharesave and 2013 Sharesave)

Under the Sharesave schemes, employees have the choice of opening a savings contract. Within a period of six months after the third or fifth anniversary, as appropriate, employees may purchase ordinary shares in the ultimate holding company. The price at which they may purchase shares is at a discount of up to 20 per cent on the share price at the date of invitation. There are no performance conditions attached to options granted under the Sharesave schemes. No further award can be granted under 2004 Sharesave plans.

The 2013 Sharesave Plan was approved by Shareholders in May 2013 and since then all Sharesave invitations have been made under this plan.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

40 Material related party transactions (continued)

(c) Share based payments (continued)

2011 Standard Chartered Share Plan (the 2011 plan)

Management Long Term Incentive Plan "MLTIP"

Valuation

The vesting of awards granted in 2016 is subject to the satisfaction of RoE (subject to a capital underpin) and relative TSR performance measures and achievement of a strategic scorecard. The fair value of the TSR component is calculated using the probability of meeting the measures over a three year performance period, using a Monte Carlo simulation model. The number of shares expected to vest is evaluated at each reporting date, based on the expected performance against the RoE and strategic measures in the scorecard, to determine the accounting charge.

	2016
Grant Date	*11 March*
Share price at grant date (£)	4.68
Shares granted	2,822,977
Vesting period (years)	3
Expected dividends (yield) (%)	N/A
Fair value (RoE) (£)	1.56
Fair value (TSR) (£)	1.15
Fair value (Strategic) (£)	1.56

Dividend equivalents accrue on these awards during the vesting period, so no discount is applied.

A reconciliation of movements for the year to 31 December 2016 and 2015 is shown below:

	2016	*2015*
	No. of shares	*No. of shares*
Outstanding at 1 January	–	–
Granted	2,822,977	–
Lapsed	(211,570)	–
Exercised	–	–
Outstanding at 31 December	2,611,407	–
Weighted average contractual remaining life	9.20 years	–
Exercisable at 31 December	–	–

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

40 Material related party transactions (continued)

(c) Share based payments (continued)

Performance Shares

No share awards were granted in 2016 and 2015.

A reconciliation of movements for the year to 31 December 2016 and 2015 is shown below:

	2016	*2015*
	No. of shares	*No. of shares*
Outstanding at 1 January	1,186,275	1,721,430
Adjustment for rights issue	–	57,236
Granted	–	–
Lapsed	(701,503)	(539,920)
Exercised	(16,383)	(52,471)
Outstanding at 31 December	468,389	1,186,275
Weighted average remaining contractual life	7.10 years	7.66 years
Exercisable at 31 December	20,932	45,068

Deferred Share Awards

Valuation

The fair value for all employees is based on 100% of the face value of the shares at the date of grant as the share price will reflect expectations of all future dividends.

	2016	*2015*	
Grant Date	*11 March*	*17 June*	*19 March*
Share price at grant date (£)	4.68	10.28	10.51
Shares granted	1,180,580	3,723	1,564,894
Vesting period (years)	1-3	1-3, 1-5	1-3, 3, 1-5, 5
Expected dividends yield (%)	n/a	n/a	n/a
Fair value (£)	4.68	10.28	10.51

Deferred awards accrue dividend equivalent payments during the vesting period.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

40 Material related party transactions (continued)

(c) *Share based payments (continued)*

Restricted Share Awards

Valuation

The fair value is based on the market value less an adjustment to take into account the expected dividends over the vesting period. The same fair value is applied for awards made to both the directors and employees of the Group.

	2016	
Grant Date	*4 October*	*11 March*
Share price at grant date (£)	6.50	4.68
Shares granted	72,597	22,958
Vesting period (years)	2-3, 1, 2, 3, 4	2-3, 1-4
Expected dividends (yield) (%)	2.5, 0, 2.4, 3.0, 3.1	3.5
Fair value (£)	6.11, 6.50, 6.20, 5.95, 5.76	4.30

	2015			
Grant Date	*1 December*	*22 September*	*17 June*	*19 March*
Share price at grant date (£)	5.57	6.73	10.28	10.50
Shares granted	8,496	20,585	4,379	19,527
Vesting period (years)	2-3	2-3, 2-4, 1-4	2-3	2-3
Expected dividends (yield) (%)	6.4	6.4	7.0	7.0
Fair value (£)	4.77	5.77	8.68	8.88

The expected dividend yield is based on the historical dividend yield for three years prior to grant.

Deferred Share Awards/ Restricted Shares

A reconciliation of movements for the year to 31 December 2016 and 2015 is shown below:

	2016	*2015*
	No. of shares	*No. of shares*
Outstanding at 1 January	3,529,703	2,910,711
Adjustment for rights issue	–	171,608
Granted	1,276,135	1,621,604
Additional shares for Notional Dividend	26,181	118,179
Lapsed	(472,656)	(196,422)
Exercised	(883,023)	(1,095,977)
Outstanding at 31 December	3,476,340	3,529,703
Weighted average remaining contractual life	8.18 years	5.42 years
Exercisable at 31 December	780,398	489,970

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

40 Material related party transactions (continued)

(c) Share based payments (continued)

1997/2006 Restricted Share Scheme (2006 RSS)

No share awards were granted in 2016 and 2015.

A reconciliation of movements for the year ended 31 December 2016 and 2015 is shown below:

	2016	*2015*
	No. of shares	*No. of shares*
Outstanding at 1 January	125,526	327,711
Adjustment for rights issue	–	6,067
Additional shares for Notional Dividend	–	–
Lapsed	(12,645)	(103,612)
Exercised	(45,614)	(104,640)
Outstanding at 31 December	67,267	125,526
Weighted average remaining contractual life	0.79 years	1.65 years
Exercisable at 31 December	67,267	125,526

2007 Supplementary Restricted Share Scheme (2007 SRSS)

No share awards were granted in 2016 and 2015.

A reconciliation of movements for the year to 31 December 2016 and 2015 is shown below:

	2016	*2015*
	No. of shares	*No. of shares*
Outstanding at 1 January	32,494	119,766
Adjustment for rights issue	–	1,565
Lapsed	(3)	(54,546)
Exercised	(28,673)	(34,291)
Outstanding at 31 December	3,818	32,494
Weighted average remaining contractual life	0.19 years	1.19 years
Exercisable at 31 December	3,818	32,494

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

40 Material related party transactions (continued)

(c) Share based payments (continued)

2000 Executive Share Option Scheme (2000 ESOS)

No outstanding shares and share awards were granted in 2016 and 2015.

2001 Performance Share Plan (PSP)

No share awards were granted in 2016 and 2015.

A reconciliation of movements for the year ended 31 December 2016 and 2015 is shown below:

	2016	*2015*
	No. of shares	*No. of shares*
Outstanding at 1 January	3,318	17,720
Adjustment for rights issue	–	159
Lapsed	(3,318)	(10,900)
Exercised	–	(3,661)
Outstanding at 31 December	–	3,318
Weighted average remaining contractual life	–	0.2 years
Exercisable at 31 December	–	3,318

Sharesave (2004 International Sharesave, 2004 UK Sharesave and 2013 Sharesave)

Valuation

Options are valued using a binomial option-pricing model. The fair value per option granted and the assumptions used in the calculation are as follows:

	2016	*2015*
Grant Date	*4 October*	*7 October*
Share price at grant date (£)	6.50	7.41
Exercise price (£)	5.30	5.57
Shares granted	187,414	1,034,721
Vesting period (years)	3	3
Expected volatility (%)	34.2	28.0
Expected option life (years)	3.33	3.33
Risk free rate (%)	0.13	0.9
Expected dividends (yield) (%)	3.04	6.3
Fair value (£)	1.71	1.4

The expected volatility is based on historical volatility over the last three years, or three years prior to grant. The expected life is the average expected period to exercise. The risk free-rate of return is the yield on zero-coupon UK Government bonds of a term consistent with the assumed option life. The expected dividend yield is based on historical dividend yield for three years prior to grant.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

40 Material related party transactions (continued)

(c) Share based payments (continued)

Sharesave (2004 International Sharesave and 2004 UK Sharesave)

No share awards were granted in 2016 and 2015.

A reconciliation of option movements for the year ended 31 December 2016 and 2015 is shown below:

	2016		*2015*	
	No. of shares	*Weighted average exercise price*	*No. of shares*	*Weighted average exercise price*
Outstanding at 1 January	119,828	£10.76	687,108	£11.26
Adjustment for rights issue	–	–	15,812	N/A
Lapsed	(111,420)	£10.81	(556,014)	£10.89
Exercised	–	–	(27,078)	£10.66
Outstanding at 31 December	8,408	£10.14	119,828	£10.76
Exercisable at 31 December	8,408	£10.14	102,923	£10.86

	2016			*2015*		
Range of exercise price	*Weighted average exercise price*	*No. of shares*	*Weighted average remaining contractual life*	*Weighted average exercise price*	*No. of shares*	*Weighted average remaining contractual life*
£10.1367 (2015: £10.14/£13.93)	£10.14	8,408	0.41 years	£10.76	119,828	0.56 years

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

40 Material related party transactions (continued)

(c) Share based payments (continued)

2013 Sharesave

	2016		2015	
	No. of shares	Weighted average exercise price	No. of shares	Weighted average exercise price
Outstanding at 1 January	1,414,173	£6.73	679,102	£10.66
Adjustment for rights issue	–	–	71,357	N/A
Granted	187,414	£5.30	1,034,721	£5.86
Lapsed	(556,114)	£7.01	(371,007)	£9.78
Exercised	(158)	£5.58	–	–
Outstanding at 31 December	1,045,315	£6.33	1,414,173	£6.73
Exercisable at 31 December	55,773	£11.21	–	–

	2016			2015		
Range of exercise price	Weighted average exercise price	No. of shares	Weighted average remaining contractual life	Weighted average exercise price	No. of shares	Weighted average remaining contractual life
£5.30/£11.2122 (2015: £5.58/£11.21)	£6.33	1,045,315	2.35 years	£6.73	1,414,173	3.06 years

(d) Loans to directors

Loans to directors of the Bank disclosed pursuant to section 383(1)(d) of the Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2016 HK$'M	2015 HK$'M
Aggregate amount of relevant loans by the Bank outstanding at 31 December	26	28
Maximum aggregate amount of relevant loans by the Bank outstanding during the year	31	37

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

40 Material related party transactions (continued)

(e) Related party transactions with associates and joint ventures of the Group

During the year, the Bank and its subsidiaries entered into transactions with associates and joint ventures of the Group in the ordinary course of its banking business and on substantially the same terms as for comparable transactions with third-party counterparties. The amounts of material transactions during the year are set out below:

	2016 *HK$'M*	*2015* *HK$'M*
Amounts due from associates and joint ventures	3	3
Deposits from associates and joint ventures	58	540
Debt securities issued to associates and joint ventures	111	–
Operating income	17	26

41 Ultimate and immediate holding company

The Bank's ultimate holding company is Standard Chartered PLC, a company registered in England and Wales. Standard Chartered PLC has listings on the London Stock Exchange and the Stock Exchange of Hong Kong. In addition, Standard Chartered PLC is also listed on the Bombay and National Stock Exchanges of India in the form of Indian Depository Receipts.

The Bank's immediate holding company is Standard Chartered Bank, a company registered in England and Wales.

42 Significant accounting estimates and judgements

In determining the carrying amounts of certain assets and liabilities, the Bank and its subsidiaries make assumptions about the effects of uncertain future events on those assets and liabilities at the reporting date. These estimations and assumptions are based on historical experience and expectation of future events and are reviewed periodically as actual results may differ from these estimates.

Pensions

Actuarial assumptions are made in valuing defined benefit obligations as set out in note 30 and are updated periodically.

Taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. Deferred tax liabilities are recognised on all temporary differences and deferred tax assets are recognised on temporary differences where it is probable that there will be taxable revenue against which these can be offset. Management has made judgements as to the probability of future taxable revenues being generated against which tax losses will be available for offset.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

42 Significant accounting estimates and judgements (continued)

Fair value of financial instruments

Notes 2(i) and 38 provide further information on the Bank's fair value accounting policy and process.

Impairment of financial assets

Policies on impairment of financial assets are set out in note 2(k).

Goodwill impairment

An annual assessment is made, as set out in note 22, as to whether the current carrying value of goodwill is impaired.

43 Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ended 31 December 2016

Up to the date of issue of the consolidated financial statements, the HKICPA/IASB has issued a number of amendments and new standards which are not yet effective for the accounting year ended 31 December 2016 and which have not been adopted in these financial statements.

These include:

– HKFRS 9/IFRS 9, *Financial instruments* (effective on 1 January 2018)

– HKFRS 15/IFRS 15, *Revenue from contracts with customers* (effective on 1 January 2018)

– HKFRS 16/IFRS 16, *Leases* (effective on 1 January 2019)

– Amendments to HKAS 12/IAS 12, *Income taxes* (effective on 1 January 2017)

– Amendments to HKAS 7/IAS 7, *Statement of cash flows* (effective on 1 January 2017)

– Amendments to HKFRS 4/IFRS 4, *Insurance contracts* (effective on 1 January 2018)

– Amendments to HKFRS 2/IFRS 2, *Share-based payment* (effective on 1 January 2018)

The Bank and its subsidiaries are in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Bank and its subsidiaries have identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impact is discussed below. As the Bank and its subsidiaries have not completed its assessment, further impact may be identified in due course and will be taken into consideration when determining whether to adopt any of these new requirements before their effective date and which transitional approach to take, where there are alternative approaches allowed under the new standards.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

43 Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ended 31 December 2016 (continued)

HKFRS 9/IFRS 9, Financial instruments

HKFRS 9/IFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39/IAS 39, Financial instruments: Recognition and measurement. HKFRS 9/IFRS 9 introduces new requirements for classification and measurement of financial assets, calculation of impairment of financial assets and hedge accounting. On the other hand, HKFRS 9/IFRS 9 incorporates without substantive changes to the requirements of HKAS 39/IAS 39 for recognition and de-recognition of financial instruments and the classification of financial liabilities.

The Bank and its subsidiaries take active participation in the globally launched IFRS 9 programme led by its ultimate parent company, Standard Chartered PLC. The programme implementation is jointly run by Finance and Risk and overseen by a Project Steering Committee, which comprises senior management from the Risk, Finance and Technology departments.

The expected impact of the new requirements on the Bank and its subsidiaries' consolidated financial statements are as follows:

(a) Classification and measurement

HKFRS 9/IFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss (FVTPL) and (3) fair value through other comprehensive income (FVOCI) as follows:

- The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. If a debt instrument is classified as FVOCI then effective interest, impairments and gains/losses on disposal will be recognised in profit or loss.

- For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVOCI. If an equity security is designated as FVOCI then only dividend income on that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without recycling.

The Bank and its subsidiaries have completed an initial assessment of its business model and, where the business model is "hold to collect" or "hold to collect and sell", have completed the initial analysis of the cash flow characteristics of products within those portfolios. In assessing the business models, the Bank and its subsidiaries have considered, amongst other factors, what the objective of the business is, how performance is managed and how staff are rewarded. In assessing the cash flow characteristics of products, the Bank and its subsidiaries have reviewed the underlying contractual terms to determine whether the cash flow are solely payments of principal and interest.

The Bank and its subsidiaries do not currently anticipate that there will be a material change in the measurement classification under HKFRS 9/IFRS 9 compared to HKAS 39/IAS 39 and that the majority of loans and advances to banks and customers will continue to be measured at amortised cost. Debt securities classified as available for sale will be classified either as FVOCI or amortised costs, depending on the business model. Equity instruments will be held as FVTPL; the Bank and its subsidiaries are not currently proposing to designate any equity instruments as FVOCI.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

43 Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ended 31 December 2016 (continued)

(b) Impairment

The new impairment model in HKFRS 9/IFRS 9 replaces the "incurred loss" model in HKAS 39/IAS 39 with an "expected credit loss" ("ECL") model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure expected credit losses as either 12-month expected credit losses or lifetime expected credit losses, depending on the asset and the facts and circumstances. In order to meet the new requirements, the Bank and its subsidiaries have adopted use of sophisticated approach to determining expected credit losses that make extensive use of credit modelling and/or based on historical roll rates or loss rates. The sophisticated credit models that are used to derive ECL have three main components – forward-looking probability of default, loss given default and exposure at default. This new impairment model may result in an earlier recognition of credit losses on the Bank and its subsidiaries' financial assets that are carried at amortised cost and FVOCI. However, a more detailed analysis is required to determine the extent of the impact.

(c) Hedge accounting

HKFRS 9/IFRS 9 does not fundamentally change the requirements relating to measuring and recognising ineffectiveness under HKAS 39/IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting. The Bank and its subsidiaries' current expectation is that it will continue to apply existing hedge accounting requirements in HKAS 39/IAS 39 until there is further clarification on the "macro hedge accounting" project by the HKICPA/IASB.

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

44 Statement of financial position as at 31 December 2016

	2016 HK$'M	*2015 HK$'M*
Assets		
Cash and balances with banks, central banks and other financial institutions	15,289	48,763
Placements with banks and other financial institutions	156,744	119,648
Hong Kong SAR Government certificates of indebtedness	42,211	38,031
Trading assets	15,634	18,597
Financial assets designated at fair value	370	666
Investment securities	207,471	210,572
Advances to customers	438,182	412,619
Amounts due from immediate holding company	45,569	29,749
Amounts due from fellow subsidiaries	16,047	15,687
Amounts due from subsidiaries of the Bank	40,445	39,684
Investments in subsidiaries of the Bank	886	853
Interest in associates	3,168	3,570
Property, plant and equipment	3,046	3,053
Goodwill and intangible assets	1,118	1,075
Current tax assets	107	550
Deferred tax assets	268	306
Other assets	10,917	8,596
	997,472	952,019
Liabilities		
Hong Kong SAR currency notes in circulation	42,211	38,031
Deposits and balances of banks and other financial institutions	19,674	24,655
Deposits from customers	778,242	745,701
Trading liabilities	8,289	8,847
Financial liabilities designated at fair value	9,568	13,724
Debt securities in issue	2,173	1,209
Amounts due to immediate holding company	42,204	27,397
Amounts due to fellow subsidiaries	11,932	8,314
Amounts due to subsidiaries of the Bank	1,477	2,114
Other liabilities	18,233	14,332
Subordinated liabilities	6,088	10,093
	940,091	894,417
Equity		
Share capital	20,256	20,256
Reserves	37,125	37,346
Shareholders' equity	57,381	57,602
	997,472	952,019

Approved and authorised for issue by the Board of Directors on 24 February 2017.

Tan Siew Boi
Director

Ling Fou Tsong
Director

Notes to the consolidated financial statements (continued)

(Expressed in millions of Hong Kong dollars)

45 Statement of changes in equity for the year ended 31 December 2016

	Share capital HK$'M	Cash flow hedge reserve HK$'M	Available-for-sale investment reserve HK$'M	Retained profits HK$'M	Share option equity reserve HK$'M	Total HK$'M
At 1 January 2015	20,256	51	255	36,461	319	57,342
Total comprehensive income	–	(33)	(332)	8,753	–	8,388
Dividend paid	–	–	–	(8,032)	–	(8,032)
Movement in respect of share-based compensation plans	–	–	–	–	(96)	(96)
At 31 December 2015	20,256	18	(77)	37,182	223	57,602
Total comprehensive income	–	(210)	(201)	6,707	–	6,296
Dividend paid	–	–	–	(6,392)	–	(6,392)
Movement in respect of share-based compensation plans	–	–	–	–	(125)	(125)
At 31 December 2016	20,256	(192)	(278)	37,497	98	57,381

During the year ended 31 December 2016, the directors had declared and paid an ordinary dividend of HK$3.17479 (2015: HK$4.0214) per each 'A' and 'B' ordinary share totalling HK$6,150 million (2015: HK$7,790 million). A total dividend of HK$242 million (2015: HK$242 million) was paid in respect of the US$500 million 6.25% perpetual non-cumulative convertible preference shares classified as equity.

46 Assets held for sale

The Bank's interest in one of the associates, Asia Commercial Joint Stock Bank has been presented as held for sale. The completion date of the transaction is expected to be within 12 months from the date of reclassification.

In accordance with HKFRS 5/IFRS 5, the interest in associate is classified as held for sale and measured at the lower of its carrying amount and fair value less cost to sell.

Analysis of the result of assets held-for-sale is as follows:

		2016 HK$'M
(a)	Share of the associate's net asset classified as held for sale (inclusive of stock dividend declared subsequently, recognised at fair value of HK$4 million)	1,020
(b)	Share of the associate's profits classified as held for sale	61
(c)	Cumulative currency translation movement and other reserves movement recognized during the year in other comprehensive income relating to the interest in associate held for sale	(12)

47 Comparative figures

Certain comparative figures have been restated to conform with the current year's presentation (see note 9).

Appendix I: unaudited supplementary financial information

Disclosure on Remuneration for CG-5 Guideline on a Sound Remuneration System issued by the HKMA

Pursuant to section 3 of CG-5 on Guideline on a Sound Remuneration System of the Supervisory Policy manual issued by the Hong Kong Monetary Authority and the Pillar 3 disclosure requirements for remuneration by the Basel Committee on Banking Supervision, the following disclosures are made:

a) Information relating to the governance structure of the remuneration system

b) Information relating to the design and structure of the remuneration processes

c) Description of the ways in which current and future risks are taken into account in the remuneration processes

d) Description of the ways in which the Bank seeks to link performance during a performance measurement period with levels of remuneration

e) Description of the ways in which the Bank seeks to adjust remuneration to take account of longer-term performance

f) Description of the different forms of variable remuneration that the Bank utilizes and the rationale for using these different forms

g) Number of meetings held by the Board Remuneration Committee during the financial year and remuneration paid to the staff

The Bank adopts the remuneration policy and systems of Standard Chartered PLC. Please refer to the Directors' Remuneration Report in the Annual Report of Standard Chartered PLC for details of the Board Remuneration Committee, the major characteristics of the remuneration system, and how risks are taken into account in the remuneration processes.

h) Aggregate quantitative information on remuneration for Senior Management and Key Personnel (note 1) for the year ended 31 December 2016 and 31 December 2015 are as follows:

Analysis of remuneration split between fixed and variable compensation

	2016		2015	
	Senior Management HK$'000	Key Personnel HK$'000	Senior Management HK$'000	Key Personnel HK$'000
Fixed compensation	21,686	47,125	22,383	24,502
Variable compensation				
– Up front cash	5,349	15,606	9,565	9,308
– Up front shares	2,144	5,000	3,194	7,140
– Deferred cash	1,110	3,102	1,055	4,159
– Deferred shares:				
– Restricted shares	1,829	2,686	6,843	13,744
– Performance shares	13,792	18,960	–	–
Total	45,910	92,479	43,040	58,853
Number of staff at 31 December	8	18	8	13

Appendix I: unaudited supplementary financial information (continued)

Disclosure on Remuneration for CG-5 Guideline on a Sound Remuneration System issued by the HKMA (continued)

Analysis of deferred remuneration (note 2)

	2016		2015	
	Senior Management HK$'000	Key Personnel HK$'000	Senior Management HK$'000	Key Personnel HK$'000
At 1 January	25,600	38,214	33,049	42,090
Adjusted for rights issue	–	–	(4)	(6)
Awarded during the year	16,731	24,748	7,899	17,903
Paid out during the year	(9,003)	(7,599)	(5,845)	(8,602)
Vested and lapsed during the year	–	–	–	(403)
Not vested due to performance adjustment	(3,690)	(4,161)	(4,503)	(3,305)
At 31 December	29,638	51,202	30,596	47,677
Vested during the year	5,898	9,984	7,256	12,860

Analysis of total amount of outstanding deferred remuneration

	2016		2015	
	Senior Management HK$'000	Key Personnel HK$'000	Senior Management HK$'000	Key Personnel HK$'000
At 31 December				
– Vested	3,226	10,518	6,089	7,246
– Not-vested	26,412	40,684	24,507	40,431
	29,638	51,202	30,596	47,677
At 31 December				
– Cash	2,396	5,703	1,287	7,205
– Shares	27,242	45,499	29,309	40,472
	29,638	51,202	30,596	47,677
Total amount of remuneration exposed to ex post explicit and/or implicit adjustments (note 3)				
– Deferred remuneration (outstanding)	29,638	51,202	30,596	47,677
– Retained remuneration	–	2,982	–	–

Appendix I: unaudited supplementary financial information (continued)

Disclosure on Remuneration for CG-5 Guideline on a Sound Remuneration System issued by the HKMA (continued)

Analysis of adjustments of deferred remuneration

	2016		2015	
	Senior Management HK$'000	Key Personnel HK$'000	Senior Management HK$'000	Key Personnel HK$'000
Total amount of adjustments during the financial year due to				
– ex post explicit adjustments	(3,690)	(4,161)	(4,503)	(3,305)
– ex post implicit adjustments	4,267	6,645	(8,928)	(13,484)

Analysis of guaranteed bonuses, sign-on awards and severance payments during the year

	2016		2015	
	Senior Management HK$'000	Key Personnel HK$'000	Senior Management HK$'000	Key Personnel HK$'000
Guaranteed bonuses awarded	–	–	–	–
Sign-on awards made	–	–	–	–
Severance payments awarded and made	–	–	3,101	215
Highest severance payments awarded	–	–	2,210	215
Number of beneficiaries of guaranteed bonuses awarded	–	–	–	–
Number of beneficiaries of sign-on awards made	–	–	–	–
Number of beneficiaries of severance payments awarded and made	–	–	2	1

Note 1: As defined in the CG-5 Guideline on a Sound Remuneration System issued by the HKMA, senior management are those who are responsible for oversight of either the Bank's company-wide strategy or activities or those of the Bank's material business lines. Key Personnel are individual employees whose duties or activities in the course of their employment involve the assumption of material risk or the taking on of material exposures on behalf of the Bank.

Note 2: The population of Senior Management and Key Personnel in 2016 differs from that of 2015.

Note 3: Ex post adjustments are adjustments made after the awards are granted.

Appendix II: directors of the Bank's subsidiaries

The names of all directors who have served on the board of the subsidiaries of the Bank during the year and up to 24 February 2017:

*	TAN Siew Boi
*	LING Fou Tsong
	AACHI Vinod
*	Sami ABDELKAFI
*	Sanjeev AGRAWAL
*	Nigel ANTON
	Stan BARNES
*	Stephen John BARNHAM
*	Garry BURKE
*	Peter William BURNETT
*	Paul Stuart CHAMBERS
	CHAN Ericson Lap Ming
*	CHEN Poonis Annie
*	CHEUNG Wai Hing
*	CHEUNG Yup Fan
*	CHUNG Byung Ho
*	Kieran CORR
*	Christopher John DANIELS
	Andrew William DAWSON
	Carlos Ruiz DE LUZURIAGA
*	James DOLPHIN
*	Jeremy EAST
*	Jean FERNANDES
*	FUNG Alan Joi Lun
*	Michael Andres GORRIZ
	Sridhar KANTHADAI
	HON Sau Yee, Kenneth
*	Jonathan Davey HOWARD
	HUI Helen S
*	Guy Roland ISHERWOOD
*	KONG Pik Tung
*	Nils Kristian KOVDAL
*	Dinesh KUMAR
*	LAI Darcy Tat-Sze
*	LAI Yan Hong
*	LAM Hui Yip
*	LAW Heung Yee, Nita
*	LEE Hoi Keung
	Patrick LEE
	LIM Han Siang Peter
#	Tim LORD
*	MAI Wai Lam
*	William MCCALLUM
*	Peter MOYLAN
	Peter NAGLE
*	NG Chau Shing Dantes
*	NG Chi Ming
*	Matthew Adam NORRIS
*	Ivo Laurence PHILIPPS

Appendix II: directors of the Bank's subsidiaries (continued)

*	Wayne Robert PORRITT
*	Amit Kumar PURI
	Pradeep RANA
	Sander Johan Willem SCHEEPENS
	Madhav SHANKAR
#	Allison Helen STRACHAN
*	SZETO Ho Yin Jeffrey
*	Amit Kishorchandra TANNA
*^	Tiara Ltd
*	Sam VILO
*	WANG James Yin
*	Jim WANG
*	ZHANG Xiao Lei

Alternate director
^ Corporate director
* Directors serving the Board as at 24 February 2017