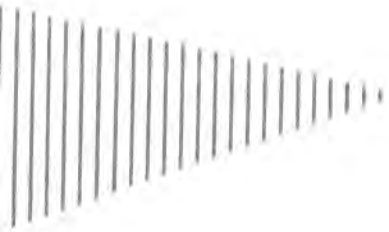
Report of the Directors and Audited Financial Statements

ALLIED BANKING CORPORATION (HONG KONG) LIMITED
新聯銀行(香港)有限公司

31 December 2017



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ALLIED BANKING CORPORATION (HONG KONG) LIMITED
新聯銀行(香港)有限公司

REPORTS AND AUDITED FINANCIAL STATEMENTS

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ALLIED BANKING CORPORATION (HONG KONG) LIMITED
新聯銀行(香港)有限公司

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of Allied Banking Corporation (Hong Kong) Limited (the "Company") and its subsidiary, ACR Nominees Limited (collectively referred to as the "Group") for the year ended 31 December 2017.

Principal activities

The principal activity of the Company is commercial banking business, predominantly in Hong Kong, which includes deposit-taking, lending and trade financing, documentary credits, money market and foreign exchange operations and corporate services. The principal activities of the subsidiary are to provide management and general corporate services. There were no significant changes in the nature of the Group's principal activities during the year.

Business review

A resolution had been passed by the shareholders on 17 June 2016, the Company is not to prepare the Business Review required by the Schedule 5 of the Company Ordinance for the financial year ended on 31 December 2016 and every subsequent financial year until revoked by a subsequent Special Resolution to take effect.

Results and dividends

The Group's profit for the year ended 31 December 2017 and the Group's financial position at that date are set out in the financial statements on pages 5 to 57.

Preference shares dividend of 2017: HK$1,035,000 (2016: HK$1,035,000) has been accrued.

The directors do not recommend the payment of any dividend to ordinary shareholders in respect of current year.

Share capital

There was no movement in the Company's issued capital during the year.

Directors

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

Lucio Chua TAN (Chairman)
KWAN Kie Yip
Regnar C. RIVERA
Lourdes A. SALAZAR
LIM Bee Lu S.
Harry Chua TAN
Michael Gonzales TAN
Lucio Jr. Khao TAN

Independent non-executive director
FOK Kam Chu John
CHONG Kim Chan Kenneth
Patrick Lim GO

In accordance with article 10A of the Company's articles of association, all remaining directors shall retire from office at every annual general meeting and shall be eligible for re-election.

The persons who were directors of the subsidiary of the Company during the year and up to the date of this report (not including those directors listed above) were as follows:

Allied Banking Corporation (Hong Kong) Limited
CHAN Tak Kan
KO Wai Chun, Andy

Directors' interests in transactions, arrangements or contracts

No director nor a connected entity of a director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the Company, the holding company of the Company, or the Company's subsidiary or fellow subsidiaries was a party during the year.

Directors' rights to acquire shares and debentures

At no time during the year were rights to acquire benefits by means of acquisition of shares in or debentures of the Company granted to any director or their respective spouses or minor children, or were any such rights exercised by them; or was the Company, its holding company, its subsidiary or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Compliance with the Banking (Disclosure) Rules

The Company has fully complied with the applicable disclosure requirements of the Banking (Disclosure) Rules.

Auditors

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

On behalf of the Board

Lourdes A. SALAZAR
Hong Kong
25 April 2018

Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

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Independent auditor's report
To the members of Allied Banking Corporation (Hong Kong) Limited
新聯銀行(香港)有限公司
(Incorporated in Hong Kong with limited liability)

Opinion
We have audited the consolidated financial statements of Allied Banking Corporation (Hong Kong) Limited (the "Company") and its subsidiary (the "Group") set out on pages 5 to 57, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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 2017, and of its consolidated financial performance and consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion
We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We 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.

Information other than the consolidated financial statements and auditor's report thereon
The directors of the Company are responsible for the other information. The other information comprises the information included in the report of the directors and unaudited supplementary financial information.

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

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

Responsibilities of the directors for the consolidated financial statements
The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by 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 of the Company 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 of the Company either intend to liquidate the Company or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

A member firm of Ernst & Young Global Limited

Independent auditor's report (continued)
To the members of Allied Banking Corporation (Hong Kong) Limited
新聯銀行(香港)有限公司
(Incorporated in Hong Kong with limited liability)

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. Our report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

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

Certified Public Accountants
Hong Kong
25 April 2018

ALLIED BANKING CORPORATION (HONG KONG) LIMITED
新聯銀行(香港)有限公司

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2017

	Notes	2017 HK$	2016 HK$
INTEREST INCOME ON			
Loans and receivables		53,176,994	49,843,619
Deposits with other banks		6,389,017	3,346,782
		59,566,011	53,190,401
INTEREST EXPENSE ON DEPOSIT LIABILITIES		(6,347,205)	(5,797,211)
NET INTEREST INCOME		53,218,806	47,393,190
OTHER OPERATING INCOME	7	24,273,191	16,181,404
OPERATING INCOME		77,491,997	63,574,594
OPERATING EXPENSES	8	(33,334,401)	(32,048,035)
OPERATING PROFIT BEFORE IMPAIRMENT LOSSES		44,157,596	31,526,559
NET WRITEBACK OF IMPAIRMENT PROVISION	14	132,312	222,262
PROFIT BEFORE TAX		44,289,908	31,748,821
INCOME TAX	10	(5,849,156)	(4,682,084)
PROFIT FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		38,440,752	27,066,737
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO MEMBERS		38,440,752	27,066,737

ALLIED BANKING CORPORATION (HONG KONG) LIMITED
新聯銀行(香港)有限公司

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2017

	Notes	2017 HK$	2016 HK$
ASSETS			
Cash and cash equivalents	12	310,772,532	380,122,490
Placements with banks and other financial institutions maturing between one and twelve months		142,201,316	145,986,926
Derivative financial instruments	13	514,753	47,190
Advances and other accounts	14	1,124,593,100	1,107,367,910
Investment property	15	70,000,000	58,000,000
Property and equipment	17	29,275,691	29,653,345
Total assets		1,677,357,392	1,721,177,861
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits and balances of banks and other financial institutions		33,283,845	36,089,807
Deposits from customers	20	1,156,887,973	1,232,512,672
Derivative financial instruments	13	16,586	133,167
Other accounts and payables		12,072,890	15,758,083
Current tax liabilities		1,778,462	1,271,387
Deferred tax liabilities	18	1,137,495	638,356
Total liabilities		1,205,177,251	1,286,403,472
EQUITY			
Share capital	21	185,700,000	185,700,000
Reserves		286,480,141	249,074,389
Total equity		472,180,141	434,774,389
Total liabilities and equity		1,677,357,392	1,721,177,861

The consolidated financial statements on pages 5 to 57 were approved and authorised for issue by the Board of Directors on 25 April 2018 and are signed on its behalf by:

Lourdes A. SALAZAR

KWAN Kie Yip

ALLIED BANKING CORPORATION (HONG KONG) LIMITED
新聯銀行(香港)有限公司

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2017

	Notes	Share capital HK$ (Note 21)	Reserves				Total HK$
			General reserve HK$	Collective impairment reserve HK$	Retained profits HK$	Total reserves HK$	
At 1 January 2016		185,700,000	7,000,000	9,101,204	206,941,448	223,042,652	408,742,652
Profit for the year		-	-	-	27,066,737	27,066,737	27,066,737
Total comprehensive income for the year		-	-	-	27,066,737	27,066,737	27,066,737
2016 preference shares dividend	11	-	-	-	(1,035,000)	(1,035,000)	(1,035,000)
At 31 December 2016 and 1 January 2017		185,700,000	7,000,000	9,101,204	232,973,185	249,074,389	434,774,389
Profit for the year		-	-	-	38,440,752	38,440,752	38,440,752
Total comprehensive income for the year		-	-	-	38,440,752	38,440,752	38,440,752
2017 preference shares dividend	11	-	-	-	(1,035,000)	(1,035,000)	(1,035,000)
At 31 December 2017		185,700,000	7,000,000	9,101,204	270,378,937	286,480,141	472,180,141

ALLIED BANKING CORPORATION (HONG KONG) LIMITED
新聯銀行(香港)有限公司

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2017

	Notes	2017 HK$	2016 HK$
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		44,289,908	31,748,821
Adjustments for:			
Net writeback of impairment provision	14	(132,312)	(222,262)
Depreciation	8	1,176,015	1,098,631
Gain on disposal of property and equipment	7	(44,450)	(21,188)
Gain on change in fair value of an investment property	15	(12,000,000)	(3,000,000)
		33,289,161	29,604,002
Decrease in placements with banks and other financial institutions with maturity more than three months when acquired		1,712,403	28,146,172
Increase in advances and other accounts		(17,092,878)	(47,563,686)
(Increase)/decrease in derivative financial instruments		(584,144)	89,667
(Decrease)/increase in deposits and balances of banks and other financial institutions		(2,805,962)	3,431,504
(Decrease)/increase in deposits from customers		(75,624,699)	4,135,263
(Decrease)/increase in other accounts and payables		(3,685,193)	5,309,327
		(64,791,312)	23,152,249
Hong Kong profits tax paid		(4,842,942)	(4,965,367)
NET CASH FLOWS (USED IN)/FROM OPERATING ACTIVITIES		(69,634,254)	18,186,882
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property and equipment	17	(799,710)	(90,400)
Proceeds from disposal of items of property and equipment		45,799	21,200
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(753,911)	(69,200)
CASH FLOWS FROM FINANCING ACTIVITY			
Dividends paid to preference shareholders	11	(1,035,000)	(1,035,000)
NET CASH FLOWS USED IN FINANCING ACTIVITY		(1,035,000)	(1,035,000)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(71,423,165)	17,082,682
Cash and cash equivalents at beginning of year		432,945,837	415,863,155
CASH AND CASH EQUIVALENTS AT END OF YEAR		361,522,672	432,945,837
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the consolidated statement of financial position	12	310,772,532	380,122,490
Placements with banks and other financial institutions repayable within three months when acquired		50,750,140	52,823,347
Cash and cash equivalents as stated in the consolidated statement of cash flows		361,522,672	432,945,837

1. CORPORATE INFORMATION

The Company is a private limited company incorporated in Hong Kong and is licensed as a restricted license bank under the Hong Kong Banking Ordinance. The address of the registered office and the principal place of business is 1402 World-Wide House, 19 Des Voeux Road Central, Hong Kong.

The Company engaged in commercial banking business during the year. In the opinion of the directors, the holding company and the ultimate holding company of the Company is Philippine National Bank (PNB), which is incorporated in the Republic of the Philippines.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") (which include all HKFRSs, 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 Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment property and derivative financial instruments, which have been measured at fair values. These financial statements are presented in Hong Kong dollars (HK$) and all values are rounded to the nearest dollar except when otherwise indicated.

Presentation of financial statements
Certain comparative figures have been reclassified to conform with current year's presentation.

Basis of consolidation
The consolidated financial statements include the financial statements of the Company and its subsidiary (collectively referred to as the "Group") for the year ended 31 December 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:
(a) the contractual arrangement with the other vote holders of the investee;
(b) rights arising from other contractual arrangements; and
(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiary are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiary are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intragroup transactions and dividends are eliminated on consolidation in full.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKAS 7	*Statement of Cash Flows: Disclosure Initiative*
Amendments to HKAS 12	*Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS 12	*Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in HKFRS 12*

Amendments to HKAS 7 require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). These amendments did not affect the Group's financial statements as there are no changes to the Group's liabilities arising from financing activities.

Amendments to HKAS 12 clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealised losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group applied amendments retrospectively. However, their application has no effect on the Group's financial position and performance as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

Amendments to HKFRS 12 clarify that the disclosure requirements in HKFRS 12, other than those in paragraphs B10–B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. These amendments did not affect the Group's financial statements as the Group has no interest in entities which are classified as held for sale.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs that have been issued but are not yet effective, in these financial statements.

HKFRS 9	*Financial Instruments*[1]
HKFRS 15	*Revenue from Contracts with Customers*[1]
HKFRS 16	*Leases*[2]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 40	*Transfers of Investment Property*[1]
Amendments to HKFRS 2	*Clarifications of Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[1]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to HKFRS 10 and HKAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
Amendments to HKFRS 15	*Clarifications to HKFRS 15*[1]
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatment*[2]

Amendments under Annual Improvements to HKFRSs 2014-2016 Cycle:

HKFRS 1	*First-time Adoption of Hong Kong Financial Reporting Standards*[1]
Amendments to HKAS 28	*Investments in Associates and Joint Ventures*[1]

Amendments under Annual Improvements to HKFRSs 2015-2017 Cycle:

HKFRS 3	*Business Combinations*[2]
HKFRS 11	*Joint Arrangements*[2]
HKAS 12	*Income Taxes*[2]
HKAS 23	*Borrowing Costs*[2]

[1] Effective for annual periods beginning on or after 1 January 2018
[2] Effective for annual periods beginning on or after 1 January 2019
[3] Effective for annual periods beginning on or after 1 January 2021
[4] No mandatory effective date yet determined but is available for adoption

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

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project and to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018. More detailed assessments will be undertaken over the next twelve months to assess the impact of adopting HKFRS 9. The overall impact will be considered before the closing of the financial year ending 31 December 2018 taking into account that:

- the Group is refining and finalising its models for Expected Credit Losses (ECLs) calculations and
- the new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Group finalises its first financial statements that include the date of initial application.

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

HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licenses of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. Revenue arising from contracts with customers refer mainly to loan commitments that are simple and straightforward in nature and do not include variable components. Such commercial banking transactions are generally expected to be the only performance obligation of the relevant parties. The Group has assessed the impact of adopting the HKFRS 15 and finds no effect on its revenue and profit or loss.

The amendments to HKAS 40 clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with HKAS 8 is only permitted if it is possible without the use of hindsight. The amendments are effective for annual periods beginning on or after 1 January 2018. Early application of the amendments is permitted and must be disclosed. However, since Group's current practice is in line with the clarifications issued, the Group does not expect any effect on its consolidated financial statements.

The HK(IFRIC)-Int 22 clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the transaction date for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis.

Alternatively, an entity may apply the HK(IFRIC)-Int 22 prospectively to all assets, expenses and income in its scope that are initially recognised on or after:

(i) The beginning of the reporting period in which the entity first applies the interpretation; or
(ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

HK(IFRIC)-Int 22 is effective for annual periods beginning on or after 1 January 2018. Early application of interpretation is permitted and must be disclosed. However, since the Group's current practice is in line with the Interpretation, the Group does not expect any effect on its consolidated financial statements.

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

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

The HK(IFRIC)-Int 23 addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of HKAS 12 and does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The HK(IFRIC)-Int 23 specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group will apply interpretation from its effective date. The Interpretation may affect the consolidated financial statements and the required disclosures. In addition, the Group may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition - interest income and expenses

Interest income and expenses are recognised on a time-proportion basis using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The calculation includes significant fees and transaction costs that are an integral part of the effective interest rate, and premiums or discounts. Once a financial asset has been written down as a result of an impairment loss, interest income is recognised using the original rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Revenue recognition - fee and commission income

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment charge are recognised on a straight-line basis over the commitment period.

Other fees and commission expenses relate mainly to transaction and service fees, which are expensed as the services are provided.

Revenue recognition - rental income

Rental income arising on leased property is accounted for on a time-proportion and straight-line basis over the lease terms on ongoing lease and is recorded in the profit or loss under 'Other income'.

Expense recognition

Expenses are recognised when it is probable that a decrease in future economic benefit related to a decrease in an asset or an increase in liability has occurred and the decrease in economic benefits can be measured reliably. Revenues and expenses that relate to the same transaction or other event are recognised simultaneously.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required, the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated.

A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Related parties

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment and depreciation

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

Expenditure incurred after items of property and equipment have been put into operation, such as repairs and maintenance, is charged to profit or loss in the period in which it is incurred.

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

Buildings	2.2% - 4%
Furniture and fixtures	20%
Office equipment	20% - 33%
Motor vehicles	25%
Leasehold land under finance lease	Over the lease terms
Leasehold improvements	Over the shorter of the lease terms and 20%

The assets' residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal.

The gain or loss on disposal or retirement is the difference between the net sales proceeds and the carrying amount of the relevant asset and is recognised in profit or loss in the year of the retirement and disposal and is recognised.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

(a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
(b) a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
(c) there is a change in the determination of whether fulfillment is dependent on a specified asset; or
(d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)
Group as a lessee

Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognised as an expense in the profit or loss on a straight-line basis over the lease term.

Group as a lessor

Leases where the Bank does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as income in the period in which they are earned.

Investment property

Investment properties are interests in land and building held to earn rental income and/or for capital appreciation. Such property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of an investment property are included in the profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the profit or loss in the year of the retirement or disposal.

Investments and other financial assets
Initial recognition and measurement

Financial assets are classified, at inception, as financial assets at fair value through profit or loss and loans and receivables, as appropriate. As of 31 December 2017, the Company does not have any financial assets available-for-sale and held-to-maturity investments (2016: nil). The Group determines the classification of its financial assets at initial recognition.

When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

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

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)
Financial assets at fair value through profit or loss (continued)

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

Loans and receivables

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost

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

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

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

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

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include deposits and balances of banks and other financial institutions, deposits from customers, derivative financial instruments and other accounts and payables.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

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

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

Loans and borrowings

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

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest amortisation is included in profit or loss.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement

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

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

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

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

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

Derivative financial instruments

Derivatives are initially recognised at fair value on the date which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents (continued)
For the purpose of the consolidated statements of financial position, cash and cash equivalents comprise cash on hand and in banks, including term deposits with maturity not exceeding one month, and assets similar in nature to cash, which are not restricted as to use.

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

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

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

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

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

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

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

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

Retirement benefit costs
The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Fiduciary assets
The assets of the staff provident funds and assets held in trust in a fiduciary capacity are not assets of the Group, and accordingly are not reported in the financial statements.

Repossessed assets
Repossessed collateral assets are accounted as "Assets held for sale" and reported in "Other assets" and the relevant loans are derecognised. The repossessed collateral assets are measured at lower of carrying amount and fair value less costs to sell.

Foreign currencies
These financial statements are presented in Hong Kong dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reserves

The reserves recorded in equity of the Group's consolidated statement of financial position include:

- General reserve – General reserve is maintained for general contingencies.
- Collective impairment reserve – Collective impairment reserve is the previous years excessive collective impairment allowance transferred to reserve account.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

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

4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

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

Impairment allowances on loans and advances

The Group reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in profit or loss, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Fair value of investment property

Investment property is carried in the statements of financial position at their fair value. The fair value was based on a valuation on the property conducted by an independent firm of professional valuers using property valuation techniques which involve making assumptions on certain market conditions. Favourable or unfavourable changes to these assumptions would result in changes in the fair value of the Group's investment property.

5. FINANCIAL RISK MANAGEMENT

The Board of Directors (the "Board") has the overall responsibility for the management of all types of risk exposures. In the delivery of its responsibility, the Board has established specialised committees to identify, measure, monitor and control different types of risks. The Board or the appropriate specialised committees review and approve policies and procedures for the identification, measurement, control and monitoring of both financial and non-financial risks. Such policies and procedures are reviewed by the relevant committees or senior management on a regular basis.

The most important types of risk are credit risk, market risk and liquidity risk. Market risk includes currency risk and interest rate risk.

The Group's total operating income, profit before taxation, total assets, total liabilities and contingent liabilities and commitments are derived predominantly from Hong Kong.

5.1 Credit risk

The Group takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. Impairment allowances are made for losses that have been incurred at the end of the reporting period. Significant changes in the economy, or in the health of a particular industry segment, could result in losses that are different from those provided for at the end of the reporting period. Management therefore carefully manages its exposure to credit risk.

5.1.1. Management of credit risk

The Group's lending policies have been formulated based on its own experience, the Banking Ordinance, the Hong Kong Monetary Authority guidelines and other statutory requirements.

The Group's primary credit approval bodies are the Credit Risk Management Committee and the Executive Committee. The Credit Risk Management Committee is responsible for evaluating and monitoring lending-related activities, reviewing existing credit limits and industry limits and managing the lending portfolio and overall credit risk of the Group. It comprises two non-executive directors, the Chief Executive, two Alternate Chief Executives, who are also Head of Treasury and Head of Operation, and the Senior Managers of Credit. The Executive Committee is responsible for reviewing and confirming all credit approvals. The members of the Executive Committee include the directors of the Board of the parent bank and other directors.

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

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

5 FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.1 Management of credit risk (continued)

Exposure to credit risk is managed through regular reviews of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

5.1.2 Risk mitigation policies

Some specific control and mitigation measures are outlined below.

Collateral

The Group implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

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

In addition, in order to minimise credit losses, the Group will seek additional collaterals from the counterparty as soon as impairment indicators are identified for the relevant individual loans and advances.

Derivatives

The Group does not carry interest and foreign exchange rate positions on its trading book. The derivatives are used to manage the Group's own exposures to market risks as part of its asset and liability management process. The principal derivatives instruments used by the Group are interest and foreign exchange rate related contracts, which are over-the-counter derivatives. Most of the Group's foreign exchange rate and interest rate contracts have been entered into to meet customer demand and manage the Group's own risk.

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

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risk arising from the Group's market transactions on any single day.

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.2 Risk mitigation policies (continued)

Credit-related commitments

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

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

5.1.3 Impairment and provisioning policies

Impairment allowances are recognised for losses that have been incurred at the end of the reporting period based on objective evidence of impairment.

The impairment allowances shown in the consolidated statement of financial position at year end is derived from the 5-grade loan classification adopted by the Hong Kong Monetary Authority. The table below shows the percentage of the Group's loans and advances and the associated impairment allowances for each of the rating categories:

	2017		2016	
	Loans and advances (%)	Impairment allowances (%)	Loans and advances (%)	Impairment allowances (%)
1. Pass	100	99	100	99
2. Special Mention	-	-	-	-
3. Substandard	-	1	-	1
4. Doubtful	-	-	-	-
5. Loss	-	-	-	-
	100	100	100	100

The rating tool assists management to determine whether objective evidence of impairment exists under HKAS 39, based on the following criteria set out by the Group:

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.3 Impairment and provisioning policies (continued)

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

The Group's policy requires review to be performed on individual financial assets that are above materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at the end of the reporting period on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held and the anticipated receipts for that individual account.

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

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

Credit risk exposures relating to on-balance sheet assets are as follows:

	2017 HK$	2016 HK$
ASSETS		
Cash and cash equivalents	310,696,764	380,122,490
Placements with banks and other financial institutions maturing between one and twelve months	142,201,316	145,986,926
Derivative financial instruments	514,753	47,190
Advances and other accounts	1,124,593,100	1,107,367,910
	1,578,005,933	1,633,524,516

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements (continued)

Credit risk exposures relating to off-balance sheet items are as follows:

	2017 HK$	2016 HK$
Loan commitments	85,760,772	61,295,718
Guarantees, acceptance and other financial liabilities	5,600,262	1,383,892
	91,361,034	62,679,610

The value and type of collateral or credit enhancement required depends on an assessment of the credit risk of the counterparty. Policies and guidelines are in place to determine the eligibility of collateral for credit risk mitigation.

The Group takes collateral as a secondary recourse to the borrower. The collateral and credit enhancements include but not limited to residential properties, income-producing real estate properties, guarantees and cash deposits.

Periodic valuations of collateral are required. Loans and advances are typically collateralised to a substantial extent with top-up clauses incorporated in the underlying agreement. The current market value of the collateral is considered during the review of the adequacy of the allowance for credit losses, among others.

For the year ended 31 December 2017, the Bank's net credit exposure arising from advances to customers after the financial effect of collateral and other credit enhancements amounted to HK$2,894,235 (2016: HK$4,174,602).

5.1.5 Credit quality

Credit quality of loans and advances to customers are summarised as follows:

	2017 HK$	2016 HK$
Neither past due nor impaired	1,103,617,090	1,096,894,945
Past due but not impaired	15,048,372	6,076,372
Impaired	134,175	158,175
Gross loans and advances to customers	1,118,799,637	1,103,129,492
Less: impairment allowance	(1,914,252)	(1,920,837)
	1,116,885,385	1,101,208,655

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.5 Credit quality (continued)

Advances neither past due nor impaired

The credit quality of the portfolio of loans and advances to customers that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Group and are summarised as follows:

At 31 December 2017

	Individual (retail customers)			Corporate entities		Total loans and advances to customers
	Overdrafts HK$	Term loans HK$	Mortgages HK$	Large corporate customers HK$	SMEs HK$	HK$
GRADES:						
1. Pass	17,333,087	60,935,000	159,250,988	-	866,098,015	1,103,617,090
2. Special mention	-	-	-	-	-	-
Total	17,333,087	60,935,000	159,250,988	-	866,098,015	1,103,617,090

At 31 December 2016

	Individual (retail customers)			Corporate entities		Total loans and advances to customers
	Overdrafts HK$	Term loans HK$	Mortgages HK$	Large corporate customers HK$	SMEs HK$	HK$
GRADES:						
1. Pass	12,714,810	31,925,000	184,069,648	-	868,185,487	1,096,894,945
2. Special mention	-	-	-	-	-	-
Total	12,714,810	31,925,000	184,069,648	-	868,185,487	1,096,894,945

Advances past due but not impaired

The distribution of loans and advances to customers that were past due but not impaired are summarised as follows:

At 31 December 2017

	Individual (retail customers)			Corporate entities		Total loans and advances to customers
	Overdrafts HK$	Term loans HK$	Mortgages HK$	Large corporate customers HK$	SMEs HK$	HK$
Past due up to 30 days	-	-	4,841	-	9,520,000	9,524,841
31-60 days	-	-	16,305	-	5,507,226	5,523,531
61-90 days	-	-	-	-	-	-
Over 90 days	-	-	-	-	-	-
Total	-	-	21,146	-	15,027,226	15,048,372

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.5 Credit quality (continued)

At 31 December 2016

	Individual (retail customers)			Corporate entities		Total loans and advances to customers
	Overdrafts HK$	Term loans HK$	Mortgages HK$	Large corporate customers HK$	SMEs HK$	HK$
Past due up to 30 days	-	-	31,759	-	5,166,005	5,197,764
31-60 days	-	-	-	-	46,155	46,155
61-90 days	-	-	6,693	-	-	6,693
Over 90 days	-	-	825,760	-	-	825,760
Total	-	-	864,212	-	5,212,160	6,076,372

Advances individually impaired

Advances to customers

The breakdown of the gross amount of individually impaired loans and advances by class, along with the fair value of related collateral held by the Group as security, are as follows:

At 31 December 2017

	Individual (retail customers)			Corporate entities		Total loans and advances to customers
	Overdrafts HK$	Term loans HK$	Mortgages HK$	Large corporate customers HK$	SMEs HK$	HK$
Individually impaired loans	-	-	134,022	-	153	134,175
Fair value of collateral	-	-	-	-	-	-

At 31 December 2016

	Individual (retail customers)			Corporate entities		Total loans and advances to customers
	Overdrafts HK$	Term loans HK$	Mortgages HK$	Large corporate customers HK$	SMEs HK$	HK$
Individually impaired loans	-	-	158,022	-	153	158,175
Fair value of collateral	-	-	-	-	-	-

During the year, there is no asset obtained by the Group for taking possession of collateral held as security.

Loans and advances to banks

There are no individually impaired loans and advances to banks as at 31 December 2017 and 2016.

5. FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.5 Credit quality (continued)

Advances individually impaired (continued)

Loans and advances renegotiated
Restructuring activities include extended payment arrangements, approved external management plans, and modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to normal status and managed together with accounts of similar status. Restructuring policies and practices are based on indicators or criteria which, in the judgement of local management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans, in particular customer finance loans.

They are retained in classified loans for as long as we do not have sufficiently good reasons to believe that the obligor will be able to sustainably meet the re-scheduled loan repayment terms.

There are no renegotiated loans that would otherwise be past due or impaired as at 31 December 2017 and 2016.

5.2 Market risk

The Group is exposed to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

Market risk is managed by the Asset and Liability Management Committee ("ALCO"). ALCO directs the Group's overall acquisition, allocation and pricing of funds, within the established target/guidelines, while managing and monitoring the overall treasury risk exposure. It comprises two non-executive directors, the Chief Executive, two Alternate Chief Executives, who are also the Head of Treasury and Head of Operation, the Senior Managers of Credit and the Head of Marketing and the Compliance Officer.

5.2.1 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group undertakes transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange

5. FINANCIAL RISK MANAGEMENT (continued)

5.2 Market risk (continued)

5.2.1 Currency risk (continued)

rate exposures are managed within the approved policy parameters by utilising forward foreign exchange contracts.

The Group does not have any significant foreign exchange risk as foreign exchange dealing is moderate. Day-to-day foreign exchange management is performed by the Treasury Management Department within the approved limits.

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. ALCO sets both overnight and intra-day positions limits and monitors the level of exposure by currencies and in total on a daily basis.

The following table, presented in Hong Kong dollars, indicates the concentration of currency risk at the end of the reporting period.

At 31 December 2017	US$	HK$	Euro	GBP	Other	Total
ASSETS						
Cash and cash equivalents	229,696,495	73,385,639	239,964	97,382	7,353,052	310,772,532
Placements with banks and other financial institutions between one and twelve months	101,982,556	17,406,125	-	10,226,514	12,586,121	142,201,316
Derivative financial instruments	257,376	242,050	15,063	-	264	514,753
Financial assets included in advances and other accounts	16,851,407	1,102,409,123	3,020,502	5,183	546,324	1,122,832,539
Total assets	348,787,834	1,193,442,937	3,275,529	10,329,079	20,485,761	1,576,321,140
LIABILITIES						
Deposits and balances of banks and other financial institutions	5,306,665	27,974,231	-	-	2,949	33,283,845
Deposits from customers	779,640,037	341,055,338	6,519,636	10,526,818	19,146,144	1,156,887,973
Derivative financial instruments	8,293	7,989	-	-	304	16,586
Other accounts and payable	865,641	11,139,129	-	-	68,120	12,072,890
Total liabilities	785,820,636	380,176,687	6,519,636	10,526,818	19,217,517	1,202,261,294
Net on-balance sheet position	(437,032,802)	813,266,250	(3,244,107)	(197,739)	1,268,244	374,059,846

5. FINANCIAL RISK MANAGEMENT (continued)

5.2 Market risk (continued)

5.2.1 Currency risk (continued)

At 31 December 2016	US$	HK$	Euro	GBP	Other	Total
ASSETS						
Cash and cash equivalents	337,594,878	28,460,801	138,845	88,108	13,839,858	380,122,490
Placements with banks and other financial institutions between one and twelve months	101,319,240	13,266,516	-	9,252,598	22,148,572	145,986,926
Derivative financial instruments	23,595	4,275	19,320	-	-	47,190
Financial assets included in advances and other accounts	28,123,899	1,076,606,483	599,634	-	153,110	1,105,483,126
Total assets	467,061,612	1,118,338,075	757,799	9,340,706	36,141,540	1,631,639,732
LIABILITIES						
Deposits and balances of banks and other financial institutions	6,322,983	29,764,100	-	-	2,724	36,089,807
Deposits from customers	849,556,046	332,359,076	5,753,258	9,524,303	35,319,989	1,232,512,672
Derivative financial instruments	66,584	66,583	-	-	-	133,167
Other accounts and payable	717,964	14,921,158	-	-	118,961	15,758,083
Total liabilities	856,663,577	377,110,917	5,753,258	9,524,303	35,441,674	1,284,493,729
Net on-balance sheet position	(389,601,965)	741,227,158	(4,995,459)	(183,597)	699,866	347,146,003

Foreign currency sensitivity

The Group and the Company are mainly exposed to US dollars. The following shows the sensitivity analysis on the Group's profit before tax of reasonably possible movement in US dollars exchange rates (i.e., 1 percent depreciation/appreciation of US dollar against HK dollar).

	2017		2016	
	Change in percent		Change in percent	
	+1	-1	+1	-1
	HK$	HK$	HK$	HK$
Profit before tax	4,370,328	(4,370,328)	3,896,020	(3,896,020)

5.2.2 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Limits are set on the level of mismatch of interest rate repricing that may be undertaken, which is monitored regularly.

5. FINANCIAL RISK MANAGEMENT (continued)

5.2 Market risk (continued)

5.2.2 Interest rate risk (continued)

	Effective interest rate	Up to 1 month HK$	1 - 3 months HK$	4 - 12 months HK$	1 - 5 years HK$	Over 5 years HK$	Non-interest bearing HK$	Total HK$
At 31 December 2017								
ASSETS								
Cash and cash equivalents	1.20%	228,836,928	-	-	-	-	81,935,604	310,772,532
Placements with banks and other financial institutions between one and twelve months	1.16%	-	83,722,445	58,478,871	-	-	-	142,201,316
Derivative financial instruments	0.00%	-	-	-	-	-	514,753	514,753
Financial assets included in advances and other accounts	4.69%	1,115,718,408	-	-	-	-	7,114,131	1,122,832,539
Total assets		1,344,555,336	83,722,445	58,478,871	-	-	89,564,488	1,576,321,140
LIABILITIES								
Deposits and balances of banks and other financial institutions	4.39%	33,283,845	-	-	-	-	-	33,283,845
Deposits from customers	0.32%	419,008,729	432,252,565	305,626,679	-	-	-	1,156,887,973
Derivative financial instruments	0.00%	-	-	-	-	-	16,586	16,586
Other accounts and payables	0.00%	-	-	-	-	-	12,072,890	12,072,890
Total liabilities		452,292,574	432,252,565	305,626,679	-	-	12,089,476	1,202,261,294
Total interest sensitivity gap		892,262,762	(348,530,120)	(247,147,808)	-	-	77,475,012	374,059,846

5. FINANCIAL RISK MANAGEMENT (continued)

5.2 Market risk (continued)

5.2.2 Interest rate risk (continued)

	Effective interest rate	Up to 1 month HK$	1 - 3 months HK$	4 - 12 months HK$	1 - 5 years HK$	Over 5 years HK$	Non-interest bearing HK$	Total HK$
At 31 December 2016								
ASSETS								
Cash and cash equivalents	0.57%	328,351,945	-	-	-	-	51,770,545	380,122,490
Placements with banks and other financial institutions between one and twelve months	0.88%	-	114,165,726	31,821,200	-	-	-	145,986,926
Derivative financial instruments	0.00%	-	-	-	-	-	47,190	47,190
Financial assets included in advances and other accounts	4.87%	1,099,907,378	-	-	-	-	5,575,748	1,105,483,126
Total assets		1,428,259,323	114,165,726	31,821,200	-	-	57,393,483	1,631,639,732
LIABILITIES								
Deposits and balances of banks and other financial institutions	4.21%	36,089,807	-	-	-	-	-	36,089,807
Deposits from customers	0.43%	544,046,506	456,943,558	231,522,608	-	-	-	1,232,512,672
Derivative financial instruments	0.00%	-	-	-	-	-	133,167	133,167
Other accounts and payables	0.00%	-	-	-	-	-	15,758,083	15,758,083
Total liabilities		580,136,313	456,943,558	231,522,608	-	-	15,891,250	1,284,493,729
Total interest sensitivity gap		848,123,010	(342,777,832)	(199,701,408)	-	-	41,502,233	347,146,003

5. FINANCIAL RISK MANAGEMENT (continued)

5.2 Market risk (continued)

5.2.2 Interest rate risk (continued)

Interest rate sensitivity

The sensitivity analyses below are determined based on the exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. A 100 basis point change is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rates.

	2017		2016	
	Change in basis points		Change in basis points	
	+100	-100	+100	-100
	HK$	HK$	HK$	HK$
Profit before tax	2,965,848	(2,965,848)	3,056,438	(3,056,438)

5.3 Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

5.3.1 Management of liquidity risk

ALCO is responsible for monitoring the Group's liquidity position through periodic review of statutory liquidity ratio, maturity profile of assets and liabilities, loan-to-deposit ratio and inter-bank transactions. Liquidity policy is monitored by ALCO and reviewed regularly by the Board of Directors of the Company. The Group's policy is to maintain a conservative level of liquid funds on a daily basis so that the Group is prepared to meet its obligations when they fall due in the normal course of business, to satisfy statutory liquidity ratio requirements, and to deal with any funding crises that may arise. Limits are set on the minimum proportion of maturing funds to be maintained in order to meet all the calls on cash resources such as overnight deposits, current accounts, maturing deposits, loan draw-downs and guarantees, margin calls and other calls on cash-settled derivatives. Limits are also set on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at an unexpected level of demand.

5. FINANCIAL RISK MANAGEMENT (continued)

5.3 Liquidity risk (continued)

5.3.1 Management of liquidity risk (continued)

The following table details the Group's remaining contractual maturity for its financial liabilities and derivative financial instruments. The tables below have been drawn up based on the undiscounted contractual maturities of the financial liabilities including interest that will accrue to those liabilities.

	Less than 1 month HK$	1 - 3 months HK$	4 - 12 months HK$	1 - 5 years HK$	Over 5 years HK$	Undated HK$	Total HK$
At 31 December 2017							
Liabilities							
Deposits and balances of banks and other financial institutions	33,408,756	-	-	-	-	-	33,408,756
Deposits from customers	328,277,746	523,833,925	306,459,346	-	-	-	1,158,571,017
Other accounts and payables	2,225,835	783,676	1,758,215	1,043,690	-	6,261,474	12,072,890
	363,912,337	524,617,601	308,217,561	1,043,690	-	6,261,474	1,204,052,663
Derivative cash flow							
Derivative financial instruments settled on net basis	-	-	-	-	-	-	-
Total outflow	-	-	-	-	-	-	-
Total inflow	-	-	-	-	-	-	-
Derivative financial instruments settled on gross basis							
Total outflow	(82,608,052)	(140,325,000)	(218,011,400)	-	-	-	(440,944,452)
Total inflow	82,838,422	140,720,040	218,897,840	-	-	-	442,456,302

	Less than 1 month HK$	1 - 3 months HK$	4 - 12 months HK$	1 - 5 years HK$	Over 5 years HK$	Undated HK$	Total HK$
At 31 December 2016							
Liabilities							
Deposits and balances of banks and other financial institutions	36,218,493	-	-	-	-	-	36,218,493
Deposits from customers	451,808,730	550,155,676	232,045,646	-	-	-	1,234,010,052
Other accounts and payables	2,011,253	1,051,920	1,925,247	427,827	-	10,341,836	15,758,083
	490,038,476	551,207,596	233,970,893	427,827	-	10,341,836	1,285,986,628
Derivative cash flow							
Derivative financial instruments settled on net basis	(37,554)	-	-	-	-	-	(37,554)
Total outflow	(204,433,108)	-	-	-	-	-	(204,433,108)
Total inflow	204,395,554	-	-	-	-	-	204,395,554
Derivative financial instruments settled on gross basis							
Total outflow	(38,746,000)	(46,469,400)	(108,508,000)	-	-	-	(193,723,400)
Total inflow	38,777,250	46,532,700	108,576,300	-	-	-	193,886,250

5. FINANCIAL RISK MANAGEMENT (continued)

5.3 Liquidity risk (continued)

5.3.2 Off-balance sheet items

The tables below summarised the Group's off-balance sheet financial instruments by maturity based on the remaining period at the end of the reporting period to the contractual maturity date.

	Less than 1 year HK$	1-5 years HK$	Over 5 years HK$	Total HK$
At 31 December 2017				
Loan commitments	85,760,772	-	-	85,760,772
Guarantee, acceptances and other financial facilities	5,600,262	-	-	5,600,262
Total	91,361,034	-	-	91,361,034

	Less than 1 year HK$	1-5 years HK$	Over 5 years HK$	Total HK$
At 31 December 2016				
Loan commitments	61,295,718	-	-	61,295,718
Guarantee, acceptances and other financial facilities	1,383,892	-	-	1,383,892
Total	62,679,610	-	-	62,679,610

5. FINANCIAL RISK MANAGEMENT (continued)

5.3 Liquidity risk (continued)

5.3.3 Analysis of assets and liabilities by remaining maturity

The maturity analysis based on the remaining period at the end of the reporting period to the contractual maturity date in accordance with the guideline issued by the Hong Kong Monetary Authority is shown below.

31 December 2017	On Demand HK$	Up to 1 month HK$	1 - 3 months HK$	4 - 12 months HK$	1 - 5 years HK$	Over 5 years HK$	Indefinite Period HK$	Total HK$
ASSETS								
Cash and cash equivalents	81,935,604	228,836,928	-	-	-	-	-	310,772,532
Placements with banks and other financial institutions between one and twelve months	-	-	83,722,445	58,478,871	-	-	-	142,201,316
Derivative financial instruments	-	96,193	125,420	293,140	-	-	-	514,753
Financial assets included in advances and other accounts	-	381,158,619	188,172,370	103,752,922	190,300,818	252,467,679	6,980,131	1,122,832,539
Total assets	81,935,604	610,091,740	272,020,235	162,524,933	190,300,818	252,467,679	6,980,131	1,576,321,140
LIABILITIES								
Deposits and balances of banks and other financial institutions	-	33,283,845	-	-	-	-	-	33,283,845
Deposits from customers	-	327,973,891	523,287,403	305,626,679	-	-	-	1,156,887,973
Derivative financial instruments	-	4,006	12,580	-	-	-	-	16,586
Other accounts and payables	-	2,225,835	783,676	1,758,215	1,043,690	-	6,261,474	12,072,890
Total liabilities	-	363,487,577	524,083,659	307,384,894	1,043,690	-	6,261,474	1,202,261,294
Total liquidity gap	81,935,604	246,604,163	(252,063,424)	(144,859,961)	189,257,128	252,467,679	718,657	374,059,846

5. FINANCIAL RISK MANAGEMENT (continued)

5.3 Liquidity risk (continued)

5.3.3 Analysis of assets and liabilities by remaining maturity (continued)

	On Demand HK$	Up to 1 month HK$	1 - 3 months HK$	4 - 12 months HK$	1 - 5 years HK$	Over 5 years HK$	Indefinite Period HK$	Total HK$
31 December 2016								
ASSETS								
Cash and cash equivalents	51,770,545	328,351,945	-	-	-	-	-	380,122,490
Placements with banks and other financial institutions between one and twelve months	-	-	114,165,726	31,821,200	-	-	-	145,986,926
Derivative financial instruments	-	38,640	1,900	6,650	-	-	-	47,190
Financial assets included in advances and other accounts	-	311,354,926	142,431,782	186,446,626	182,384,371	277,447,673	5,417,748	1,105,483,126
Total assets	51,770,545	639,745,511	256,599,408	218,274,476	182,384,371	277,447,673	5,417,748	1,631,639,732
LIABILITIES								
Deposits and balances of banks and other financial institutions	-	36,089,807	-	-	-	-	-	36,089,807
Deposits from customers	-	451,340,516	549,649,548	231,522,608	-	-	-	1,232,512,672
Derivative financial instruments	-	102,167	2,500	28,500	-	-	-	133,167
Other accounts and payables	-	2,011,253	1,051,920	1,925,247	427,827	-	10,341,836	15,758,083
Total liabilities	-	489,543,743	550,703,968	233,476,355	427,827	-	10,341,836	1,284,493,729
Total liquidity gap	51,770,545	150,201,768	(294,104,560)	(15,201,879)	181,956,544	277,447,673	(4,924,088)	347,146,003

5. FINANCIAL RISK MANAGEMENT (continued)

5.4 Capital management

The Group has adopted a policy of maintaining a strong capital base to:

- comply with the capital requirements under the Banking (Capital) Rules of the Banking Ordinance; and
- support the Group's stability and business growth so as to provide reasonable returns for members.

Capital adequacy ratio, computed as a ratio of total regulatory capital to the risk-weighted asset, of the Group was maintained at a level above the required minimum ratio.

Capital adequacy position and the use of regulatory capital are monitored closely by the Group's management, employing techniques based on the Banking (Capital) Rules. The required information is filed with the Hong Kong Monetary Authority on a quarterly basis in the form of a statistical return. The disclosure of capital adequacy and capital base are shown in Note 11 of Supplementary Financial Information.

The Group has an established capital planning process to assess the adequacy of its capital to support current and future activities. The process states the Group's capital adequacy goals in relation to risk, taking into account its strategic focus and business plan.

6. FAIR VALUE MEASUREMENT

6.1 Fair values of assets and liabilities measured at fair value

Assets measured at fair value as at 31 December 2017:

	Fair value measurement using			
	Quoted prices in active market (Level 1) HK$	Significant observable inputs (Level 2) HK$	Significant unobservable inputs (Level 3) HK$	Total HK$
Recurring fair value measurements				
Financial asset				
Derivative financial instruments	-	514,753	-	514,753
	-	514,753	-	514,753
Non-financial asset				
Investment property	-	-	70,000,000	70,000,000
	-	-	70,000,000	70,000,000
Total	-	514,753	70,000,000	70,514,753

6 FAIR VALUE MEASUREMENT (continued)

6.1 Fair values of assets and liabilities measured at fair value (continued)

Liability measured at fair value as at 31 December 2017:

	Fair value measurement using			
	Quoted prices in active market (Level 1) HK$	Significant observable inputs (Level 2) HK$	Significant unobservable inputs (Level 3) HK$	Total HK$
Recurring fair value measurement				
Financial liability				
Derivative financial instruments	-	16,586	-	16,586

Assets measured at fair value as at 31 December 2016:

	Fair value measurement using			
	Quoted prices in active market (Level 1) HK$	Significant observable inputs (Level 2) HK$	Significant unobservable inputs (Level 3) HK$	Total HK$
Recurring fair value measurements				
Financial asset				
Derivative financial instruments	-	47,190	-	47,190
	-	47,190	-	47,190
Non-financial asset				
Investment property	-	-	58,000,000	58,000,000
	-	-	58,000,000	58,000,000
Total	-	47,190	58,000,000	58,047,190

Liability measured at fair value as at 31 December 2016:

	Fair value measurement using			
	Quoted prices in active market (Level 1) HK$	Significant observable inputs (Level 2) HK$	Significant unobservable inputs (Level 3) HK$	Total HK$
Recurring fair value measurement				
Financial liability				
Derivative financial instruments	-	133,167	-	133,167

6. FAIR VALUE MEASUREMENT (continued)

6.1 Fair values of assets and liabilities measured at fair value (continued)

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 (2016: Nil) and no transfers into or out of Level 3 (2016: Nil).

Level 2 derivative financial instruments include open foreign exchange spot contracts, foreign exchange forward and swap contracts. These instruments are valued by either observable foreign exchange rates, and observable or calculated forward points.

6.2 Information about Level 3 fair value measurements

The fair value of the Group's investment property is determined by adoption of direct comparison approach by Century 21 Surveyors Limited, an independent professional qualified valuer. Valuations were derived on the basis of assuming sale of the property in its existing state with the benefit of immediate vacant possession and by making reference to comparable sales transactions as available in the relevant market. In the course of valuation, reference has been made to comparable market transactions of properties in the same development as well as other similar developments and taking into account the general market trends and other economic factors which may reasonably affect the open market value of the investment property as at 31 December 2017 and 2016.

The table below summarises the valuation techniques used and the significant unobservable inputs valuation for the investment property held by the Group:

Description	Fair Value at 31 December 2017	Valuation Techniques	Unobservable Input
Investment Property (Note 15)			
Land & Buildings	HK$70,000,000 (31 December 2016: HK$58,000,000)	Direct comparison approach	Location: Commercial centre of Central, predominated by Class A high rise commercial building and skyscrapers Size: Gross floor area: 2,615 s.f.

6.3 Fair values of financial instruments not measured at fair value

Fair values of financial assets included in advances and other accounts are based on prevailing current interest rates offered for similar financial instruments appropriate for the remaining term to maturity. The carrying amounts of such financial instruments are not materially different from their fair values.

Management has assessed that the fair values of cash and cash equivalents, placements with banks and other financial institutions, deposits and balances of banks and other financial institutions, deposits from customers and financial liabilities included in other accounts and payables approximate to their carrying amounts largely due to the short term maturities of these instruments.

7. OTHER OPERATING INCOME

	2017 HK$	2016 HK$
Other income		
Handling fee	2,450,763	3,814,743
Commission income from foreign exchange	451,911	137,648
Commission income from trade finance	403,832	449,901
Commitment charge	757,728	436,891
Rental income	1,836,329	1,788,660
Service fee	1,816,136	1,363,500
Penalty fee	661,860	280,555
Others	978,569	1,357,603
	9,357,128	9,629,501
Gains		
Net gains arising from dealing in foreign currencies	2,871,613	3,530,715
Gain on change in fair value of investment property (Note 15)	12,000,000	3,000,000
Gain on disposal of property and equipment	44,450	21,188
	14,916,063	6,551,903
	24,273,191	16,181,404

Handling fee and service fee are related to income from services provided by the subsidiary. Others consist of sundry income, insurance referral fee and charges recovered from customers.

8. OPERATING EXPENSES

	2017 HK$	2016 HK$
Employee benefit expense (including directors' remuneration):		
Staff cost	24,885,467	23,639,529
Retirement benefits costs	769,724	894,178
Depreciation (Note 17)	1,176,015	1,098,631
Auditor's remuneration	1,260,000	1,200,000
Premises and equipment expenses	825,300	815,646
Other operating expenses	4,417,895	4,400,051
	33,334,401	32,048,035

For the year ended 31 December 2017, the Group had forfeited contributions amounting to HK$36,241 (2016: HK$7,909) available to reduce its contribution to the pension scheme in future years.

9. DIRECTORS' REMUNERATION

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

	2017 HK$	2016 HK$
Fee	-	-
Other emoluments:		
Salaries and allowances	6,983,598	6,548,515
Pension scheme contributions	51,233	84,794
	7,034,831	6,633,309
	7,034,831	6,633,309

The key management personnel of the Group comprise directors of the Company.

10. INCOME TAX

	2017 HK$	2016 HK$
Hong Kong profits tax		
Current tax	5,350,017	4,734,341
Deferred tax (Note 18)	499,139	(52,257)
	5,849,156	4,682,084

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

A reconciliation of the tax expense applicable to profit before tax at the statutory rate to the tax expense at the effective rate is as follows:

	2017		2016	
	HK$	%	HK$	%
Profit before tax	44,289,908		31,748,821	
Tax at statutory rate of 16.5% (2016: 16.5%)	7,307,835	16.50	5,238,555	16.50
Income not subject to tax	(2,012,468)	(4.54)	(518,384)	(1.63)
Expenses not deductible for tax	306,434	0.69	181,274	0.57
Temporary difference not recognised	-	-	(219,361)	(0.69)
Recognition of previously unrecognised temporary difference	247,355	0.67	-	-
Tax charge at the Group's effective rate	5,849,156	13.21	4,682,084	14.75

11. PREFERENCE SHARES DIVIDEND

Dividend amounting to HK$1,035,000 (2016: HK$1,035,000) has been accrued for preference shares by the directors.

12. CASH AND CASH EQUIVALENTS

	2017 HK$	2016 HK$
Cash and bank balances	81,935,604	51,770,545
Money at call and short notice	228,836,928	328,351,945
Cash and cash equivalents	310,772,532	380,122,490

13. DERIVATIVE FINANCIAL INSTRUMENTS

	2017 HK$	2016 HK$
Forward foreign currency contracts		
- Assets	514,753	47,190
- Liabilities	(16,586)	(133,167)

The Group entered into a variety of foreign currency forward contracts to manage its exchange rate exposures. At the end of the reporting period, all derivatives are stated at fair value determined based on valuation techniques.

The total notional amount of outstanding forward foreign currency contracts to which the Group and the Company are committed, at the end of the reporting period, are as follows:

	2017 HK$	2016 HK$
Forward foreign currency contracts	442,456,302	398,281,804

14. ADVANCES AND OTHER ACCOUNTS

	2017 HK$	2016 HK$
Advances to customers	1,118,799,637	1,103,129,492
Impairment allowances		
- Individually assessed	(18,252)	(24,837)
- Collectively assessed	(1,896,000)	(1,896,000)
	1,116,885,385	1,101,208,655
Other accounts	7,707,715	6,159,255
	1,124,593,100	1,107,367,910

14. ADVANCES AND OTHER ACCOUNTS (continued)

Other accounts include HK$5,947,154 (2016: HK$4,274,471) of financial assets which were measured at amortised cost.

Movement in impairment allowance on advances:

	Individual assessment HK$	Collective assessment HK$	Total assessment HK$
Balance at 1 January 2017	24,837	1,896,000	1,920,837
Impairment losses	564	-	564
Amounts written-back	(132,876)	-	(132,876)
Net write-back to profit or loss	(132,312)	-	(132,312)
Amounts recovered	126,291	-	126,291
Amounts written off	(564)	-	(564)
	125,727	-	125,727
Balance at 31 December 2017	18,252	1,896,000	1,914,252

	Individual assessment HK$	Collective assessment HK$	Total assessment HK$
Balance at 1 January 2016	32,312	1,896,000	1,928,312
Impairment losses	798	-	798
Amounts written-back	(223,060)	-	(223,060)
Net write-back to profit or loss	(222,262)	-	(222,262)
Amounts recovered	215,586	-	215,586
Amounts written off	(799)	-	(799)
	214,787	-	214,787
Balance at 31 December 2016	24,837	1,896,000	1,920,837

14. ADVANCES AND OTHER ACCOUNTS (continued)

Details of the impaired loans are as follows:

	2017 HK$	2016 HK$
Gross impaired loans	134,175	158,175
Less: Impairment allowances under individual assessment	(18,252)	(24,837)
Net impaired loans	115,923	133,338
Gross impaired loans as a percentage of gross advances to customers	0.01%	0.01%

15. INVESTMENT PROPERTY

	2017 HK$	2016 HK$
Carrying amount at 1 January	58,000,000	55,000,000
Net gain from fair value adjustment	12,000,000	3,000,000
Carrying amount at 31 December	70,000,000	58,000,000

The Group's investment property was revalued on 31 December 2017 by Century 21 Surveyors Limited, an independent professional qualified valuer, at HK$70,000,000.

The investment property is held for rental purpose.

The Group's investment property is situated in Hong Kong and held under the following lease terms:

	2017 HK$	2016 HK$
Long term lease	70,000,000	58,000,000

16. OPERATING LEASE ARRANGEMENT

Operating lease – Group as lessor

The group has entered into a commercial lease for investment property. This non-cancellable lease has a term of 2 years with no renewal option included in the contract. There are no restrictions placed upon the lessee by entering into this lease.

Future minimum lease receivables under non-cancellable operating lease is as follows :

	2017 HK$	2016 HK$
Within one year	1,851,420	298,110
After one year but not more than five years	308,570	-
	2,159,990	298,110

17. PROPERTY AND EQUIPMENT

	Land and buildings HK$	Leasehold improvements HK$	Furniture and fixtures HK$	Office equipment HK$	Motor vehicles HK$	Total HK$
COST						
At 1 January 2016	45,145,394	1,209,576	1,039,361	2,281,995	332,122	50,008,448
Additions	-	-	-	90,400	-	90,400
Disposals	-	-	-	(87,114)	-	(87,114)
At 31 December 2016 and 1 January 2017	45,145,394	1,209,576	1,039,361	2,285,281	332,122	50,011,734
Additions	-	-	-	87,600	712,110	799,710
Disposals	-	-	(55,368)	(85,988)	(332,122)	(473,478)
At 31 December 2017	45,145,394	1,209,576	983,993	2,286,893	712,110	50,337,966
DEPRECIATION						
At 1 January 2016	14,752,998	1,209,567	1,039,324	2,012,849	332,122	19,346,860
Provided for the year	965,456	-	-	133,175	-	1,098,631
Eliminated on disposals	-	-	-	(87,102)	-	(87,102)
At 31 December 2016 and 1 January 2017	15,718,454	1,209,567	1,039,324	2,058,922	332,122	20,358,389
Provided for the year	965,456	-	-	115,611	94,948	1,176,015
Eliminated on disposals	-	-	(55,368)	(84,639)	(332,122)	(472,129)
At 31 December 2017	16,683,910	1,209,567	983,956	2,089,894	94,948	21,062,275
NET CARRYING AMOUNTS						
At 31 December 2017	28,461,484	9	37	196,999	617,162	29,275,691
At 31 December 2016	29,426,940	9	37	226,359	-	29,653,345

The Group's land is included in property and equipment with a net carrying amount of HK$25,254,968 (2016: HK$26,111,728).

The Group's premises are situated in Hong Kong and held under the following lease terms:

	2017 HK$	2016 HK$
Long term lease	28,461,484	29,426,940

18. DEFERRED TAX LIABILITIES

The following are the deferred tax assets/(liabilities) recognised by the Group and the movement thereon during the current reporting periods.

	Accelerated tax depreciation HK$	Collective impairment allowance HK$	Tax losses HK$	Total HK$
At 1 January 2016	(1,003,453)	312,840	-	(690,613)
Deferred tax credited to profit or loss during the year (Note 10)	52,257	-	-	52,257
At 31 December 2016 and 1 January 2017	(951,196)	312,840	-	(638,356)
Deferred tax charged to profit or loss during the year (Note 10)	(499,139)	-	-	(499,139)
At 31 December 2017	(1,450,335)	312,840	-	(1,137,495)

At 31 December 2017, the Group has no estimated unused tax losses (2016: Nil) available for offset against future profits.

19. INVESTMENT IN A SUBSIDIARY

	2017 HK$	2016 HK$
Unlisted shares, at cost	1,000,000	1,000,000

The wholly-owned subsidiary, ACR Nominees Limited, is a private limited company incorporated in Hong Kong. Its principal activities are to provide management and general corporate services.

The total assets and total equity reported on the financial statements of the subsidiary are as follows:

	2017 HK$	2016 HK$
Total assets	19,920,520	21,069,381
Total equity	16,329,611	13,236,989

20. DEPOSITS FROM CUSTOMERS

	2017 HK$	2016 HK$
Time, call and notice deposits	1,155,124,486	1,230,763,262
Demand deposits and current accounts	1,763,487	1,749,410
	1,156,887,973	1,232,512,672

21 SHARE CAPITAL

	2017 HK$	2016 HK$
Issued and fully paid:		
18,920,925 (2016: 18,920,925) ordinary shares	165,000,000	165,000,000
2,070,000 (2016: 2,070,000) 5% non-cumulative and non-redeemable preference shares	20,700,000	20,700,000
	185,700,000	185,700,000

Note:

1. The 5% non-cumulative and non-redeemable preference shares ("Preference Shares") shall entitle the holders thereof upon winding-up to receive in priority to the holders of all other classes of shares repayment of the amount paid up or deemed to be paid up thereon but not to participate further in any surplus assets.

2. In addition, the Preference Shares shall entitle the holders to receive from the profits of the Company for each individual financial year as a first charge preference dividends at the rate 5% per annum on the amount of issued Preference Shares ("Capital"), but shall not entitle the holders to participate further in the profits of the Company.

   If the Company sustains a loss for a particular financial year, no preferential dividend will be paid for that year, or if the profit for that financial year is not sufficient to cover the full 5% preferential dividend, the profit will be paid as preferential dividend in proportion among the holders of the Capital for the time being paid up on such Preference Shares and the remaining portion of preference dividend will be treated as waived by the holders.

3. The Preference Shares shall not entitle the holders thereof to vote at any general meeting of shareholders.

22. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2017 HK$	2016 HK$
ASSETS		
Cash and cash equivalents	309,471,538	373,530,821
Placements with banks and other financial institutions maturing between one and twelve months	124,795,191	132,720,410
Derivative financial instruments	514,753	47,190
Advances and other accounts	1,123,527,020	1,106,156,714
Investment in a subsidiary (Note 19)	1,000,000	1,000,000
Investment property	70,000,000	58,000,000
Property and equipment	29,275,691	29,653,345
Total assets	1,658,584,193	1,701,108,480
LIABILITIES AND EQUITY		
LIABILITIES		
Deposits and balances of banks and other financial institutions	33,283,845	36,089,807
Deposits from customers	1,156,887,973	1,232,512,672
Derivative financial instruments	16,586	133,167
Other accounts and payables	8,481,981	8,166,745
Current tax liabilities	1,925,783	1,030,333
Deferred tax liabilities	1,137,495	638,356
Total liabilities	1,201,733,663	1,278,571,080
EQUITY		
Share capital	185,700,000	185,700,000
Reserves	271,150,530	236,837,400
Total equity	456,850,530	422,537,400
Total liabilities and equity	1,658,584,193	1,701,108,480

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22. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:
A summary of the Company's reserves is as follows:

	General reserve HK$	Investment revaluation reserve HK$	Collective impairment reserve HK$	Retained profits HK$	Total HK$
At 1 January 2016	7,000,000	-	9,101,204	198,713,255	214,814,459
Total comprehensive income for the year	-	-	-	23,057,941	23,057,941
2016 preference shares dividend (Note 11)	-	-	-	(1,035,000)	(1,035,000)
At 31 December 2016 and 1 January 2017	7,000,000	-	9,101,204	220,736,196	236,837,400
Total comprehensive income for the year	-	-	-	35,348,130	35,348,130
2017 preference shares dividend (Note 11)	-	-	-	(1,035,000)	(1,035,000)
At 31 December 2017	7,000,000	-	9,101,204	255,049,326	271,150,530

23. RELATED PARTY TRANSACTIONS

Outstanding balances with related parties:

	2017 HK$	2016 HK$
Parent bank:		
Deposits and balances of banks and other financial institutions	2,503,970	3,176,632
Fellow subsidiaries and affiliates and key personnel:		
Cash and cash equivalents	97,383	88,108
Deposits and balances of banks and other financial institutions	1,068,124	1,041,386
Deposits from customers	460,912,920	360,354,490

The above-mentioned outstanding balances arose from the ordinary course of business. The interest rates charges to, and by, related parties are at normal commercial rates. There have been no guarantees provided or received for any related party receivables or payables. For the ended 31 December 2017, the Group has not recorded any impairment relating to amounts owed by related parties (2016: Nil).

The remuneration of directors during the year is disclosed in Note 9 to the financial statements.

24. LOANS TO OFFICERS

No loans were granted to officers by the Company during the year pursuant to section 383(1)(d) of Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation.

25. OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

HKFRS 7 requires the Group to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under enforceable master netting agreements or similar arrangements. The effects of these arrangements are disclosed in the tables below.

	31 December 2017					
				Effect of remaining rights of set-off (including rights to set-off financial collateral) that do not meet HKAS 32 offsetting criteria		
Financial assets/(liabilities) recognised at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statement of financial position	Financial instruments	Fair value of financial collateral	Net exposure
	[a]	[b]	[c]	[d]		[e]
Derivative financial assets	514,753	-	514,753	16,586	-	498,167
Derivative financial liabilities	(16,586)	-	(16,586)	(16,586)	-	

	31 December 2016					
				Effect of remaining rights of set-off (including rights to set-off financial collateral) that do not meet HKAS 32 offsetting criteria		
Financial assets/(liabilities) recognised at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statement of financial position	Financial instruments	Fair value of financial collateral	Net exposure
	[a]	[b]	[c]	[d]		[e]
Derivative financial assets	47,190	-	47,190	47,190	-	-
Derivative financial liabilities	(133,167)	-	(133,167)	(47,190)	-	(85,977)

26. OFF-BALANCE SHEET EXPOSURES

(a) Contingent liabilities and commitments

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

	2017 HK$	2016 HK$
Trade-related contingencies	5,600,262	1,383,892
Other commitments:		
With an original maturity of under one year or which are unconditionally cancellable	85,760,772	61,295,718
	91,361,034	62,679,610
Aggregate credit risk weighted amount	999,870	276,778

Contingent liabilities and commitments are credit-related instruments which include acceptances, letters of credit, guarantees and commitments to extend credit. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client defaults.

(b) Derivatives financial instruments

The replacement costs and credit risk weighted amounts of the derivatives financial instrument of the Group are as follows:

	2017		2016	
	Replacement cost HK$	Credit risk weighted amount HK$	Replacement cost HK$	Credit risk weighted amount HK$
Exchange rate contracts	1,515,854	1,188,083	242,167	844,997

The replacement costs and credit risk weighted amounts of the derivatives financial instrument do not take into account the effects of bilateral netting arrangements.

27. RETIREMENT BENEFITS PLAN

The Company participates in both a defined contribution scheme which is registered under the Occupational Retirement Scheme Ordinance (the "ORSO Scheme") and a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Company, in funds under the control of trustees. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme were offered a choice of staying within the ORSO Scheme or switching to the MPF Scheme, whereas all new employees joining the Company are offered a one-off choice to join the MPF Scheme or the ORSO Scheme.

For members of the MPF Scheme, the Company contributes 5% of relevant payroll costs to the Scheme, which contribution is matched by the employee.

The ORSO Scheme is funded by monthly contributions from both employees and the Company at 5% and 7% of the employee's basic salary respectively, depending on the length of service with the Company.

28. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 April 2018.

ALLIED BANKING CORPORATION (HONG KONG) LIMITED

新聯銀行(香港)有限公司

Unaudited Supplementary Financial Information
For the year ended 31 December 2017

ALLIED BANKING CORPORATION (HONG KONG) LIMITED
新聯銀行(香港)有限公司

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FOR THE YEAR ENDED 31 DECEMBER 2017

The basis of consolidation for regulatory purposes is different from the basis of consolidation for accounting purposes. The subsidiary of the Company is included within the accounting scope of consolidation but not included within the regulatory scope of consolidation. The unaudited supplementary financial information regarding corporate governance, risk management, segmental information, average liquidity ratio, foreign currency position, overdue and rescheduled assets, capital, repossessed assets and international claims disclosed pursuant to Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority as follows:

1. CORPORATE GOVERNANCE

In addition to Board of Directors Meetings, there are several governance committees formed under the Board of Directors. The roles, functions and composition of these key committees are as follows:

(i) Executive Committee - responsible for reviewing and confirming all credit approvals. The members include the directors of the Board of the parent bank and other directors.

(ii) Credit Risk Management Committee - responsible for evaluation and monitoring of lending-related activities, reviewing existing credit limits and industry limits and managing the lending portfolio and overall credit risk of the Group. It comprises two non-executive directors, the Chief Executive, two Alternate Chief Executives, who are also Head of Treasury and Head of Operation and Senior Managers of Credit.

(iii) Asset and Liability Management Committee ("ALCO") - responsible for managing the Group's assets and liabilities on a functional basis. The Committee directs the Group's overall acquisition, allocation and pricing of funds, within the established target/guidelines, while managing and monitoring the overall treasury risk exposure. It comprises two non-executive directors, the Chief Executive, two Alternate Chief Executives, who are also the Head of Treasury and Head of Operation, the Senior Managers of Credit and the Head of Marketing and the Compliance Officer.

(iv) The Audit Committee is an oversight body monitoring the internal control framework, risk management systems and financial reports. The Committee consists of three non-executive directors, two of whom are independent non-executives.

(v) Remuneration Committee

The Remuneration Committee of the Company comprises one non-executive director and one independent non-executive director. The Remuneration Committee was formed in June 2010 and meetings shall be held as a need basis.

The guiding principles for the remuneration framework of the Company are consistent with its ethical values, objectives, strategies and control environment and are as follows:

(a) Simplicity in providing appropriate compensation to its employees for the services they provide to the company;

(b) Fairness in its conduct to attract and retain employees with skills required to effectively manage the operations and growth of the business;

1. CORPORATE GOVERNANCE (continued)

(v) Remuneration Committee (continued)

(c) Alignment of values in the management of its remuneration system to motivate employees to perform in the best interests of the Company and its stakeholders;

(d) Transparency in the appropriate level of the organisation with specific regard to the remuneration of senior management who are responsible for oversight of the business strategy, key personnel whose duties involve the assumption of material risk on behalf of the Company; and

(e) Ensure a level of equity and consistency across its branch and subsidiaries and the Group as a whole.

The major roles and functions of the Company's Remuneration Committee are as follows:

(a) Making recommendations to the Board of Directors in respect of remuneration packages for the Company's senior management and key personnel in cases where the approval authority for such remuneration packages rests solely with the Board;

(b) Ensuring that a regular, at least annual, review of the Company's remuneration system and its operations, which includes an assessment of consistency with the guidelines, is conducted independently of management.

(c) Review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

(d) Review and approve the compensation payable to Executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company; and

(e) To ensure that no director (executive or non-executive) or any of his/her associates is involved in deciding his/her own remuneration.

(vi) Managers' Committee - responsible for managing day to day operation. The members consist of Chief Executive, two Alternate Chief Executives, who are also the Head of Treasury and Head of Operation, all department heads and the Compliance Officer.

The terms of reference of the Committees, together with all the policies within the corporate governance scheme, are subject to review as necessary in order to cope with the latest development in the Banking industry as well as other changes in the regulatory environment. In addition, the Company is committed to maintain high standards of corporate governance practices and has fully complied with the module set out in the Supervisory Policy Manual entitled "Corporate Governance of Locally Incorporated Authorised Institutions" issued by the Hong Kong Monetary Authority on 3 August 2012 throughout the financial year ended 31 December 2017.

2 RISK MANAGEMENT

The Board of Directors (the "Board") has the overall responsibility for the management of all types of risk exposures. In the delivery of its responsibility, the Board has established specialised committees to identify, measure, monitor and control different types of risks. The Board or the appropriate specialised committees review and approve policies and procedures for the identification, measurement, control and monitoring of both financial and non-financial risks. Such policies and procedures are reviewed by the relevant committees or senior management on a regular basis.

(i) Capital management

The Group has adopted a policy of maintaining a strong capital base to support its business growth. Capital adequacy ratio, computed as a ratio of total regulatory capital to the risk-weighted asset, of the Group was maintained at a level above the required minimum ratio.

(ii) Operational and legal risk

Operational risk is the risk of unexpected losses attributable to human error, systems failures, fraud, or inadequate internal controls and procedures.

Executive directors, department heads, external legal counsels, and internal auditors collaborate to manage operational and legal risks through proper human resources policies, delegation of authorities, segregation of duties, and timely and accurate management information. Senior management and the Audit Committee are accountable to the Board for maintaining a strong and disciplined control environment to provide reasonable assurance that the operational and legal risks are prudently managed.

A comprehensive contingency plan is available to ensure that key business functions continue and normal operations are restored effectively and efficiently in the event of business interruption.

(iii) Reputation risk

Reputation risk is the risk to earnings or capital arising from negative public opinion.

Reputation risk is managed by ensuring proper and adequate communications and public relation efforts to foster the reputation of the Group. A risk management mechanism guided by the senior management including executive directors and senior managers has been established to manage the media exposure, handle customers' and other relevant parties' complaints and suggestions, and to ensure that new business activities and agents acting on the Group's behalf do not jeopardise the Group's reputation.

3. SEGMENTAL INFORMATION

The Company's total operating income, profit before taxation, total assets, total liabilities and contingent liabilities and commitments are derived predominantly from Hong Kong.

3. SEGMENTAL INFORMATION (continued)

The Company's gross advances to customers analysed and reported by industry sectors are as follows:

	2017 HK$'000	2017 % of Gross advances covered by collateral	2016 HK$'000	2016 % of Gross advances covered by collateral
Loans for use in Hong Kong				
Manufacturing	214,443	99.44%	212,864	99.44%
Building & construction				
Property investment	270,957	100%	329,120	100%
Civil engineering works	3,852	100%	59,700	100%
Wholesale and retail trade	269,021	99.78%	146,488	100%
Transport and transport equipment	20,837	100%	21,336	100%
Hotels, boarding houses & catering	7,685	100%	10,478	100%
Information technology	35,307	100%	18,894	100%
Electricity and gas	-	-	9,331	100%
Non-stockbroking companies & individuals				
For the purchase of shares – others	55,080	100%	37,238	100%
Others	-	-	14,500	91.72%
Professional & private Individuals				
Loans for the purchase of other residential properties	106,508	100%	120,972	100%
Loans for other business purpose	14,787	100%	15,211	100%
Loans for other private purpose	65,062	99.79%	44,434	99.64%
Trade finance	17,338	100%	29,303	98.33%
Loans and advances for use outside Hong Kong				
Non-bank Mainland China exposures				
Companies and individuals outside China where the credit is granted for use in China	-	-	-	-
Loans for use outside Hong Kong	36,963	100%	32,143	100%
	1,117,840		1,102,012	

The advances are predominantly made to customers in Hong Kong. No geographical analysis is disclosed as the Company derives the majority of its income from its commercial banking business where the customers' principal operations are in Hong Kong.

3. SEGMENTAL INFORMATION (continued)

Gross and impaired loans and advances to customers, impairment allowances, impaired loans and advances written off and collateral are analysed by industry sectors pursuant to the HKMA's guidelines as follows:

Advances to customers over 10% of the total advances by industry sectors as at 31 December 2017

	Gross loans and advances HK$'000	Collective impairment allowances HK$'000	Individual impairment allowances HK$'000	New impairment allowances charged to profit or loss HK$'000	Amount of impaired loans and advances written off HK$'000	Collateral HK$'000	Percentage of gross advances covered by collateral %	Impaired loans and advances HK$'000	Loans and advances overdue for more than three months HK$'000
Manufacturing	214,443	364	-	-	-	213,243	99.44%	-	-
Property investment	270,957	460	-	-	-	270,957	100%	-	-
Wholesale and retail trade	269,021	456	-	-	-	268,421	99.78%	-	-
Loans for the purchase of other residential properties	106,507	181	-	-	-	106,507	100%	-	-

Advances to customers over 10% of the total advances by industry sectors as at 31 December 2016

	Gross loans and advances HK$'000	Collective impairment allowances HK$'000	Individual impairment allowances HK$'000	New impairment allowances charged to profit or loss HK$'000	Amount of impaired loans and advances written off HK$'000	Collateral HK$'000	Percentage of gross advances covered by collateral %	Impaired loans and advances HK$'000	Loans and advances overdue for more than three months HK$'000
Manufacturing	212,864	366	-	-	-	211,664	99.44%	-	-
Property investment	329,120	566	-	-	-	329,120	100%	-	-
Wholesale and retail trade	146,488	252	-	-	-	146,483	100%	-	-
Loans for the purchase of other residential properties	120,972	208	-	-	-	120,972	100%	-	826

3. SEGMENTAL INFORMATION (continued)

Non-Bank Mainland China Exposures

The following table illustrates the disclosure required to be made in respect of the Company's Mainland China exposures to non-bank counterparties:

As at 31 December 2017

Types of Counterparties	On-balance sheet exposure HK$ '000	Off-balance sheet exposure HK$ '000	Total exposures HK$ '000
PRC nationals residing outside Mainland China or entities incorporated outside mainland China where the credit is granted for use in Mainland China	-	-	-
Total	-	-	-
Total assets after provision	1,658,584		
On-balance sheet exposures as percentage of total assets	0%		

As at 31 December 2016

Types of Counterparties	On-balance sheet exposure HK$ '000	Off-balance sheet exposure HK$ '000	Total exposures HK$ '000
PRC nationals residing outside Mainland China or entities incorporated outside mainland China where the credit is granted for use in Mainland China	-	-	-
Total	-	-	-
Total assets after provision	1,701,108		
On-balance sheet exposures as percentage of total assets	0%		

4. Pillar 3 Regulatory Disclosures

The Pillar 3 regulatory disclosures for 2017 which are prepared in accordance with the Banking (Disclosure) Rules and disclosure templates issued by the HKMA can be found under the "Regulatory Disclosures" Section on the company's website at www.abchkl.com.hk.

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5. LIQUIDITY INFORMATION

	2017 %	2016 %
Average liquidity maintenance ratio for the year	45.90	46.34

The Liquidity Ratio specified under section 102 of the Banking Ordinance, which was replaced by the liquidity maintenance ratio ("LMR") on 1 January 2015. LMR was complied in accordance with the Banking (Liquidity) Rules issued by the HKMA with effective from 1 January 2015 for the implementation of the Basel III capital framework.

6. LEVERAGE RATIO

	2017 %	2016 %
Leverage ratio	23.09	21.43

To comply with the Banking (Disclosure) Rules, all additional information in relation to the Company's leverage ratio are published by using the standard disclosure templates, as specified by the HKMA under the "Regulatory Disclosures" Section on the Bank's website at www.abchkl.com.hk.

7. COUNTERCYCLICAL CAPITAL BUFFER RATIO

The CCyB ratio is an additional layer of CET1 Capital which takes effect as an extension of the Basel III capital conservation buffer.

The Company has reserved a capital buffer for the implementation of CCyB ratio, inclusive of CCyB ratio of 1.25%, to the private sector credit exposures in Hong Kong that has been applied since 1 January 2016.

The following table illustrates the geographical breakdown of risk-weighted amounts ("RWA") in relation to private sector credit exposures:

Jurisdiction (J)	Applicable JCCyB ratio in effect	Total RWA used in computation of CCyB ratio	CCyB ratio	CCyB amount
	%	HK$ '000	%	HK$ '000
As at 31 December 2017				
Hong Kong	1.25	1,045,124		
Others	0	0		
Total		1,045,124	1.25	13,064

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7. COUNTERCYCLICAL CAPITAL BUFFER RATIO (continued)

Jurisdiction (J)	Applicable JCCyB ratio in effect	Total RWA used in computation of CCyB ratio	CCyB ratio	CCyB amount
	%	HK$ '000	%	HK$ '000
As at 31 December 2016				
Hong Kong	0.625	975,583		
Others	0	0		
Total		975,583	0.625	6,097

8. CAPITAL CONSERVATION BUFFER RATIO

Under section 3M of the Banking (Capital) Rules, the capital conservation buffer ratio for calculating the Company's buffer level is 1.25% for 2017 and 0.625% for 2016.

9. FOREIGN CURRENCY POSITION

2017

	AUD HK$'000	CAD HK$'000	EUR HK$'000	GBP HK$'000	JPY HK$'000	NZD HK$'000	SGD HK$'000	USD HK$'000
Spot assets	4,988	10,479	3,281	10,329	631	4,388	-	348,807
Spot liabilities	(4,501)	(10,413)	(6,520)	(10,527)	(242)	(4,061)	-	(785,812)
Forward purchased	-	-	3,223	-	541	-	-	438,692
Forward sales	-	-	-	-	(895)	-	-	(3,751)
Net long/(short) position	487	66	(16)	(198)	35	327	-	(2,064)

2016

	AUD HK$'000	CAD HK$'000	EUR HK$'000	GBP HK$'000	JPY HK$'000	NZD HK$'000	SGD HK$'000	USD HK$'000
Spot assets	21,986	9,652	759	9,341	249	4,192	63	467,086
Spot liabilities	(21,692)	(9,616)	(5,753)	(9,524)	(232)	(3,902)	-	(856,640)
Forward purchased	-	-	5,080	-	-	-	-	393,201
Forward sales	-	-	-	-	-	-	-	(5,050)
Net long/(short) position	294	36	86	(183)	17	290	63	(1,403)

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10. OVERDUE AND RESCHEDULED ASSETS

	2017 HK$'000	2016 HK$'000	As a percentage of total advances 2017	2016
Advances to customers overdue for more than 3 months and up to 6 months	-	826	0.00%	0.07%
more than 6 months and up to 1 year	-	-	0.00%	0.00%
over 1 year	-	-	0.00%	0.00%
	-	826		
Rescheduled advances to customers	-	-	0.00%	0.00%
	-	826		
Fair value of collateral held in respect of the overdue advances	-	1,650		
Individual impairment allowance made in respect of the overdue advances	-	-		

The analysis of overdue advances and impaired advances is as follows:

	2017 HK$'000	2016 HK$'000
Advances to customers overdue for more than 3 months	-	826
Rescheduled advances to customers	-	-
	-	826
Add: Impaired advances which are not overdue or rescheduled	134	158
Advances which are overdue less than 3 months but not impaired	15,049	5,251
Total overdue advances and impaired advances	15,183	6,235

11. CAPITAL DISCLOSURES

The Company has adopted the foundation basic approach (BSC approach) to calculate the credit risk capital charge for all on-balance sheet exposures and off-balance sheet exposures. The Company has adopted the standardised (market risk) (STM approach) to calculate the market risk capital charge for foreign exchange and interest rate exposures. The Company has adopted the standardised (operational risk) STO approach to calculate the minimum capital charge for operational risk.

The capital ratios of the Company as at 31 December 2017 and 31 December 2016 and reported to the Hong Kong Monetary Authority are as follows:

	2017	2016
CET1 capital ratio	28.19%	28.42%
Tier 1 capital ratio	28.95%	29.40%
Total capital ratio	31.20%	31.38%

11. CAPITAL DISCLOSURES (continued)

The components of the Company's total capital base after deductions used in the calculation of the above capital ratios as at 31 December 2017 and 31 December 2016 and reported to the Hong Kong Monetary Authority are as follows:

	2017 HK$'000	2016 HK$'000
Category I – Common equity Tier 1 ("CET1) Capital		
CET1 capital instruments	165,000	165,000
Retained earnings	255,049	220,736
Disclosed reserves	7,000	7,000
CET1 Capital before deductions	427,049	392,736
CET1 Capital: regulatory deductions		
Cumulative fair value gains arising from the revaluation of land and Buildings	43,555	31,555
Deferred tax assets in excess of deferred tax liabilities	-	-
Total regulatory deductions to CET1 Capital	43,555	31,555
CET1 Capital after deductions	383,494	361,181
Category II – Additional Tier 1 Capital		
Additional Tier 1 capital instruments issued and share premium if any (subject to phase out arrangements from AT1 Capital)	10,350	12,420
Additional Tier 1 Capital	10,350	12,420
Tier 1 Capital after deductions	393,844	373,601
Category III – Tier 2 Capital		
Reserve attributable to fair value gains on revaluation of holdings of land and buildings	19,600	14,200
Collective provisions	10,997	10,997
Tier 2 Capital	30,597	25,197
Total Capital Base	424,441	398,798

To comply with the Banking (Disclosure) Rules, a section "Regulatory Disclosures" will be available on the company's website at www.abchkl.com.hk on 30 April 2018 and include the following information :

- A detailed breakdown of the Company's capital base and regulatory deductions, using the standard template as specified by the Hong Kong Monetary authority.
- A reconciliation of capital components to the Company's balance sheet, using the standard template as specified by the Hong Kong Monetary Authority.
- A description of the main features and the full terms and conditions of the Company's issued capital instruments.

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12. INTERNATIONAL CLAIMS

The Company's country risk exposures in the tables below are prepared in according to the location and types of the counterparties as defined by HKMA under the Banking (Disclosure) Rules with reference to the HKMA's Return of International Banking Statistics. International claims are on-balance sheet exposures to counterparties based on the location of the counterparties after taking into account the transfer of risk, and represent the sum of cross-border claims in all currencies and local claims in foreign currencies. International claims attributable to individual countries or areas not less than 10% of the Company's total international claims, after recognised risk transfer, are shown as follows:

			Non-bank Private Sector			
	Banks HK$'000	Official Sector HK$'000	Non-bank Financial Institutions HK$'000	Non-financial Private Sector HK$'000	Others HK$'000	Total HK$'000
As at 31 December 2017						
Counterparty country/ jurisdiction						
Developed countries	203,439	18	-	-	-	203,457
Offshore countries	224,082	58	-	1,125,797	-	1,349,937
- of which: Hong Kong	168,951	58	-	1,057,811	-	1,226,820
Developing Europe	-	-	-	-	-	-
Developing Latin America and Caribbean	-	-	-	-	-	-
Developing Africa and Middle East	-	-	-	-	-	-
Developing Asia and Pacific	7,829	-	-	-	-	7,829
International Organisations	-	-	-	-	-	-
Unallocated	-	-	-	-	-	-
Total	435,350	76	-	1,125,797	-	1,561,223

12. INTERNATIONAL CLAIMS (continued)

		Non-bank Private Sector				
	Banks HK$'000	Official Sector HK$'000	Non-bank Financial Institutions HK$'000	Non-financial Private Sector HK$'000	Others HK$'000	Total HK$'000
As at 31 December 2016						
Counterparty country/ jurisdiction						
Developed countries	276,172	-	-	-	-	276,172
Offshore countries	207,100	-	-	1,108,666	-	1,315,766
- of which: Hong Kong	171,925	-	-	1,010,481	-	1,182,406
Developing Europe	-	-	-	-	-	-
Developing Latin America and Caribbean	-	-	-	-	-	-
Developing Africa and Middle East	-	-	-	-	-	-
Developing Asia and Pacific	23,438	-	-	-	-	23,438
International Organisations	-	-	-	-	-	-
Unallocated	-	-	-	-	-	-
Total	506,710	-	-	1,108,666	-	1,615,376

13. SENIOR EXECUTIVE COMPENSATION

The Remuneration Committee annually reviews and Board of Directors approves the remuneration packages of the Chief Executive, members of the senior management and key personnel. The aggregate payouts for these 6 (2016: 6) senior executives for 2017 are shown in the table below in accordance with the disclosure requirement of 3.2.3 of the "Guideline on a Sound Remuneration System" issued by the Hong Kong Monetary Authority in March 2010.

Fixed Remuneration Salaries		Variable Remuneration Cash Bonus		Award of Deferred Variable Remuneration	
2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000
10,232	9,669	Nil	Nil	Nil	Nil

Included in the above table of the senior executives compensation were the emoluments of 1 director (2016: 1 director). The directors' emoluments have been included in Note 9 to the financial statements.

In determining the remuneration packages of the Chief Executive, senior management, and key personnel, the Remuneration Committee takes into account individual performances of respective divisions and departments, and the Company's overall business goals and objectives.

14. STATEMENT OF COMPLIANCE

The Company has fully complied with the applicable disclosure requirements of the Banking (Disclosure) Rules.