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If you are in any doubt as to any aspect of this circular or as to what action to take, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Cinda Asset Management Co., Ltd., you should at once hand this circular to the purchaser or the transferee or to the bank manager, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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China Cinda Asset Management Co., Ltd.
中國信達資產管理股份有限公司

(A joint stock company incorporated in the People's Republic of China with limited liability)
(Stock Code: 01359)

MAJOR TRANSACTION CIRCULAR
ACQUISITION OF ALL THE ISSUED SHARES
OF NANYANG COMMERCIAL BANK, LIMITED

Financial Advisor to the Company

Morgan Stanley

Morgan Stanley Asia Limited

A letter from the Board is set out on pages 4 to 20 of this circular. A notice convening the EGM of China Cinda Asset Management Co., Ltd. to be held at Conference Room 1111, 11th Floor, No. 1 Building, 9 Naoshikou Street, Xicheng District, Beijing, the PRC, at 9:30 a.m. on Wednesday, 24 February 2016 together with the proxy form and reply slip were despatched to the Shareholders on Saturday, 9 January 2016.

If you wish to appoint a proxy to attend the EGM on your behalf, you are required to complete and return the accompanying proxy form in accordance with its instructions no later than 24 hours before the time appointed for holding the EGM or any adjournment thereof (as the case may be). If you wish to attend the EGM in person or by proxy, you are required to complete and return the accompanying reply slip in accordance with its instructions on or before Thursday, 4 February 2016. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

30 January 2016

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

| | |
|----------------------------|---|
| “Accountants’ Report” | the accountants’ report in relation to the financial information of Nanyang Bank as set out in Appendix II to this circular which is prepared by Ernst & Young in connection with the Acquisition |
| “Acquisition” | the acquisition of the Target Shares pursuant to the SPA |
| “associate(s)” | has the meaning ascribed to it under the Listing Rules |
| “Banking Ordinance” | the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) |
| “Bidding Process” | the public bidding process conducted via CFAE |
| “Board” | the board of Directors |
| “BOCHK” | Bank of China (Hong Kong) Limited, a company incorporated in Hong Kong, being a directly wholly-owned subsidiary of BOCHK Holdings |
| “BOCHK Holdings” | BOC Hong Kong (Holdings) Limited, a company incorporated in Hong Kong, the shares of which are listed on the main board of the Stock Exchange (Stock Code: 02388) |
| “Business Day” | a day other than a Saturday, Sunday or public holiday in Hong Kong or the PRC |
| “Cash Deposit” | the cash deposit paid by Cinda Financial in connection with the Acquisition in the amount of HK\$3,400,000,000 which was received on 17 September 2015 in the escrow account maintained by the CFAE |
| “CBRC” | China Banking Regulatory Commission |
| “CET1 capital ratio” | Common Equity Tier 1 capital ratio |
| “CFAE” | Beijing Financial Assets Exchange |
| “Cinda Financial” | Cinda Financial Holdings Co., Limited, a company incorporated in Hong Kong, being an indirectly wholly-owned subsidiary of our Company |
| “Cinda HK” | China Cinda (HK) Holdings Company Limited, a company incorporated in Hong Kong, being a directly wholly-owned subsidiary of our Company |
| “Company” or “our Company” | China Cinda Asset Management Co., Ltd., a company incorporated in the PRC, the H Shares of which are listed on the main board of the Stock Exchange (Stock Code: 01359) |
| “Completion” | completion of the Acquisition in accordance with the SPA |
| “Completion Date” | the date which is 10 Business Days after the date on which the last of the conditions precedent set out in the SPA to be satisfied is satisfied (such date not being later than the Long Stop Date), or such other date as may be agreed in writing among BOCHK, Cinda Financial and Cinda HK |

DEFINITIONS

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| “connected person(s)” | has the meaning ascribed to it under the Listing Rules |
| “Director(s)” | the director(s) of our Company |
| “EGM” | the extraordinary general meeting of our Company to be convened and held on Wednesday, 24 February 2016 for the Shareholders to consider and, if thought fit, approve, among other things, the SPA and the transactions contemplated thereunder, or any adjournment thereof |
| “Enlarged Group” | our Company and its subsidiaries as enlarged by the Acquisition following Completion |
| “Group” or “we” | our Company and its subsidiaries, including Cinda Financial, excluding the effects of the Acquisition |
| “H Share(s)” | H share(s) of par value RMB1.00 each in the share capital of our Company, which is/are listed on the Stock Exchange |
| “HK\$”, “HKD” or “HK dollars” | Hong Kong dollars, the lawful currency of Hong Kong |
| “HKMA” | the Hong Kong Monetary Authority |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC |
| “IFRS” | the International Accounting Standards (IAS), the International Financial Reporting Standards, amendments and the related interpretations issued by the International Accounting Standards Board (IASB) |
| “Latest Practicable Date” | 25 January 2016, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information included in this circular |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange |
| “Long Stop Date” | 30 June 2016, or such other date as BOCHK, Cinda Financial and Cinda HK may agree in writing |
| “Morgan Stanley” | Morgan Stanley Asia Limited, a company incorporated in Hong Kong, that is licensed for Type 1 (dealing in securities), Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance), Type 7 (providing automated trading services) and Type 9 (asset management) regulated activities under the SFO |
| “Nanyang Bank” | Nanyang Commercial Bank, Limited, a company incorporated in Hong Kong and a licensed bank in Hong Kong |
| “NCB China” | Nanyang Commercial Bank (China) Limited, a company established in the PRC, being a wholly-owned subsidiary of Nanyang Bank |
| “PBOC” | the People’s Bank of China, the central bank of the PRC |
| “Performance Bond” | the payment on demand performance bond for the amount of HK\$6,800,000,000 issued by China Construction Bank Corporation, Hong Kong Branch in favour of BOCHK dated 15 September 2015 |

DEFINITIONS

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| “PRC” | the People’s Republic of China |
| “RMB” | Renminbi, the lawful currency of the PRC |
| “SFO” | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| “Share(s)” | ordinary share(s) in the share capital of our Company with a nominal value of RMB1.00 each, including the H Shares and domestic shares |
| “Shareholder(s)” | holder(s) of the Share(s) of our Company |
| “SPA” | the sale and purchase agreement dated 18 December 2015 entered into between BOCHK, Cinda Financial and Cinda HK in relation to the acquisition of the Target Shares by Cinda Financial from BOCHK |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “subsidiary(ies)” | has the meaning ascribed to it under the Listing Rules |
| “Supervisor(s)” | supervisor(s) of our Company |
| “Target Shares” | the 7,000,000 issued ordinary shares of Nanyang Bank to be acquired by Cinda Financial pursuant to the terms of the SPA, representing 100% of Nanyang Bank’s issued share capital as at the date of the SPA |
| “US\$”, “USD” or “US dollars” | United States dollars, the lawful currency of the United States of America |
| “%” | per cent |

For the purposes of this circular, unless otherwise indicated, conversion of RMB and HK\$ is calculated at the exchange rate of RMB1 to HK\$1.26805. This exchange rate is for illustrative purpose only and does not constitute a representation that any amount has been, could have been, or may be exchanged at this or any other rate or at all.

LETTER FROM THE BOARD



China Cinda Asset Management Co., Ltd.
中國信達資產管理股份有限公司

(A joint stock company incorporated in the People's Republic of China with limited liability)
(Stock Code: 01359)

Executive Directors:

Hou Jianhang
Zang Jingfan

Non-executive Directors:

Li Honghui
Song Lizhong
Xiao Yuping
Yuan Hong
Lu Shengliang

Independent non-executive Directors:

Li Xikui
Qiu Dong
Chang Tso Tung, Stephen
Xu Dingbo

Registered address:

No. 1 Building
9 Naoshikou Street, Xicheng District
Beijing
the PRC

Principal place of business in Hong Kong:

12/F
AIA Central
1 Connaught Road Central
Central, Hong Kong

30 January 2016

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION
ACQUISITION OF ALL THE ISSUED SHARES
OF NANYANG COMMERCIAL BANK, LIMITED

I. INTRODUCTION

We refer to the announcements published by our Company on 18 December 2015, 15 September 2015 and 27 August 2015 in relation to the Acquisition. Cinda Financial had been confirmed by CFAE as the only qualified bidder in the Bidding Process and was invited to enter into negotiations with BOCHK on the terms of the Acquisition in accordance with the procedures, rules and requirements published on the website of CFAE on 15 July 2015. On 18 December 2015, Cinda Financial entered into a legally binding agreement with BOCHK and Cinda HK pursuant to which Cinda Financial has agreed to acquire the Target Shares.

The purpose of this circular is, among other things, to provide you with information to enable you to make an informed decision on whether to vote for or against the resolution to be proposed at the EGM in relation to the SPA and the contemplated transactions.

LETTER FROM THE BOARD

II. THE ACQUISITION

(i) Principal Terms of the SPA

1. Date

18 December 2015

2. Parties

Seller: BOCHK

Buyer: Cinda Financial

Buyer's guarantor: Cinda HK

Cinda HK, in its capacity as Cinda Financial's guarantor, has agreed to provide an irrevocable and unconditional guarantee in favour of BOCHK for the due and punctual performance of each obligation of Cinda Financial under (i) the SPA and (ii) other transaction documents in connection with the Acquisition to which Cinda Financial is a party.

3. The Acquisition

Subject to and in accordance with the terms and conditions of the SPA, Cinda Financial agreed to acquire, and BOCHK agreed to sell, the Target Shares consisting of 7,000,000 issued ordinary shares of Nanyang Bank.

4. Consideration and payment terms

The total amount of consideration payable by Cinda Financial for the Acquisition is HK\$68,000,000,000 (the "**Consideration**"). Cinda Financial is required to pay BOCHK the total amount of Consideration on the Completion Date.

The Consideration will be funded by a combination of our Company's internal cash resources and debt financing extended to Cinda HK.

5. Basis for determination of the Consideration

As the Target Shares constitute state-owned financial assets, pursuant to the relevant PRC laws and regulations, BOCHK followed a public bidding process conducted through CFAE in its proposed disposal of the Target Shares.

During the Bidding Process, Cinda Financial submitted a final bidding price for an amount equal to HK\$68,000,000,000, which is the Consideration payable under the SPA.

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The amount of Consideration payable for the Acquisition was determined with reference to various relevant factors, including (i) the prospective profit contributions of Nanyang Bank to the Enlarged Group; (ii) the strategic value of Nanyang Bank's franchise and licenses in Hong Kong and mainland China; (iii) the quality of Nanyang Bank's assets; (iv) the growth prospects, earnings potential, competitive advantages, potential synergies that can be achieved between Nanyang Bank and the Group; and (v) the relevant valuation benchmarks.

In particular, the relevant valuation benchmarks include:

- (i) The price-to-book (“P/B”) valuation multiples adopted in other recent acquisitions in the banking industry in Hong Kong and mainland China which involved a change of control. Such transactions included (1) the acquisition of Wing Hang Bank Limited by Oversea-Chinese Banking Corporation Limited announced in April 2014; (2) the acquisition of Chong Hing Bank Limited by Yuexiu Financial Holdings Limited announced in October 2013; and (3) the acquisition of First Sino Bank by Fubon Financial Holding Co., Ltd. announced in December 2012. Details of these transactions are set out in the following table:

| <u>Date of Announcement</u> | <u>Purchaser</u> | <u>Target</u> | <u>Interest Acquired</u> | <u>Transaction P/B Ratio⁽¹⁾</u> |
|-----------------------------|---|-------------------------|--------------------------|--|
| 1 April 2014 | Oversea-Chinese Banking Corporation Limited | Wing Hang Bank Limited | 100% | 1.8 ⁽²⁾ |
| 25 October 2013 | Yuexiu Financial Holdings Limited | Chong Hing Bank Limited | 75% | 2.1 ⁽³⁾ |
| 27 December 2012 | Fubon Financial Holding Co., Ltd. | First Sino Bank | 80% | 2.2 ⁽⁴⁾ |

Notes

1. Based on the amount of consideration payable for the comparable transactions divided by the net assets value of the target (as adjusted in accordance with the percentage of interest acquired) as disclosed in the respective announcement in relation to the transactions.
2. The historical P/B ratio is calculated based on the amount of consideration payable and Wing Hang Bank Limited's consolidated net assets adjusted for dividend as at 31 December 2013.
3. The historical P/B ratio is calculated based on the amount of consideration payable and Chong Hing Bank Limited's consolidated net assets as at 30 June 2013.
4. The historical P/B ratio is calculated based on the amount of consideration payable and First Sino Bank's consolidated net assets as at 30 June 2012 and capital injection of RMB1 billion.

As illustrated above, the P/B ratios of the comparable transactions range from approximately 1.8 times to 2.2 times. The underlying P/B ratio of the Acquisition is approximately 1.88 times, calculated based on the Consideration of HK\$68,000 million, divided by Nanyang Bank's net assets value of HK\$36,198 million of as of 30 June 2015, being its latest published net assets value prior to the entry into the SPA amongst the parties on 18 December 2015. 1.88 times P/B ratio of the Acquisition falls within the range of the aforementioned comparable transactions.

The price-to-book valuation multiple is calculated by dividing the agreed equity value of the relevant target banks at the time of acquisition by the target banks' latest published net assets before the acquisition.

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- (ii) Comparable trading multiple analysis, which refers to price-to-book valuation multiples of listed companies that are comparable to Nanyang Bank in terms of lines of business, size and operate in a similar market, namely in Hong Kong and mainland China. Details of the three main comparable companies listed on the Stock Exchange are as follows:

| <u>Company</u> | <u>Stock code</u> | <u>Market Capitalization as at 18 December 2015</u> | <u>Consolidated net assets attributable to equity holders as at 30 June 2015</u> | <u>P/B Ratio⁽¹⁾</u> |
|--|-------------------|---|--|--------------------------------|
| | | (HK\$ million) | (HK\$ million) | |
| Hang Seng Bank Limited | 0011 | 276,452 | 139,474 | 1.98 |
| BOC Hong Kong (Holdings) Limited | 2388 | 250,046 | 185,574 | 1.35 |
| The Bank of East Asia, Limited | 0023 | 71,701 | 78,299 | 0.92 |
| | | <i>Average P/B ratio:</i> | | <i>1.42</i> |

Note

1. P/B ratio is calculated based on the market capitalization of the respective comparable companies as at 18 December 2015, being the date of the SPA, divided by the consolidated net assets value of the respective comparable companies as of 30 June 2015, as stated in their respective 2015 interim report.

Based on the market capitalization of these comparable companies as at 18 December 2015, the P/B ratios of these comparable companies range from approximately 0.92 times to 1.98 times. The underlying P/B ratio of the Acquisition is approximately 1.88 times, falling within the range of the P/B ratios of these comparable companies.

On the basis of the above factors, the Board considers that the final bidding price submitted by Cinda Financial, and the amount of Consideration payable for the Acquisition, are fair and reasonable.

6. *Conditions precedent*

Completion is conditional on the satisfaction of the following conditions precedent:

- (1) Cinda Financial and any holding company or other controller of Cinda Financial having been approved, or not having been objected to within the relevant period by the HKMA as a majority shareholder controller (as such term is defined in the Banking Ordinance) of Nanyang Bank under section 70 of the Banking Ordinance and the chief executive and directors of Nanyang Bank which Cinda Financial proposes to appoint on Completion having been approved by the HKMA under section 71 of the Banking Ordinance;
- (2) the Acquisition having been approved by the CBRC, and Cinda Financial having completed the foreign exchange registration of outbound investment with the PRC State Administration of Foreign Exchange in relation to the Acquisition;
- (3) the Acquisition having been approved by the Shareholders of our Company; and
- (4) if required under the Listing Rules, the Acquisition having been approved by the shareholders of BOCHK Holdings as permitted under the Listing Rules.

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If these conditions precedent have not been satisfied on or before 11:59 p.m. on the Long Stop Date, the SPA shall terminate automatically with immediate effect.

As of the Latest Practicable Date, except for the condition precedent set out in item (4), none of the other conditions precedent set out above had been fulfilled.

7. Break fee

If Completion does not take place and the SPA is terminated pursuant to its terms due to the non-satisfaction of the conditions precedent set out in either paragraph (1) or (2) above by the Long Stop Date, Cinda Financial shall pay to BOCHK an amount equal to 1.5% of the Consideration in immediately available funds by electronic transfer in Hong Kong dollars by no later than five Business Days after the termination of the SPA.

8. Forfeiture or return of the Cash Deposit and Performance Bond

- (1) BOCHK shall be entitled to forfeit and retain the Cash Deposit in full and any accrued interest on the Cash Deposit and call on the full amount of the Performance Bond, if Completion does not take place and the SPA is terminated pursuant to its terms due to (i) the non-satisfaction of the condition precedent set out in paragraph (3) above by the Long Stop Date, or (ii) Cinda Financial fails to pay the Consideration in full at Completion;
- (2) if (A) Completion does not take place due to any reasons other than those relating to non-satisfaction of any of the conditions precedent set out in paragraphs (1) to (3) above, or (B) Completion does not take place or is not capable of taking place as a result of any applicable law prohibiting BOCHK or Cinda Financial from completing the Acquisition, BOCHK (in the case of (A)) or BOCHK and Cinda Financial (in the case of (B)) shall arrange for CFAE to return the Cash Deposit and any accrued interest on the Cash Deposit to Cinda Financial and shall return the Performance Bond; and
- (3) if Completion takes place in accordance with the SPA, the parties shall send a joint notice to CFAE on the Completion Date instructing the return of the Cash Deposit and any accrued interest on the Cash Deposit to Cinda Financial.

9. Pre-Completion undertakings

BOCHK has undertaken that it shall procure that each of Nanyang Bank and NCB China will, among other things, carry on its business in the ordinary and usual course in all material respects between the date of the SPA and the Completion Date.

10. Post-Completion arrangements

BOCHK, Nanyang Bank and Cinda Financial intend to enter into a transitional services agreement on the Completion Date, pursuant to which BOCHK will provide

LETTER FROM THE BOARD

certain transitional support, IT and other assistance to Nanyang Bank and NCB China at service charges mutually agreed for a term of three years from the Completion Date (which may be extended to four years at the election of Cinda Financial) to facilitate the smooth transition of the ownership of Nanyang Bank from BOCHK to Cinda Financial. Representatives of BOCHK and Cinda Financial will form a preparatory committee to prepare for the implementation of the transitional services agreement.

(ii) Information about Nanyang Bank

Nanyang Bank is a commercial bank with its principal operations and branches in Hong Kong and mainland China. It offers a comprehensive range of personal and commercial banking services to its retail and corporate customers.

According to the Accountants' Report, the audited net assets value of Nanyang Bank as at 31 December 2012, 2013 and 2014, and 30 September 2015 were as follows:

| | As at 31 December | | | As at 30 September |
|---|-------------------|------------|------------|-----------------------|
| | 2012 | 2013 | 2014 | 2015 |
| | (HK\$'000) | (HK\$'000) | (HK\$'000) | (HK\$'000) |
| Net assets ^(Note) | 24,486,483 | 26,402,354 | 28,537,200 | 31,241,400 |

According to the Accountants' Report, for the two financial years ended 31 December 2013 and 2014, and the nine months ended 30 September 2015, the net profit (before and after taxation) of Nanyang Bank were as follows:

| | For the year ended | | For the nine months ended |
|---|--------------------|------------------|---------------------------|
| | 31 December 2013 | 31 December 2014 | 30 September 2015 |
| | (HK\$'000) | (HK\$'000) | (HK\$'000) |
| Profit before taxation ^(Note) | 3,262,031 | 3,328,761 | 3,808,733 |
| Profit after taxation ^(Note) | 2,734,786 | 2,714,105 | 3,379,145 |

Note:

The net assets of Nanyang Bank as at 31 December 2012, 2013 and 2014 and 30 September 2015, and the profit before taxation and profit after taxation of Nanyang Bank for the years ended 31 December 2013 and 2014 and the nine months period ended 30 September 2015 as disclosed in the paragraph headed "3. Information About Nanyang Bank" in the major transaction announcement of our Company dated 18 December 2015 and those as set out above (as extracted from the Accountants' Report) are different.

According to the requirements of Rule 14.67 of the Listing Rules, the Accountants' Report of Nanyang Bank needs to be prepared based on accounting basis and policies which are materially consistent with the Group. It was noted that the investment properties and premises for own use in Nanyang Bank's financial statements are measured at fair value which is materially different from the Group's accounting policies which are measured at cost. In connection with this, the Accountants' Report has been adjusted to restate the investment properties and premises for own use held by Nanyang Bank at cost instead of at revaluation, together with the consequential impact on deferred taxation, in order to keep consistency with the Group's accounting policies on investment properties and properties, plant and equipment.

Upon Completion, Nanyang Bank will become an indirect wholly-owned subsidiary of our Company, and the financial results of Nanyang Bank will be consolidated into the consolidated financial statements of the Group.

(iii) Information about the parties

Cinda Financial is a company incorporated in Hong Kong with limited liability. It is an indirect wholly-owned subsidiary of our Company. Cinda Financial is a special purpose vehicle

LETTER FROM THE BOARD

company established for the purposes of implementing the Acquisition and, following completion of the Acquisition, directly holding the Target Shares.

The Group is principally engaged in distressed asset management and provision of customised financial solutions and differentiated asset management services to its clients through the synergistic operation of its diversified business platforms.

Cinda HK is a direct wholly-owned subsidiary of our Company and it is principally engaged in offshore asset management business and provision of offshore financial services.

BOCHK is a wholly-owned subsidiary of BOCHK Holdings. BOCHK is a licensed bank in Hong Kong which offers a comprehensive range of financial products and services to retail and corporate customers. BOCHK is one of the three note issuing banks in Hong Kong and also the clearing bank for Renminbi business in Hong Kong.

BOCHK Holdings is an investment holding company and its subsidiaries are principally engaged in the provision of banking and financial services in Hong Kong.

As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, BOCHK and its ultimate beneficial owners are third parties independent of our Company and the connected persons of our Company.

(iv) Reasons for and Benefits of the Acquisition

The Directors believe that the Acquisition will further strengthen our Company's leading position in distressed asset management, and create significant synergies for the Company through Nanyang Bank's broad customer base, diversified product offerings and extensive distribution channels in Hong Kong and mainland China. In particular, the Directors consider that there is strong cross-selling potential between Nanyang Bank and the Group, given the substantially overlapping geographical presence in mainland China. Nanyang Bank has been focusing on the coastal, more economically developed cities and regions, in which we also have strong distribution presence and customer base and generate the majority of the Group's revenue and income.

The Directors expect that Nanyang Bank will become an important part of the Enlarged Group's future strategic development and its core financial services platform, and will significantly improve our Company's capabilities in providing comprehensive and differentiated financial services. The Directors believe that the Acquisition will enhance and optimise our Company's business model, promote long-term and sustainable growth and generate sustained and attractive returns for the Shareholders.

The amount of Consideration, which is higher than the net assets value of Nanyang Bank, reflects the strategic value which our Company places on Nanyang Bank's franchise and licenses in Hong Kong and mainland China, and the significant growth upside from potential synergies that can be achieved between Nanyang Bank and the Group. These values cannot be evaluated solely by reference to the net assets value of Nanyang Bank.

In light of the above and the various relevant factors as mentioned on page 6, paragraphs 3 and 4 of the sub-section headed "5. Basis for determination of the Consideration",

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in particular the relevant valuation benchmarks, the Directors are of the view that the Acquisition and the terms of the SPA (including the amount of Consideration payable for the Acquisition) are fair and reasonable, and in the interests of our Company and the Shareholders as a whole.

(v) Financial Effect of the Acquisition

Upon Completion, Nanyang Bank will become a wholly-owned subsidiary of our Company, and the financial results of Nanyang Bank will be consolidated into the consolidated financial statements of the Group.

Appendix IV to this circular presents the unaudited pro forma financial information of the Enlarged Group and describes the basis of preparation thereof.

1. Assets and liabilities

The audited consolidated total assets and total liabilities of the Group as at 31 December 2014, as stated in our Company's annual report for the year ended 31 December 2014, were approximately RMB544,427 million (equivalent to approximately HK\$690,363 million) and RMB442,564 million (equivalent to approximately HK\$561,195 million), respectively.

As set out in Appendix IV to this circular, the unaudited pro forma statement of assets and liabilities of the Enlarged Group illustrates the effect of the Acquisition on the assets and liabilities of the Group. Assuming that the Acquisition had been completed on 30 June 2015, the total assets of the Group as at that date would have increased from approximately RMB657,957 million (equivalent to approximately HK\$834,325 million) to approximately RMB892,787 million (equivalent to approximately HK\$1,132,102 million). The total liabilities of the Group as of 30 June 2015 would have increased from approximately RMB547,402 million (equivalent to approximately HK\$694,135 million) to approximately RMB782,232 million (equivalent to approximately HK\$991,912 million).

2. Earning

As stated in our Company's annual report for the year ended 31 December 2014, we recorded an audited consolidated net profit attributable to equity holders of our Company for the year ended 31 December 2014 of approximately RMB11,896 million (equivalent to approximately HK\$15,085 million).

As set out in Appendix II to this circular, Nanyang Bank recorded an audited profit attributable to its shareholders of approximately HK\$2,714 million for the year ended 31 December 2014 and approximately HK\$3,379 million for the nine months ended 30 September 2015.

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(vi) Risk Factors Associated with the Acquisition

1. *Completion is subject to fulfilment of the conditions precedent and there is no assurance that they can be fulfilled and/or the Acquisition will be completed as contemplated*

The conditions precedent to Completion as set out in the section headed “II. The Acquisition — (i) Principal Terms of the SPA” in this circular involve the decisions of third parties, in particular, the relevant regulatory authorities. As fulfilment of these conditions precedent is not within the control of the contracting parties involved in the Acquisition, our Company cannot assure you that these conditions precedent can be fulfilled and/or the Acquisition will be completed as contemplated.

Our Company has been in frequent discussions with the relevant regulatory authorities in relation to the Acquisition, including the HKMA and the CBRC. Our Company will continue to actively address questions raised and conditions imposed by regulatory authorities in order to expedite the formal approval process.

2. *Our Company faces integration risks*

Our Company may not be able to successfully integrate Nanyang Bank with the Group and realize the expected synergies and benefits from the Acquisition. To achieve a successful integration, our Company may need to, among other things, (i) retain the existing customers of Nanyang Bank and further expand its customer base; (ii) put in place and execute a well-managed synergistic operation plan among Nanyang Bank, our Company and the rest of the Group, including formulating effective incentive mechanisms; (iii) ensure the stability and quality of transitional support to Nanyang Bank with respect to IT and other operations provided by BOCHK; (iv) retain, hire and train staff who will contribute to Nanyang Bank’s business development; and (v) minimize adverse effects resulting from cultural differences, if any, between Nanyang Bank and the Group. Our Company cannot assure the Shareholders we can successfully implement these actions or strategies, and the failure of these actions and strategies may significantly and adversely affect the Enlarged Group’s financial condition and operational results.

Our Company has assembled a dedicated internal team consisting of key employees from various business functions on the planning and execution of matters related to the integration of Nanyang Bank. In addition, our Company has established a regular communication channel with counterparts from different business functions in Nanyang Bank and BOCHK to discuss and solve any integration and transaction related issue that may arise.

3. *Other risks relating to the Acquisition*

Our Company cannot assure you that the due diligence conducted prior to the Acquisition comprehensively and fully captured the financial, business and other information of Nanyang Bank. As a result, our Company could have made (i) inaccurate assumptions regarding the operations of Nanyang Bank including its consistency with the regulatory framework in which Nanyang Bank operates, and (ii) inaccurate

LETTER FROM THE BOARD

assumptions regarding intangible assets, contingent liability, share capital and debt of Nanyang Bank. All of these factors may affect the market value of the Enlarged Group and lead to changes in the Enlarged Group's operational performance.

Our Company, through its internal project team, financial advisor, legal advisors, IT, accounting and integration consultants, has conducted an extensive due diligence exercise since the initial stage of the Acquisition that covers, among others, aspects such as business, legal, financial, accounting, tax and IT.

(vii) Risk Factors of the Business and Operation Industry of Nanyang Bank

1. Economic conditions, as well as government policies, could affect Nanyang Bank's business, financial condition, operation results and prospects

Nanyang Bank's business is inherently subject to general macroeconomic conditions and policies and market fluctuations, including financing cost and the volatility of interest rates, inflation, upward and downward trends in the industrial and financial sectors, monetary and fiscal policies, foreign exchange policies and currency fluctuations, taxation policies and other macroeconomic policies, as well as laws and regulations affecting the financial industries in Hong Kong and mainland China. Unfavorable financial or economic environments, including the slowdown of economic conditions of Hong Kong and mainland China, have had and may continue to have an adverse impact on Nanyang Bank's business prospects.

To address this, we will mobilize internal resources to enable Nanyang Bank to expand its customer reach, strengthen its distribution capabilities in Hong Kong and mainland China and develop new lines of products and services. In addition, we will also strengthen Nanyang Bank's risk management capabilities and resources to be commensurate with Nanyang Bank's future growth plan and to protect against any unforeseen negative development in its asset quality. Furthermore, we are committed to providing Nanyang Bank with sufficient capital and financial support to satisfy any regulatory requirement applicable to Nanyang Bank and to support its future development needs.

2. Nanyang Bank will face increasingly intense competition in mainland China and Hong Kong's banking industry

The banking industry in Hong Kong and mainland China is becoming increasingly competitive. Nanyang Bank competes with its competitors for substantially the same products and services. Such competition may materially and adversely affect Nanyang Bank's business and future prospects by, for example, reducing market share and lowering pricing in principal products and services, affecting the growth of loan or deposit portfolios and their related products and services, and increasing competition for hiring and retaining senior management talent and qualified professional personnel.

We will seek to enhance Nanyang Bank's competitive position and increase customer loyalty by providing customized, "one-stop" financial services to Nanyang Bank's existing customers through Nanyang Bank and the Group's asset management and other financial service subsidiaries. In addition, Nanyang Bank will continue to

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develop new products and services and further enhance its distribution capabilities in order to improve customer experience.

3. ***Nanyang Bank's future success is dependent upon hiring and retaining highly qualified management personnel and key employees***

Crucial to its success, Nanyang Bank is dependent on its senior management and key employees for setting and implementing its strategic direction and managing its business. In the face of the intense competition for talents, Nanyang Bank may need to offer better compensation and other benefits to recruit and retain qualified professionals. Additional costs may be incurred in this regard. In addition, Nanyang Bank's business and financial condition could suffer if it is unable to retain senior management team and other high-quality personnel, or cannot secure successors in a timely manner upon their departure.

We intend to provide competitive retention package to key employees in Nanyang Bank in order to retain their service with Nanyang Bank in the transitional period and beyond. Our Company will also continue to hire qualified talents from the market to fill any potential vacancies left by departure of existing workforce and to fulfill future development needs.

(viii) Laws and Regulations Generally Applicable to Nanyang Bank

The principal regulatory authority of the banking industry in Hong Kong is the HKMA. Nanyang Bank as an authorized institution is required to comply with the provisions of the Banking Ordinance which, among other things, require it to maintain adequate liquidity and capital adequacy, to submit periodic returns to the HKMA, to adhere to limitations on loans to any one customer or to directors and employees, and to seek approval for the appointment of directors and chief executives, and for controllers.

The principal regulatory authorities of the banking industry in the PRC include the CBRC and the PBOC. The CBRC is responsible for supervising and regulating banking institutions, and the PBOC, as the central bank of the PRC, is responsible for formulating and implementing monetary policies. The principal laws relating to the banking industry in the PRC are the PRC Commercial Banking Law, the PRC PBOC Law and the PRC Banking Supervision and Regulatory Law, and the regulations and rules established thereunder.

(ix) Financial and Trading Prospect of the Enlarged Group

1. ***The Enlarged Group will maintain adequate capital adequacy ratios and leverage ratios***

Upon Completion, our Company will still meet the statutory capital adequacy ratio requirement imposed by the CBRC. Our Company will also procure that Nanyang Bank maintains a well-capitalized capital base that meets the statutory capital adequacy requirement imposed by the HKMA. Our Company also expects to further strengthen Nanyang Bank's capital adequacy ratio through (i) optimized capital allocation through asset-liability management; (ii) disposal of non-core assets; and (iii) issuance of equity

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securities or other qualified capital instruments through public offering or private placement.

Nanyang Bank, due to its nature of deposit-taking business under the relevant banking regulations, has a higher leverage ratio than our Company and will cause the leverage of the Enlarged Group to increase marginally but even after the increase, the Group's leverage will still be comparable with those of industry peers.

2. *The Enlarged Group will possess “one-stop” financial service capabilities while continue to maintain its leading position in distressed asset management business*

The Group currently has three principal business segments including (i) distressed asset management business; (ii) financial investment and asset management business and (iii) financial services business. The Group's financial services segment consists of securities and futures, trust, financial leasing, fund management, P&C insurance and life insurance. For the six months ended 30 June 2015, the financial services segment contributed 26%, 39% and 22% to the Group's total assets, total income and profit before tax, respectively. Therefore, the Directors consider the acquisition of Nanyang Bank as a desirable natural expansion of the current business of the Group and not an entirely new line of business. With Nanyang Bank becoming the Group's core financial services platform, the Acquisition will accelerate the Group's transformation into an “one-stop” financial service provider with synergistic business platforms, by leveraging potential cooperation opportunities between the Group's various business segments and Nanyang Bank. For example, we will be able to enhance the stickiness of approximately four million corporate and retail customers throughout the customer lifecycle, by offering comprehensive banking services in Hong Kong and mainland China through Nanyang Bank.

Nanyang Bank will be able to significantly broaden its deposit base in mainland China and generate additional revenue through cross-selling through our Company's 32 branches, eight first-tier subsidiaries and more than 400 branches of the first-tier subsidiaries nationwide. In addition, Nanyang Bank can leverage upon the Group's distressed assets and risk management expertise to achieve a combination of sound development and prudent management of its non-performing loan ratio.

Following the Acquisition, the Group will seek to maintain the stability of Nanyang Bank's operations and execute development plans that include, among others, (i) retention of the existing workforce, supplemented by external hiring to fill any gaps and satisfy future development needs; (ii) implementation of transitional service agreement with BOCHK to ensure operational stability and maintain a consistent customer experience in the interim period; (iii) execution of a business plan that is commensurate with the Group's overall strategic goals, while taking into account Nanyang Bank's competitive strengths and capabilities; (iv) further strengthening and fine-tuning of Nanyang Bank's risk management system, for it to be commensurate with that of a mid-sized commercial bank with businesses in Hong Kong and mainland China; and (v) extraction of synergies between Nanyang Bank and the Group through customer referral, cross selling and sharing of best practices.

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(x) **Business and Development Prospect of Nanyang Bank**

Following the Acquisition, we intend to position Nanyang Bank as a leading corporate banking and cross-border services-focused commercial bank with a distinctive advantage in asset management and financial markets business, supported by the synergies created with other financial subsidiaries of the Group.

We also intend to achieve stable growth of Nanyang Bank's Hong Kong business with the goal of maintaining Nanyang Bank's current market position as a top 10 licensed bank in Hong Kong. Nanyang Bank can achieve its unrealized growth potential in Hong Kong by further enlarging its customer base and developing the cross-border business, as well as launching new products and services. Nanyang Bank will also further strengthen its RMB related product and services offerings and wealth management business in Hong Kong.

We will seek to achieve prudent but relatively faster growth of Nanyang Bank's mainland China business (compared to its Hong Kong business), by leveraging the Group's extensive distribution channels, broad customer base and leading risk management capability in mainland China.

(xi) **Listing Rules Implications**

As one or more of the applicable percentage ratios in respect of the Acquisition exceeds 25% but all are less than 100%, the Acquisition and the entering into the SPA constitute a major transaction of our Company. The Acquisition is therefore subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

(xii) **Working Capital**

The Directors are aware of the requirements of Rule 14.66(10) and paragraph 30 of Appendix 1B to the Listing Rules, which state that our Company is required to include in this circular a statement by the Directors that in their opinion the working capital available to the Enlarged Group is sufficient for the Enlarged Group's requirements for at least 12 months from the date of publication of this circular or, if not, how it is proposed to provide the additional working capital thought by the Directors to be necessary.

In addition, Rule 14.66(12) of the Listing Rules provides that if this circular contains a statement as to the sufficiency of working capital, the Stock Exchange will require a letter from our Company's financial advisors or auditors confirming that (a) the statement has been made by the Directors after due and careful enquiry, and (b) the persons or institutions providing finance have confirmed in writing that such facilities exist ("**Confirmation Letter**").

However, Nanyang Bank is a licensed bank and an authorised institution regulated by the HKMA. The concept of working capital is not a key indicator of Nanyang Bank's liquidity or solvency, as its business model does not involve having sufficient cash to purchase goods and converting them into revenue through sales. Hence, providing information on working capital in the circular would not be useful for the Shareholders to assess the financial position of Nanyang Bank. In addition, the solvency and capital adequacy of Nanyang Bank is subject to the prudential supervision of the HKMA.

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Our Company has applied for, and the Stock Exchange has granted, a waiver from strict compliance with Rules 14.66(10) and 14.66(12), and paragraph 30 of Appendix 1B to the Listing Rules to the effect that (i) no statement as to the sufficiency of working capital of Nanyang Bank needs to be disclosed in this circular, subject to the disclosure of Nanyang Bank's capital adequacy and liquidity position as set out below, and (ii) the Stock Exchange does not require a Confirmation Letter with respect to the working capital sufficiency statement of Nanyang Bank.

Further, the Directors' opinion on the working capital available to the Group for the 12-month period after the date of publication of this circular is set out in the section headed "III. Working Capital" of Appendix I to this circular.

1. Capital adequacy ratios

The capital adequacy ratio of a bank is calculated as a ratio of the bank's capital base to its risk-weighted assets. In 2012, all authorised institutions regulated by the HKMA were required to maintain at all times a capital adequacy ratio of not less than 8%. For the implementation of the Basel III capital requirements, Banking (Capital) Rules were amended to revise the minimum capital ratio requirements and the definition of regulatory capital. Under the revised Banking (Capital) Rules which became effective from 1 January 2013, all authorised institutions regulated by the HKMA were required to maintain at all times in 2013 and 2014, a CET1 capital ratio of not less than 3.5% and 4%, respectively, a Tier 1 capital ratio of not less than 4.5% and 5.5%, respectively and in each case a total capital ratio of not less than 8%. As of 1 January 2015 all authorised institutions were required to maintain at all times a CET1 capital ratio of not less than 4.5%, a Tier 1 capital ratio of not less than 6% and a total capital ratio of not less than 8%. The HKMA may vary any capital requirement rules applicable to a particular authorised institution.

The capital adequacy ratios of Nanyang Bank as at 31 December 2012, 2013 and 2014, and 30 September 2015 were as follows:

| | As at 31 December | | | As at 30 September |
|--|-------------------|-------|-------|--------------------|
| | 2012 | 2013 | 2014 | 2015 |
| | (%) | (%) | (%) | (%) |
| Capital adequacy ratio ^(Note 1) | 15.89 | N/A | N/A | N/A |
| Total capital ratio ^(Note 1) | N/A | 15.80 | 16.53 | 17.14 |
| Tier 1 capital ratio ^(Note 2) | N/A | 13.53 | 14.17 | 15.06 |
| CET1 capital ratio ^(Note 2) | N/A | 13.53 | 14.17 | 15.06 |

Notes:

1. The capital adequacy ratios as at 31 December 2012 were compiled in accordance with the Banking (Capital) Rules (Chapter 155L of the Laws of Hong Kong) for the implementation of the "Basel II" capital accord.
2. The capital adequacy ratios as at 31 December 2013 and 2014 were compiled in accordance with the Banking (Capital) Rules (Chapter 155L of the Laws of Hong Kong) for the implementation of the "Basel III" capital accord.

Common Equity Tier 1 (CET1) capital ratio of an authorised institution is calculated with reference to its Common Equity Tier 1 capital (as defined in the Banking (Capital) Rules (Chapter 155L of the Laws of Hong Kong)). Common Equity Tier 1 capital of an authorised institution consists of its ordinary shares, its share premium resulting from the issue of ordinary shares, certain retained earnings and other disclosed reserves and minority interests arising from the ordinary shares issued by its consolidated bank subsidiaries and held by third parties and recognised as Common Equity Tier 1 capital pursuant to the Banking (Capital) Rules (Chapter 155L of the Laws of Hong Kong).

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Tier 1 capital ratio of an authorised institution is calculated with reference to the aggregate of its Common Equity Tier 1 capital and Additional Tier 1 capital (each as defined in the Banking (Capital) Rules (Chapter 155L of the Laws of Hong Kong)). Additional Tier 1 capital of an authorised institution consists of its capital instruments, its share premium resulting from the issue of its capital instruments and capital instruments issued by its consolidated bank subsidiaries and held by third parties, and recognised as Additional Tier 1 capital pursuant to the Banking (Capital) Rules (Chapter 155L of the Laws of Hong Kong).

Total capital ratio of an authorised institution is calculated with reference to its Total capital (as defined in the Banking (Capital) Rules (Chapter 155L of the Laws of Hong Kong)).

2. *Liquidity ratios*

Prior to 1 January 2015, the liquidity ratio of a bank is calculated as the ratio of its liquefiable assets to its qualifying liabilities. All authorised institutions regulated by the HKMA are required to maintain a liquidity ratio of not less than 25% in each calendar month, subject to the HKMA's power to vary the minimum liquidity ratio applicable to a particular authorised institution.

Under the Banking (Liquidity) Rules (Chapter 155Q of the Laws of Hong Kong) which became effective on 1 January 2015, during the year of 2015 a category 1 institution must at all times maintain a Liquidity Coverage Ratio (as defined in the Banking (Liquidity) Rules (Chapter 155Q of the Laws of Hong Kong)) of not less than 60% which will rise to 100% on or after 1 January 2019.

The HKMA may vary any liquidity requirement rules applicable to a particular authorised institution regulated by the HKMA.

The average liquidity ratios of Nanyang Bank for the three years ended 31 December 2012, 2013 and 2014, and the average liquidity coverage ratio of Nanyang Bank for the three quarters ended 31 March, 30 June and 30 September 2015 are set out below:

| | For the year ended 31 December | | |
|---|-----------------------------------|-------|-------|
| | 2012 | 2013 | 2014 |
| | (%) | (%) | (%) |
| Average liquidity ratio ^(Note 1) | 44.46 | 47.80 | 51.99 |

| | For the quarter ended | | |
|--|-----------------------|-----------------|----------------------|
| | 31 March 2015 | 30 June 2015 | 30 September 2015 |
| | (%) | (%) | (%) |
| Average liquidity coverage ratio ^(Note 2) | 123.70% | 163.68% | 114.10% |

Notes:

1. The average liquidity ratio prior to 1 January 2015 was calculated as the ratio, expressed as a percentage, of the average of each calendar month's average ratio, as specified in the Fourth Schedule of the Banking Ordinance.
2. The average liquidity coverage ratio following 1 January 2015 was calculated as the ratio, expressed as a percentage, of the amount of the institution's High Quality Liquid Assets to the amount of the institution's total net cash outflows, as specified in the Banking Ordinance.

III. THE EGM

The EGM will be held at Conference Room 1111, 11th Floor, No. 1 Building, 9 Naoshikou Street, Xicheng District, Beijing, the PRC at 9:30 a.m. on Wednesday, 24 February 2016. At the EGM, a special resolution will be proposed to approve the SPA and the contemplated transactions. The notice

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to convene the EGM together with the proxy form and reply slip were despatched to the Shareholders on Saturday, 9 January 2016.

In order to determine the holders of H Shares who are entitled to attend the EGM, the register of holders of H Shares of our Company will be closed from Monday, 25 January 2016 to Wednesday, 24 February 2016 (both days inclusive), during which period no transfer of H Shares will be effected. Holders of H Shares of our Company who intend to attend the EGM shall deposit the share certificates together with the transfer documents at the H Share Registrar of our Company, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, at or before 4:30 p.m. on Friday, 22 January 2016. Holders of H Shares whose names appear on the register of holders of H Shares of our Company at the close of business on Friday, 22 January 2016 are entitled to attend and vote at the EGM.

A proxy form and a reply slip in connection with the EGM were despatched to the Shareholders along with the notice to convene the EGM and also published on the website of the Stock Exchange (www.hkexnews.hk). Holders of H Shares who intend to attend the EGM by proxy shall complete and return the proxy form to Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong no later than 24 hours before the time appointed for convening the EGM. Completion and return of the proxy form will not preclude a holder of H Shares from attending the EGM and voting in person if he so wishes. Holders of H Shares who intend to attend the EGM in person or by proxy should complete and return the reply slip by hand, by post or by fax to Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong on or before Thursday, 4 February 2016.

As required by the Articles of Association of our Company, voting at the EGM shall be taken by poll.

To the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, no Shareholder has a material interest in the Acquisition which is different from other Shareholders, and hence no Shareholder is required to abstain from voting on the resolution in relation to the Acquisition be proposed at the EGM.

IV. RECOMMENDATION

On the basis of the reasons and information set out above, the Board considers that the Acquisition and the terms of the SPA are fair and reasonable and in the interests of our Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of the resolution in connection with the Acquisition and the SPA to be proposed at the EGM as set out in the notice of the EGM.

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V. ADDITIONAL INFORMATION

Your attention is drawn to the additional information as set out in the Appendices to this circular.

Yours faithfully,
By order of the Board
China Cinda Asset Management Co., Ltd.
HOU Jianhang
Chairman

I. FINANCIAL INFORMATION OF THE GROUP

The consolidated financial statements of the Group for each of the three years ended 31 December 2012, 2013 and 2014, and the six months ended 30 June 2015, together with the relevant notes thereto are disclosed in the following documents which have been published and are available on the website of the Stock Exchange (www.hkex.com.hk) and the website of our Company (www.cinda.com.cn):

- The prospectus of our Company containing the audited consolidated financial statements of the Group for the 12 months ended 31 December 2012 published on 28 November 2013 (pages I-1 to I-216)
- The Annual Report of our Company for the year ended 31 December 2013 published on 25 April 2014 (pages 137 to 362)
- The Annual Report of our Company for the year ended 31 December 2014 published on 28 April 2015 (pages 137 to 362)
- The Interim Report of our Company for the six months ended 30 June 2015 published on 25 September 2015 (pages 76 to 164)

II. INDEBTEDNESS STATEMENT**Borrowings**

The Enlarged Group has borrowings from banks, other financial institutions and non-financial enterprises and the PBOC to fund acquisitions of distressed debt assets and other investments. As at 30 November 2015, being the latest practicable date for the purpose of this indebtedness statement, the Enlarged Group's borrowings from banks, other financial institutions and non-financial enterprises amounted to RMB296,572.4 million, among which unsecured borrowings amounted to RMB260,236.9 million, guaranteed borrowings amounted to RMB16,071.9 million and secured borrowings amounted to RMB20,263.6 million. And unsecured borrowings from the PBOC amounted to RMB986.1 million.

Note:

The borrowings are categorized into three categories being (i) secured borrowings, (ii) guaranteed borrowings and (iii) unsecured borrowings. Secured borrowings are loans secured by collateral or pledge. Guaranteed borrowings are loans guaranteed by a third party guarantor. Unsecured borrowings are loans without any collateral, pledge or guarantee.

Bonds payable

As at 30 November 2015, the Enlarged Group had the following bonds, with a total par value amounted to RMB105,540.4 million, all of which were unexpired and unsecured:

| | <u>As at 30 November 2015</u> (in millions of RMB) |
|-------------------------|---|
| Within 1 year | 2,000.0 |
| 1-2 years | 16,101.7 |
| 2-3 years | 18,019.8 |
| 3-4 years | 16,439.1 |
| 4-5 years | 25,215.1 |
| Above 5 years | <u>27,764.7</u> |
| Total | <u><u>105,540.4</u></u> |

On 3 December 2015, Cinda Investment Co., Ltd. has obtained a reply from the China Securities Regulatory Commission with the title Public Issuance of Corporate Bonds to Qualified Investors by Cinda Investment Co., Ltd., (Zhengjianxuke [2015] No. 2816) which approved Cinda Investment Co., Ltd. to issue corporate bonds to qualified investors with an amount no greater than RMB5 billion. As at 23 December 2015, Cinda Investment Co., Ltd. had issued corporate bonds in an amount of RMB3 billion.

Financial Assets Sold Under Repurchase Agreements

As at 30 November 2015, the Enlarged Group's non-banking business had financial assets sold under repurchase agreements of RMB8,230.8 million, among which RMB5,779.3 million would be due within 1 year and RMB2,451.5 million would be due over 1 year. Details are as follows:

| | As at 30 November 2015 (in millions of RMB) |
|---------------------------------|---|
| By collateral type: | |
| Debt securities | 4,179.3 |
| Finance lease receivables | 441.5 |
| Loans to margin clients | 3,610.0 |
| Total | <u>8,230.8</u> |

Operating Lease Commitments

As at 30 November 2015, the Enlarged Group, as a lessee, had commitments for future minimum lease payments under non-cancellable operating leases which would fall due as follows:

| | As at 30 November 2015 (in millions of RMB) |
|---------------------|---|
| Within 1 year | 427.2 |
| 1-2 years | 318.7 |
| 2-3 years | 229.8 |
| Above 3 years | 416.7 |
| Total | <u>1,392.4</u> |

Capital Expenditure Commitments

| | As at 30 November 2015 (in millions of RMB) |
|---|---|
| Contracted but not provided for | |
| Commitments for the acquisition of property and equipment | 16.9 |
| Commitments for the acquisition of investment | 1,563.6 |
| Total | <u>1,580.5</u> |

Other Commitments

The Enlarged Group provided credit enhancements for part of trust plans and asset management plans issued by the Company and subsidiaries of the Company. As at 30 November 2015, the exposure to the credit enhancements of the Group amounted to RMB1,645.0 million.

The Enlarged Group provided conditional purchase commitments for part of private funds set up by the Company and subsidiaries of the Company. Such commitments were provided to non-Group

members in respect of their capital contribution and basic return. As at 30 November 2015, non-Group members have made contribution of RMB30,369.9 million, which was provided by conditional purchase commitment of the Group.

Subsidiaries of the Company set up private funds and brought in bank priority funds in order to set up asset management plans. Subsidiaries of the Company (Class B shares of the asset management plans) which are the actual investors of the private funds, provided shortfall coverage and return guarantee commitments to the bank priority funds (Class A shares of the asset management plans). As at 30 November 2015, bank priority funds have made contribution of RMB467.0 million.

Off-balance Sheet Arrangements

As at 30 November 2015, the Enlarged Group's non-banking business did not have any material off-balance sheet arrangements as defined under IFRS.

Contingent Liabilities

Due to the nature of our business, our Company and non-banking business subsidiaries are involved in certain legal proceedings in the ordinary course of business, including litigation and arbitration. We make provisions, from time to time, for the probable losses with respect to those claims when our management can reasonably estimate the outcome of the proceedings, in light of the legal advice we have received. We do not make provisions for pending litigation when the outcome of the litigation cannot be reasonably estimated or when our management believes that the probability of loss is remote or that any resulting liabilities will not have a material adverse effect on our financial condition or business operation. As at 30 November 2015, we made provisions of RMB128.9 million, based on court judgments or legal counsels' advice. Our management believes that the final results of these lawsuits will not have a material impact on our financial condition or business operation.

In addition, as at 30 November 2015, the Enlarged Group's indebtedness included customer deposits, amounts due to banks and other financial institutions, balance under repurchase agreements, credit commitments, acceptances, issued letters of guarantee and letters of credit, other commitments and contingencies (including outstanding litigation) that arise from the normal course of banking business.

Other than disclosed above and apart from intra-group liabilities, the Enlarged Group did not have, as at 30 November 2015, any material outstanding mortgages, charges, debentures or other loan capital (issued or agreed to be issued), bank overdrafts, loans, liabilities under acceptance or other similar indebtedness, hire purchase and finance lease commitments or any material guarantees or other material contingent liabilities.

Our Directors have confirmed that there is no material adverse change in the indebtedness or contingent liabilities of the Enlarged Group since 30 November 2015.

III. WORKING CAPITAL

After due and careful consideration, taking into account the Group's internal resources, cash flow from operations and the estimated net proceeds from the Acquisition, the Directors are of the opinion that the working capital available to the Group is sufficient for its present requirements for at least the next 12 months from the date of this circular.

The following is the text of a report received from Ernst & Young, Certified Public Accountants, Hong Kong, Nanyang Bank's reporting accountants, on the financial information of the NCB Group, for the purpose of incorporation in this circular.

22nd Floor
CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

The Directors
China Cinda Asset Management Co., Ltd.

Dear Sirs,

We set out below our report on the financial information of Nanyang Commercial Bank, Limited (“Nanyang Bank”) and its subsidiaries (hereinafter collectively referred to as the “NCB Group”) comprising the consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the NCB Group for each of the years ended 31 December 2012, 2013 and 2014, and the nine months ended 30 September 2015 (the “Relevant Periods”), and the consolidated statements of financial position of the NCB Group as at 31 December 2012, 2013, 2014 and 30 September 2015, together with the notes thereto (the “Financial Information”), and the consolidated income statements, consolidated statements of comprehensive incomes, statements of changes in equity and statements of cash flows of the NCB Group for the nine months ended 30 September 2014 (the “Interim Comparative Information”), prepared on the basis of presentation set out in note 2.1 of Section II below, for inclusion in the circular of China Cinda Asset Management Co., Ltd. (the “Company”) dated 30 January 2016 (the “Circular”) in connection with the Company's proposed acquisition of 100% equity interest of Nanyang Bank.

Nanyang Bank was incorporated as a limited liability company on 14 December 1949 in Hong Kong and is a licensed bank authorised under the Hong Kong Banking Ordinance.

As at the date of this report, Nanyang Bank has 100% direct interest in the subsidiaries as set out in note 1 of Section II below. All companies now comprising the NCB Group have adopted 31 December as their financial year end date. The statutory financial statements of Nanyang Bank and those subsidiaries incorporated in Hong Kong were prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) which includes all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the Hong Kong Companies Ordinance (Chapter 622). The statutory financial statements of the subsidiary established in the People's Republic of China (the “PRC” or “Mainland China”, which excludes Hong Kong) were prepared in accordance with the PRC generally accepted accounting principles. Details of their statutory auditors during the Relevant Periods are set out in note 1 of Section II below.

The directors of Nanyang Bank (the “Directors”) have prepared the consolidated financial statements of the NCB Group for the years ended 31 December 2012, 2013 and 2014 and the nine-month period ended 30 September 2015 in accordance with HKFRSs issued by the HKICPA

(collectively, the “Underlying Financial Statements”). The consolidated financial statements of the NCB Group for the year ended 31 December 2012 were audited by PricewaterhouseCoopers in accordance with Hong Kong Standards on Auditing issued by the HKICPA. The consolidated financial statements of the NCB Group for the year ended 31 December 2013 and 2014 and for the nine-month period ended 30 September 2015 were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information set out in this report has been prepared from the Underlying Financial Statements and in accordance with the basis set out in note 2.1 of section II after making such adjustments as we consider appropriate.

Directors' responsibility

The directors of Nanyang Bank are responsible for the preparation of the Underlying Financial Statements, the Financial Information and the Interim Comparative Information that give a true and fair view in accordance with the HKFRSs, and for such internal control as the directors of Nanyang Bank determine is necessary to enable the preparation of the Underlying Financial Statements, the Financial Information and the Interim Comparative Information that are free from material misstatement, whether due to fraud or error.

The directors of the Company are responsible for the contents of the Circular in which this report is included.

Reporting accountants' responsibility

It is our responsibility to form an independent opinion and a review conclusion on the Financial Information and the Interim Comparative Information, respectively, and to report our opinion and review conclusion thereon to you.

For the purpose of this report, we have examined the Underlying Financial Statements and carried out procedures on the Financial Information in accordance with Auditing Guideline 3.340 Prospectuses and the Reporting Accountant issued by the HKICPA.

We have also performed a review of the Interim Comparative Information in accordance with Hong Kong Standard on Review Engagements 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the HKICPA. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets and liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an opinion on the Interim Comparative Information.

Opinion in respect of the Financial Information

In our opinion, for the purpose of this report, the Financial Information gives a true and fair view of the financial position of the NCB Group as at 31 December 2012, 2013 and 2014 and 30 September 2015 and of its financial performance and cash flows of the NCB Group for each of the Relevant Periods.

Review conclusion in respect of the Interim Comparative Information

Based on our review which does not constitute an audit, for the purpose of this report, nothing has come to our attention that causes us to believe that the Interim Comparative Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

Ernst & Young

Certified Public Accountants

Hong Kong

30 January 2016

I. FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENTS

(In HK\$ thousands, unless otherwise stated)

| | Note | For the year ended 31 December | | | For the 9 months ended 30 September | |
|--|----------|-----------------------------------|------------------|------------------|--|------------------|
| | | 2012 | 2013 | 2014 | 2014 (Unaudited) | 2015 |
| Interest income | | 7,710,456 | 8,776,796 | 10,037,240 | 7,522,128 | 6,765,556 |
| Interest expense | | (3,777,643) | (4,085,630) | (4,847,191) | (3,645,714) | (3,183,358) |
| Net interest income | 4 | 3,932,813 | 4,691,166 | 5,190,049 | 3,876,414 | 3,582,198 |
| Fee and commission income | | 822,777 | 1,075,126 | 1,332,965 | 993,928 | 1,126,786 |
| Fee and commission expense | | (67,598) | (66,501) | (78,239) | (57,122) | (69,433) |
| Net fee and commission income | 5 | 755,179 | 1,008,625 | 1,254,726 | 936,806 | 1,057,353 |
| Net trading gain/(loss) | 6 | 147,216 | 97,221 | 8,858 | 67,063 | (12,501) |
| Net gain/(loss) on financial instruments designated at fair value through profit or loss | | 21,959 | (16,193) | (7,958) | (5,478) | (3,726) |
| Net gain on other financial assets | 7 | 16,601 | 52,496 | 122,530 | 90,161 | 182,882 |
| Other operating income | 8 | 57,109 | 75,470 | 70,808 | 51,996 | 36,205 |
| Net operating income before impairment allowances | | 4,930,877 | 5,908,785 | 6,639,013 | 5,016,962 | 4,842,411 |
| Net charge of impairment allowances | 9 | (396,948) | (369,967) | (904,294) | (790,861) | (504,102) |
| Net operating income | | 4,533,929 | 5,538,818 | 5,734,719 | 4,226,101 | 4,338,309 |
| Operating expenses | 10 | (1,882,180) | (2,272,178) | (2,403,578) | (1,776,325) | (1,763,081) |
| Operating profit | | 2,651,749 | 3,266,640 | 3,331,141 | 2,449,776 | 2,575,228 |
| Net gain from disposal of investment properties | 11 | — | — | — | — | 850,474 |
| Net gain/(loss) from disposal of properties, plant and equipment | 12 | 215 | (4,609) | (2,380) | (705) | 383,031 |
| Profit before taxation | | 2,651,964 | 3,262,031 | 3,328,761 | 2,449,071 | 3,808,733 |
| Taxation | 13 | (415,770) | (527,245) | (614,656) | (468,549) | (429,588) |
| Profit for the year/period | | 2,236,194 | 2,734,786 | 2,714,105 | 1,980,522 | 3,379,145 |

Details of the dividends declared and paid or proposed are disclosed in note 14 to the Financial Information.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In HK\$ thousands, unless otherwise stated)

| | Note | For the year ended 31 December | | | For the 9 months ended 30 September | |
|--|------|-----------------------------------|------------------|------------------|--|------------------|
| | | 2012 | 2013 | 2014 | 2014 (Unaudited) | 2015 |
| Profit for the year/period | | 2,236,194 | 2,734,786 | 2,714,105 | 1,980,522 | 3,379,145 |
| Items that may be reclassified subsequently to income statements: | | | | | | |
| Available-for-sale securities: | | | | | | |
| Change in fair value of available-for-sale securities | | 328,116 | (624,520) | 557,098 | 454,924 | 221,436 |
| Release upon disposal of available-for-sale securities reclassified to income statements | | (11,839) | (31,292) | (93,642) | (57,482) | (135,298) |
| Amortisation with respect to available-for- sale securities transferred to held-to- maturity securities reclassified to income statements | | (715) | — | 1,062 | 761 | 797 |
| Deferred tax | 30 | (47,000) | 117,817 | (95,845) | (77,763) | (24,743) |
| | | 268,562 | (537,995) | 368,673 | 320,440 | 62,192 |
| Change in fair value of hedging instruments under net investment hedges | | (4,138) | (41,055) | 38,400 | 17,922 | 29,079 |
| Currency translation difference | | 94,020 | 299,135 | (286,332) | (129,639) | (223,716) |
| | | 358,444 | (279,915) | 120,741 | 208,723 | (132,445) |
| Other comprehensive income for the year/period, net of tax | | 358,444 | (279,915) | 120,741 | 208,723 | (132,445) |
| Total comprehensive income for the year/ period | | 2,594,638 | 2,454,871 | 2,834,846 | 2,189,245 | 3,246,700 |

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In HK\$ thousands, unless otherwise stated)

| | Note | At 31 December | | | At |
|---|------|--------------------|--------------------|--------------------|----------------------|
| | | 2012 | 2013 | 2014 | 30 September 2015 |
| ASSETS | | | | | |
| Cash and balances with banks and other financial institutions | 17 | 40,788,320 | 44,739,319 | 58,282,800 | 47,452,123 |
| Placements with banks and other financial institutions maturing between one and twelve months | | 17,308,944 | 21,344,000 | 18,180,762 | 10,396,534 |
| Financial assets at fair value through profit or loss | 18 | 5,125,160 | 4,164,693 | 6,155,213 | 4,042,981 |
| Derivative financial instruments | 19 | 764,577 | 508,453 | 439,072 | 577,394 |
| Advances and other accounts | 20 | 138,032,685 | 155,316,751 | 163,903,699 | 170,907,371 |
| Investment in securities | 22 | 40,989,649 | 42,272,143 | 47,168,324 | 53,140,958 |
| Investment properties | 23 | 192,450 | 184,261 | 172,712 | 35,439 |
| Properties, plant and equipment | 24 | 1,048,745 | 1,053,960 | 1,000,646 | 939,762 |
| Current tax assets | | — | — | — | 28,970 |
| Deferred tax assets | 30 | 105,492 | 295,605 | 243,464 | 144,056 |
| Other assets | 25 | 1,442,298 | 3,741,595 | 1,013,444 | 1,642,244 |
| Total assets | | <u>245,798,320</u> | <u>273,620,780</u> | <u>296,560,136</u> | <u>289,307,832</u> |
| LIABILITIES | | | | | |
| Deposits and balances from banks and other financial institutions | | 20,262,071 | 28,846,029 | 37,735,611 | 23,584,043 |
| Financial liabilities at fair value through profit or loss | 26 | 4,975,073 | 4,433,736 | 4,970,693 | 4,781,296 |
| Derivative financial instruments | 19 | 459,607 | 343,156 | 278,506 | 307,248 |
| Deposits from customers | 27 | 185,533,717 | 198,160,417 | 209,633,935 | 216,068,867 |
| Other accounts and provisions | 28 | 9,998,985 | 15,229,501 | 15,181,966 | 12,917,472 |
| Current tax liabilities | | 82,384 | 205,587 | 222,225 | 407,506 |
| Total liabilities | | <u>221,311,837</u> | <u>247,218,426</u> | <u>268,022,936</u> | <u>258,066,432</u> |
| EQUITY | | | | | |
| Share capital | 31 | 700,000 | 700,000 | 3,144,517 | 3,144,517 |
| Reserves | 32 | 23,786,483 | 25,702,354 | 25,392,683 | 28,096,883 |
| Total equity | | <u>24,486,483</u> | <u>26,402,354</u> | <u>28,537,200</u> | <u>31,241,400</u> |
| Total liabilities and equity | | <u>245,798,320</u> | <u>273,620,780</u> | <u>296,560,136</u> | <u>289,307,832</u> |

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In HK\$ thousands, unless otherwise stated)

| | Note | Share capital | Share premium | Capital reserve | Reserve for fair value changes of available-for-sale securities | Regulatory reserve* | Translation reserve | Retained earnings | Total |
|---|------|---------------|---------------|-----------------|---|---------------------|---------------------|-------------------|------------|
| At 1 January 2012 | | 700,000 | 2,444,517 | 605 | 104,431 | 1,358,627 | 618,049 | 17,057,616 | 22,283,845 |
| Profit for the year | | — | — | — | — | — | — | 2,236,194 | 2,236,194 |
| Other comprehensive income: | | | | | | | | | |
| Available-for-sale securities | | — | — | — | 269,101 | — | — | (539) | 268,562 |
| Change in fair value of hedging instruments under net investment hedges | | — | — | — | — | — | (4,138) | — | (4,138) |
| Currency translation difference | | — | — | — | (368) | — | 94,388 | — | 94,020 |
| Total comprehensive income | | — | — | — | 268,733 | — | 90,250 | 2,235,655 | 2,594,638 |
| Transfer from retained earnings | | — | — | — | — | 188,384 | — | (188,384) | — |
| Dividends | 14 | — | — | — | — | — | — | (392,000) | (392,000) |
| At 31 December 2012 | | 700,000 | 2,444,517 | 605 | 373,164 | 1,547,011 | 708,299 | 18,712,887 | 24,486,483 |

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In HK\$ thousands, unless otherwise stated)

| | Note | Share capital | Share premium | Capital reserve | Reserve for fair value changes of available-for-sale securities | Regulatory reserve* | Translation reserve | Retained earnings | Total |
|---|------|---------------|---------------|-----------------|---|---------------------|---------------------|-------------------|------------|
| At 1 January 2013 | | 700,000 | 2,444,517 | 605 | 373,164 | 1,547,011 | 708,299 | 18,712,887 | 24,486,483 |
| Profit for the year | | — | — | — | — | — | — | 2,734,786 | 2,734,786 |
| Other comprehensive income: | | | | | | | | | |
| Available-for-sale securities | | — | — | — | (537,995) | — | — | — | (537,995) |
| Change in fair value of hedging instruments under net investment hedges | | — | — | — | — | — | (41,055) | — | (41,055) |
| Currency translation difference | | — | — | — | (57) | — | 299,192 | — | 299,135 |
| Total comprehensive income | | — | — | — | (538,052) | — | 258,137 | 2,734,786 | 2,454,871 |
| Transfer from retained earnings | | — | — | — | — | 397,969 | — | (397,969) | — |
| Dividends | 14 | — | — | — | — | — | — | (539,000) | (539,000) |
| At 31 December 2013 | | 700,000 | 2,444,517 | 605 | (164,888) | 1,944,980 | 966,436 | 20,510,704 | 26,402,354 |

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In HK\$ thousands, unless otherwise stated)

| | Note | Share capital | Share premium | Capital reserve | Reserve for fair value changes of available-for-sale securities | Regulatory reserve* | Translation reserve | Retained earnings | Total |
|---|------|---------------|---------------|-----------------|---|---------------------|---------------------|-------------------|------------|
| At 1 January 2014 | | 700,000 | 2,444,517 | 605 | (164,888) | 1,944,980 | 966,436 | 20,510,704 | 26,402,354 |
| Profit for the year | | — | — | — | — | — | — | 2,714,105 | 2,714,105 |
| Other comprehensive income: | | | | | | | | | |
| Available-for-sale securities | | — | — | — | 368,673 | — | — | — | 368,673 |
| Change in fair value of hedging instruments under net investment hedges | | — | — | — | — | — | 38,400 | — | 38,400 |
| Currency translation difference | | — | — | — | 3,123 | — | (289,455) | — | (286,332) |
| Total comprehensive income | | — | — | — | 371,796 | — | (251,055) | 2,714,105 | 2,834,846 |
| Transfer to share capital | | 2,444,517 | (2,444,517) | — | — | — | — | (228,610) | — |
| Transfer from retained earnings | | — | — | — | — | 228,610 | — | (700,000) | (700,000) |
| Dividends | 14 | — | — | — | — | — | — | — | — |
| At 31 December 2014 | | 3,144,517 | — | 605 | 206,908 | 2,173,590 | 715,381 | 22,296,199 | 28,537,200 |

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

(In HK\$ thousands, unless otherwise stated)

| | Note | Share capital | Share premium | Capital reserve | Reserve for fair value changes of available-for-sale securities | Regulatory reserve* | Translation reserve | Retained earnings | Total |
|---|------|---------------|---------------|-----------------|---|---------------------|---------------------|-------------------|------------|
| At 1 January 2014 | | 700,000 | 2,444,517 | 605 | (164,888) | 1,944,980 | 966,436 | 20,510,704 | 26,402,354 |
| Profit for the period | | — | — | — | — | — | — | 1,980,522 | 1,980,522 |
| Other comprehensive income: | | | | | | | | | |
| Available-for-sale securities | | — | — | — | 320,440 | — | — | — | 320,440 |
| Change in fair value of hedging instruments under net investment hedges | | — | — | — | — | — | 17,922 | — | 17,922 |
| Currency translation difference | | — | — | — | 1,636 | — | (131,275) | — | (129,639) |
| Total comprehensive income | | — | — | — | 322,076 | — | (113,353) | 1,980,522 | 2,189,245 |
| Transfer to share capital | | 2,444,517 | (2,444,517) | — | — | — | — | — | — |
| Transfer from retained earnings | | — | — | — | — | 83,972 | — | (83,972) | — |
| Dividends | 14 | — | — | — | — | — | — | (700,000) | (700,000) |
| At 30 September 2014 (Unaudited) | | 3,144,517 | — | 605 | 157,188 | 2,028,952 | 853,083 | 21,707,254 | 27,891,599 |

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In HK\$ thousands, unless otherwise stated)

| | Note | Share capital | Share premium | Capital reserve | Reserve for fair value changes of available-for-sale securities | Regulatory reserve* | Translation reserve | Retained earnings | Total |
|---|------|---------------|---------------|-----------------|---|---------------------|---------------------|-------------------|------------|
| At 1 January 2015 | | 3,144,517 | — | 605 | 206,908 | 2,173,590 | 715,381 | 22,296,199 | 28,537,200 |
| Profit for the period | | — | — | — | — | — | — | 3,379,145 | 3,379,145 |
| Other comprehensive income: | | | | | | | | | |
| Available-for-sale securities | | — | — | — | 62,192 | — | — | — | 62,192 |
| Change in fair value of hedging instruments under net investment hedges | | — | — | — | — | — | 29,079 | — | 29,079 |
| Currency translation difference | | — | — | — | (635) | — | (223,081) | — | (223,716) |
| Total comprehensive income | | — | — | — | 61,557 | — | (194,002) | 3,379,145 | 3,246,700 |
| Transfer to share capital | | — | — | — | — | — | — | — | — |
| Transfer from retained earnings | | — | — | — | — | 84,413 | — | (84,413) | — |
| Dividends | 14 | — | — | — | — | — | — | (542,500) | (542,500) |
| At 30 September 2015 | | 3,144,517 | — | 605 | 268,465 | 2,258,003 | 521,379 | 25,048,431 | 31,241,400 |

* In accordance with the requirements of the HKMA, the amounts are set aside for general banking risks, including future losses or other unforeseeable risks, in addition to the loan impairment allowances recognised under HKAS39.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In HK\$ thousands, unless otherwise stated)

| | Note | For the year ended 31 December | | | For the 9 months ended 30 September | |
|---|-------|-----------------------------------|-------------------|-------------------|--|---------------------|
| | | 2012 | 2013 | 2014 | 2014 | 2015 |
| | | | | | (Unaudited) | |
| Cash flows from operating activities | | | | | | |
| Operating cash (outflow)/inflow before taxation | 33(a) | (6,710,114) | 5,927,086 | 15,674,762 | 6,237,905 | (14,057,670) |
| Hong Kong profits tax paid | | (505,312) | (354,140) | (458,285) | (100,188) | (113,529) |
| Overseas profits tax paid | | (73,560) | (118,751) | (189,366) | (181,550) | (87,790) |
| Net cash (outflow)/inflow from operating activities | | <u>(7,288,986)</u> | <u>5,454,195</u> | <u>15,027,111</u> | <u>5,956,167</u> | <u>(14,258,989)</u> |
| Cash flows from investing activities | | | | | | |
| Purchase of properties, plant and equipment | 24 | (429,519) | (109,955) | (84,996) | (47,227) | (47,362) |
| Purchase of investment properties | 23 | — | — | (821) | (183) | (2,903) |
| Proceeds from disposal of properties, plant and equipment | | 5,502 | 720 | 248 | 252 | 396,898 |
| Proceeds from disposal of investment properties | | — | — | — | — | 986,800 |
| Net cash (outflow)/inflow from investing activities | | <u>(424,017)</u> | <u>(109,235)</u> | <u>(85,569)</u> | <u>(47,158)</u> | <u>1,333,433</u> |
| Cash flows from financing activities | | | | | | |
| Dividends paid | 14 | (392,000) | (539,000) | (700,000) | (700,000) | (542,500) |
| Net cash outflow from financing activities | | <u>(392,000)</u> | <u>(539,000)</u> | <u>(700,000)</u> | <u>(700,000)</u> | <u>(542,500)</u> |
| (Decrease)/increase in cash and cash equivalents | | (8,105,003) | 4,805,960 | 14,241,542 | 5,209,009 | (13,468,056) |
| Cash and cash equivalents at 1 January | | 41,732,029 | 33,701,213 | 39,008,565 | 39,008,565 | 52,301,071 |
| Effect of exchange rate changes on cash and cash equivalents | | 74,187 | 501,392 | (949,036) | (341,966) | (505,728) |
| Cash and cash equivalents at 31 December/30 September | 33(b) | <u>33,701,213</u> | <u>39,008,565</u> | <u>52,301,071</u> | <u>43,875,608</u> | <u>38,327,287</u> |

II. NOTES TO THE FINANCIAL INFORMATION

(In HK\$ thousands, unless otherwise stated)

1. CORPORATE INFORMATION AND GROUP STRUCTURE

Nanyang Bank was incorporated in Hong Kong and its subsidiaries were incorporated in Hong Kong or the PRC. Nanyang Bank is a licensed bank authorised under the Hong Kong Banking Ordinance.

During the Relevant Periods, the principal activities of the NCB Group are the provision of banking and related financial services. As at the reporting date, Nanyang Bank had 100% direct interest in its subsidiaries. The place of incorporation and principal activities of Nanyang Bank's subsidiaries are shown in table below. The address of Nanyang Bank's registered office is 151 Des Voeux Road Central, Hong Kong.

| <u>Name</u> | <u>Place and date of incorporation</u> | <u>Registered capital/ issued share capital</u> | <u>Interest held</u> | <u>Principal activities</u> |
|--|--|---|----------------------|-----------------------------|
| Nanyang Commercial Bank (China), Limited | The People's Republic of China 14 December 2007 | Registered capital RMB6,500,000,000 | 100% | Banking business |
| Nanyang Commercial Bank Trustee Limited | Hong Kong 22 October 1976 | Ordinary shares HK\$3,000,000 | 100% | Trustee services |
| Kwong Li Nam Investment Agency Limited | Hong Kong 25 May 1984 | Ordinary shares HK\$3,050,000 | 100% | Investment agency |
| Nanyang Commercial Bank (Nominees) Limited | Hong Kong 22 August 1980 | Ordinary shares HK\$50,000 | 100% | Nominee services |

The statutory financial statements of Nanyang Bank and those subsidiaries incorporated in Hong Kong for the year ended 31 December 2012 prepared under HKFRSs were audited by PricewaterhouseCoopers (Hong Kong Certified Public Accountants). The statutory financial statements of Nanyang Bank and those subsidiaries incorporated in Hong Kong for the years ended 31 December 2013 and 2014 prepared under the HKFRSs were audited by us.

The statutory financial statements of Nanyang Commercial Bank (China) Limited ("NCB China") for the year ended 31 December 2012 prepared under the PRC generally accepted accounting principles was audited by PricewaterhouseCoopers Zhong Tian LLP registered in the PRC. The statutory financial statements of NCB China for the years ended 31 December 2013 and 2014 prepared under the PRC generally accepted accounting principles were audited by Ernst & Young Hua Ming LLP registered in the PRC.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**2.1 BASIS OF PREPARATION**

The Financial Information of the NCB Group have been prepared in accordance with HKFRSs (which include all applicable individual Hong Kong Financial Reporting Standards, HKASs and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong. The Financial Information for the Relevant Periods set out in this report has been adjusted to restate the

investment properties and premises for own use held by Nanyang Bank at cost instead of at revaluation, in order to keep consistency with the Company's accounting policies on investment properties and properties, plant and equipment.

The Financial Information have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale securities, financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss and precious metals at fair value.

The preparation of the Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires the Management to exercise judgement in the process of applying the NCB Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in Note 3.

(a) Standards and amendments issued that are not yet mandatorily effective and have not been early adopted by the NCB Group in 2015

The following standards and amendments have been issued and are mandatory for accounting periods beginning on or after 1 January 2016:

| <u>Standards/ Amendments</u> | <u>Content</u> | <u>Applicable for financial years beginning on/after</u> | <u>Currently relevant to the NCB Group</u> |
|--|---|--|--|
| HKAS 1 (Amendment) | Disclosure Initiative | 1 January 2016 | Yes |
| HKAS 16 and HKAS 41 (Amendments) . . . | Agriculture: Bearer Plants | 1 January 2016 | No |
| HKAS 16 and HKAS 38 (Amendments) . . . | Clarification of Acceptable Methods of Depreciation and Amortisation | 1 January 2016 | Yes |
| HKAS 27 (2011) (Amendment) | Equity Method in Separate Financial Statements | 1 January 2016 | Yes |
| HKAS 28 (2011) and HKFRS 10 (Amendment) | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | 1 January 2016 | No |
| HKAS 28 (2011), HKFRS 10 and HKFRS 12 (Amendments) | Investment entities: Applying the Consolidation Exception | 1 January 2016 | No |
| HKFRS 9 | Financial Instruments | 1 January 2018 | Yes |
| HKFRS 11 (Amendment) | Accounting for Acquisitions of Interests in Joint Operations | 1 January 2016 | No |
| HKFRS 14 | Regulatory Deferral Accounts | 1 January 2016 | No |
| HKFRS 15 | Revenue from Contracts with Customers | 1 January 2018 | Yes |

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

- HKAS 1 (Amendment), "Disclosure Initiative". The amendments to HKAS 1 are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgement in determining where and in what order information is presented

in the financial disclosures. This amendment will not have material impact on the NCB Group's Financial Information.

- HKAS 27 (2011) (Amendment), "Equity Method in Separate Financial Statements". The amendment restores the option to allow an entity to apply the equity method to account for its investments in subsidiaries, joint ventures and associates in its separate financial statements. Early application is permitted. Entities electing to change to the equity method in its separate financial statements shall have to apply the same accounting for each category of investments so elected and is required to apply this change retrospectively. This amendment will not have any material impact on the NCB Group's Financial Information.
- HKFRS 9, "Financial Instruments". The issuance of IFRS 9 "Financial Instruments" completes the International Accounting Standards Board's comprehensive response to the financial crisis. HKFRS 9, the equivalent standard of IFRS 9 under HKFRS, includes a logical model for classification and measurement, a single, forward-looking "expected loss" impairment model and a tighter linkage of risk management to hedge accounting. The changes introduced in HKFRS 9 are highlighted as follows:

(i) *Classification and Measurement*

Financial assets

Financial assets are required to be classified into one of the following measurement categories: (1) measured subsequently at amortised cost, (2) measured subsequently at fair value through other comprehensive income (all fair value changes other than interest accrual, amortisation and impairment will be recognised in other comprehensive income) or (3) measured subsequently at fair value through profit or loss. Classification is to be made on transition, and subsequently on initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instruments.

A financial instrument is subsequently measured at amortised cost only if it is a debt instrument, and the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows characteristics represent only unleveraged payments of principal and interest. A debt instrument is subsequently measured at fair value through other comprehensive income if it is held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the instrument fulfils the contractual cash flows characteristics. All other debt instruments are to be measured at fair value through profit or loss.

Equity instruments are generally measured subsequently at fair value with limited circumstances that cost may be an appropriate estimate of fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition to recognise unrealised and realised fair value gains and losses in other comprehensive income without subsequent reclassification of fair value gains and losses to the income statements even upon disposal. Dividend income is recognised in the income statements when the right to receive payment is established.

Financial Liabilities

Except for the two substantial changes described below, the classification and measurement requirements of financial liabilities have been basically carried forward with minimal amendments from HKAS 39.

The fair value option for financial liabilities were changed to address own credit risk. The amount of change in fair value attributable to changes in the credit risk of the financial liabilities will be presented in other comprehensive income. The remaining amount of the total gain or loss is included in the income statements. If this creates or enlarges an accounting mismatch in profit or loss, then the whole fair value change is presented in the income statements. The determination of whether there will be a mismatch will need to be made at initial recognition of individual liabilities and will not be re-assessed. Amounts presented in other comprehensive income are not subsequently reclassified to the income statements but may be transferred within equity. This removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. It also means that gains caused by the deterioration of an entity's own credit risk on such liabilities will no longer be recognised in profit or loss.

The standard also eliminates the exception from fair value measurement contained in HKAS 39 for derivative financial instruments that are linked to and must be settled by delivery of an unquoted equity instrument.

(ii) Impairment

The standard introduces a new, expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, it requires entities to account for 12 months expected credit losses from inception when financial instruments are first recognised and to recognise full lifetime expected credit losses on a more timely basis when there have been significant increases in credit risk since initial recognition. The impairment for financial instruments that are subsequently measured at amortised cost, fair value through other comprehensive income (debt instruments), loan commitments and financial guarantees will be governed by this standard.

(iii) Hedge accounting

The requirements related to hedge accounting would better align the accounting treatments with risk management activities and enable entities to better reflect these activities in their financial statements. It relaxes the requirements for assessing hedge effectiveness which more risk management strategies may be eligible for hedge accounting. It also relaxes the rules on using non-derivative financial instruments as hedging instruments and allows greater flexibility on hedged items. Users of the financial statements will be provided with more relevant information about risk management and the effect of hedge accounting on the financial statements.

Early application of HKFRS 9 in its entirety at the same time is permitted. Only the part related to own credit risk can be elected to be early applied in isolation. The NCB Group is considering the financial impact of the standard and the timing of its application.

- HKFRS 15, "Revenue from Contracts with Customers". HKFRS 15 applies a single model and specifies the accounting treatment for all revenue arising from contracts with customers. The new standard is based on the core principle that revenue is recognised to

reflect the consideration expected to be entitled when control of promised good or service transfers to customer. It is also applicable to the recognition and measurement of gains or losses on the sale of some non-financial assets such as properties or equipments that are not an output of ordinary activities. HKFRS 15 also includes a set of disclosure requirements about revenue from customer contracts. The new standard will replace the separate models for goods, services and construction contracts stipulated in different standards under the current HKFRS. Early application is permitted. The NCB Group is considering the financial impact of the standard and the timing of its application.

(b) Improvements to HKFRSs

“Improvements to HKFRSs” contains numerous amendments to HKFRSs which the HKICPA considers not urgent but necessary. It comprises amendments that result in accounting changes for presentation, recognition or measurement purpose as well as terminology or editorial amendments related to a variety of individual HKFRSs. The amendments will be effective for annual periods beginning on or after 1 January 2016. The adoption of these improvements does not have a material impact on the NCB Group’s Financial Information.

2.2 CONSOLIDATION

The Financial Information of the NCB Group include the financial statements of Nanyang Bank and all of its subsidiaries for the years ended 31 December 2012, 2013, 2014 and for the period ended 30 September 2015.

Subsidiaries

Subsidiaries are entities controlled by the NCB Group. Control is achieved when the NCB 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 NCB Group the current ability to direct the relevant activities of the investee). Subsidiaries are fully consolidated from the date on which control is transferred to the NCB Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between the NCB Group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of impairment of the assets transferred. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the NCB Group.

2.3 SEGMENTAL REPORTING

The operating result of segments are reported in a manner consistent with the internal reporting provided to the Management, which is the chief operating decision maker of the NCB Group, that allocates resources and assesses the performance of operating segments. Income and expenses directly associated with each segment are included in determining operating segment performance.

2.4 FOREIGN CURRENCY TRANSLATION

Items included in the financial statements of each of the NCB Group’s entities are measured using the currency of the primary economic environment in which the entity operates (the “functional

currency"). The Financial Information of the NCB Group is presented in Hong Kong dollars, which is Nanyang Bank's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or exchange rates at the end of the reporting period for items that are re-measured. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions using the exchange rates prevailing at the dates of the transactions and monetary assets and liabilities denominated in foreign currencies translated at the exchange rate at the end of the reporting period are recognised directly in the income statements, except when deferred in other comprehensive income as qualifying net investment hedges.

Translation differences on monetary securities held at fair value through profit or loss are reported as part of the fair value gain or loss. Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the securities and other changes in the carrying amount of the securities. Translation differences related to changes in the amortised cost are recognised in the income statements, and other changes in the carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary items are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in other comprehensive income.

The results and financial position of all the NCB Group entities that have a functional currency different from Hong Kong dollars are translated into Hong Kong dollars as follows:

- assets and liabilities are translated at the closing rate at the end of the reporting period;
- income and expenses are translated at average exchange rates; and
- all resulting exchange differences are recognised in the currency translation reserve in equity through other comprehensive income.

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

2.5 DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are initially recognised at fair value on the date the derivative contract is entered into and are subsequently re-measured at fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and through the use of valuation techniques, including discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

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

Derivatives are categorised as held for trading and changes in their fair value are recognised immediately in the income statements.

2.6 HEDGE ACCOUNTING

The NCB Group documents at inception the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The NCB Group also documents its assessment, both at the hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items. These criteria should be met before a hedge can be qualified to be accounted for under hedge accounting.

Net investment hedge

A gain or loss on the effective portion of the hedging instrument is recognised in other comprehensive income and accumulated in equity; a gain or loss on the ineffective portion is recognised immediately in the income statements. Accumulated gains and losses previously recognised in other comprehensive income are reclassified to the income statements upon disposal of the foreign operation as part of the gain or loss on disposal.

2.7 OFFSETTING FINANCIAL INSTRUMENTS

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

2.8 INTEREST INCOME AND EXPENSE AND FEE AND COMMISSION INCOME AND EXPENSE

Interest income and expense are recognised in the income statements for all financial assets and financial liabilities using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the NCB Group estimates future cash flows considering all contractual terms of the financial instrument (e.g. prepayment options or incentives relating to residential mortgage loans) but does not consider future credit losses. The calculation includes fees, premiums or discounts and basis points paid or received between parties to the contract, and directly attributable origination fees and costs which represent an integral part of the effective yield.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised on the written down value using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Subsequent unwinding of the discount allowance is recognised as interest income.

Fee and commission income and expenses that are not an integral part of the effective yield are recognised on an accrual basis ratably over the period when the related service is provided, such as administrative fee, asset management fee and custody services fee. Loan syndication fees are recognised as revenue when the related syndication arrangement has been completed and the NCB Group has retained no part of the loan package for itself or has retained a part at the same effective interest rate as that of other participants.

2.9 FINANCIAL ASSETS

The NCB Group classifies its financial assets into the following four categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity securities and available-for-sale financial assets. The Management determines the classification of investments at initial recognition. The classification depends on the purpose for which the financial assets are held. All financial assets are recognised initially at fair value. Except for financial assets carried at fair value through profit or loss, all transaction costs of financial assets are included in their initial carrying amounts.

(1) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.

A financial asset which has been acquired or incurred principally for the purpose of selling in the short term or is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking is classified as held for trading. Derivatives are also classified as held for trading.

A financial asset, other than one held for trading, will be designated as a financial asset at fair value through profit or loss, if it meets one of the criteria set out below, and is so designated by the Management:

- eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as “an accounting mismatch”) that would otherwise arise from measuring the financial assets or recognising the gains and losses on them on different bases; or
- applies to a group of financial assets, financial liabilities or both that is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Management; or
- relates to financial assets containing one or more embedded derivative that significantly modifies the cash flow resulting from those financial assets.

These assets are recognised initially at fair value, with transaction costs taken directly to the income statements, and are subsequently re-measured at fair value.

Gains and losses from changes in the fair value of such assets (excluding the interest component) are reported in net trading gain/loss or net gain/loss on financial instruments designated at fair value through profit or loss. The interest component is reported as part of interest income.

(2) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, including placements with and advances to banks and other financial institutions, investment debt securities without an active market and loans and advances to customers. They arise when the NCB Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method less allowances for impairment losses.

(3) Held-to-maturity

Financial assets classified as held-to-maturity are those traded in active markets, with fixed or determinable payments and fixed maturities that the NCB Group's Management has both the positive intention and the ability to hold to maturity. Where the NCB Group sold held-to-maturity assets (i) other than due to an isolated event beyond the NCB Group's control, non-recurring and could not have been reasonably anticipated by the NCB Group, such as a significant deterioration in the issuer's creditworthiness, significant change in statutory or regulatory requirement or (ii) other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale. They are initially recorded at fair value plus any directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest method less allowances for impairment losses.

(4) Available-for-sale

Financial assets classified as available-for-sale are those that are either designated as such or are not classified in any of the other categories. They are intended to be held for an indefinite period of time but may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Available-for-sale financial assets are initially recorded at fair value plus any directly attributable transaction costs, and are subsequently measured at fair value. Unrealised gains and losses arising from changes in the fair value of investments are recognised directly in other comprehensive income, until the financial asset is derecognised or impaired at which time the accumulated gain or loss previously recognised in equity should be transferred to the income statements. However, interest income which includes the amortisation of premium and discount is calculated using the effective interest method and is recognised in the income statements. Dividends on equity instruments classified as available-for-sale are recognised in other operating income when the NCB Group's right to receive payment is established.

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

The treatment of translation differences on available-for-sale securities is dealt with in Note 2.4.

2.10 FINANCIAL LIABILITIES

The NCB Group classifies its financial liabilities under the following categories: trading liabilities, deposits and other liabilities. All financial liabilities are classified at inception and recognised initially at fair value.

(1) Trading liabilities

A financial liability is classified as held for trading if it is incurred principally for the purpose of repurchasing in the short term. Derivatives are also classified as held for trading. It is measured at fair value and any gains and losses from changes in fair value are recognised in the income statements.

(2) Deposits and other liabilities

Deposits and other liabilities, other than those classified as trading liabilities are carried at amortised cost. Any difference (if available) between proceeds net of transaction costs and the redemption value is recognised in the income statements over the period using the effective interest method.

2.11 FINANCIAL GUARANTEE CONTRACTS

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a contract between the holder and the debtor.

Financial guarantee contracts are initially recognised as financial liabilities and reported under "Other accounts and provisions" in the Financial Information at fair value on the date the guarantee was given. Subsequent to initial recognition, the NCB Group's liabilities under such guarantees are measured at the higher of (i) the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and (ii) the amount initially recognised less, where appropriate, accumulated amortisation recognised over the life of the guarantee on a straight-line basis. Any changes in the liability relating to financial guarantee contracts are taken to the income statements.

2.12 RECOGNITION AND DERECOGNITION OF FINANCIAL INSTRUMENTS

Purchases and sales of financial assets at fair value through profit or loss, available-for-sale and held-to-maturity securities are recognised on the trade date, the date on which the NCB Group purchases or sells the assets. Loans and receivables (except investment securities without an active market) are recognised when cash is advanced to the borrowers. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the NCB Group has transferred substantially all risks and rewards of ownership. When the NCB Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the NCB Group either continues to recognise the transferred financial asset to the extent of its continuing involvement if control remains or derecognise it if there is no retained control.

Trading liabilities are recognised on the trade date. Deposits that are not trading liabilities are recognised when money is received from customers, other liabilities are recognised when such obligations arise. Financial liabilities are derecognised from the balance sheet when and only when the obligation specified in the contract is discharged, cancelled or expires.

Securities and bills sold to a counterparty with an obligation to repurchase at a pre-determined price on a specified future date under a repurchase agreement are referred to as repos. Securities and bills purchased from a counterparty with an obligation to re-sell to the counterparty at a pre-determined price on a specified future date under a resale agreement are referred to as reverse repos.

Repos or securities lending are initially recorded as due to banks, placements from banks and other financial institutions, as appropriate, at the actual amount of cash received from the counterparty. Financial assets given as collateral for repurchase agreements are not derecognised and are recorded as investment in securities or financial assets at fair value through profit or loss. Reverse repos or securities borrowing are initially recorded in the balance sheet as cash and due from banks or placements with banks and other financial institutions, as appropriate, at the actual amount of cash paid to the counterparty. Financial assets received as collateral under reverse repurchase agreements are not recognised on the balance sheet. The difference between sale and repurchase price is recognised as interest income or interest expense over the life of the agreements using the effective interest method.

2.13 FAIR VALUE MEASUREMENT

The NCB Group measures its precious metals and certain financial instruments 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 in its principal market or the most advantageous market accessible by the NCB Group at the measurement date.

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.

If the market for assets or liabilities is not active, the NCB Group uses valuation techniques, including the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants, 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.

2.14 PRECIOUS METALS

Precious metals comprise gold. Precious metals are initially recognised and subsequently re-measured at fair value. Mark-to-market gains or losses on precious metals are included in net trading gain/loss.

2.15 IMPAIRMENT OF FINANCIAL ASSETS

The NCB Group assesses as at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of

the asset (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of financial assets may be impaired includes observable data that comes to the attention of the NCB Group about the following probable loss events:

- (i) significant financial difficulty of the issuer or obligor;
- (ii) a breach of contract, such as a default or delinquency in interest or principal payment;
- (iii) the NCB Group granting to the borrower, for economic or legal reasons relating to the borrower’s financial difficulty, a concession that the lender would not otherwise consider;
- (iv) it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- (v) the disappearance of an active market or downgrading below investment grade level for that financial asset because of financial difficulties; or
- (vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
 - adverse changes in the payment status of borrowers in the group; or
 - national or local economic conditions that correlate with defaults on the assets in the group.

(1) Assets carried at amortised cost

The NCB Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the NCB Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment together with all other financial assets that are not individually significant or for which impairment has not yet been identified. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

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

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

For the purposes of a collective assessment of impairment, financial assets are grouped on the basis of similar and relevant credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

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

When a loan is uncollectible, it is written off against the related allowance for impairment losses. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses in the income statements.

If, in a subsequent period, the amount of allowance for impairment losses decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss to the extent of its decrease is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statements with substantial difference in the terms are no longer considered to be past due but are treated as new loans.

(2) Assets classified as available-for-sale

If evidence of impairment exists for available-for-sale financial assets, the accumulated losses, measured as the difference between the acquisition cost or amortised cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statements, is removed from equity and recognised in the income statements. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statements, the impairment loss to the extent of its decrease is reversed through the income statements. With respect to equity instruments, further fair value changes are recognised in the reserve for fair value change of available-for-sale securities through other comprehensive income, impairment losses are not reversed through the income statements.

2.16 IMPAIRMENT OF NON-FINANCIAL ASSETS

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Potential indications of impairment may include significant adverse changes in the technological, market, economic or legal environment in which the assets operate or whether there has been a significant or prolonged decline in value below their cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell

and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.17 INVESTMENT PROPERTIES

Investment properties are initially measured at cost, including any directly attributable expenditure attributable to the acquisition and installation of the items. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses, if any. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives, using the straight-line method. Construction costs incurred for investment properties under construction are capitalized as part of the carrying amount of the investment properties under construction. An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised. Investment properties are depreciated on a straight-line basis over life of government land leases.

2.18 PROPERTIES, PLANT AND EQUIPMENT

Properties, plant and equipment including buildings held for use in the supply of services, or for administrative purpose (other than construction in progress) are stated in the statements of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any. Depreciation is recognised so as to write off the cost of items of properties, plant and equipment (other than construction in progress) over their estimated useful lives, using the straight-line method. The estimated useful lives are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. Depreciation is calculated on the straight-line method to write down the cost of such assets over their estimated useful lives as follows:

- Premises Over the life of government land leases
- Equipments, fixtures and fittings 2 to 15 years

Properties, plant and equipment in the course of construction for supply of services or administrative purposes are carried at cost, less any recognised impairment loss and borrowing cost capitalized in accordance with the NCB Group's accounting policy. Such properties, plant and equipments are reclassified to the appropriate category of properties, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

2.19 LEASES**(1) Operating leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. The total payments made under operating leases (net of any incentives received from the lessor) are charged to the income statements on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place. Rental income from operating leases is recognised on a straight-line basis over the lease term.

(2) Finance leases

Leases of assets where lessee have obtained substantially all the risks and rewards of ownership are classified as finance leases. Government land leases in Hong Kong are classified as finance leases as the present value of the minimum lease payments (i.e. transaction price) of the land amounted to substantially all of the fair value of the land as if it were freehold.

Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other liabilities. Investment properties acquired under finance leases are carried at their fair value.

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. Lease income is recognised over the term of the lease using net investment method, which reflects a constant periodic rate of return.

Prepaid land lease payments are initially stated at cost and subsequently recognised on the straight-line bases over the lease terms.

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

2.20 CASH AND CASH EQUIVALENTS

For the purposes of the consolidated cash flow statements, cash and cash equivalents comprise balances with original maturity less than three months from the date of acquisition, including cash, balances with banks and other financial institutions, short-term bills and notes classified as investment securities.

2.21 PROVISIONS

Provisions are recognised when the NCB Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

2.22 EMPLOYEE BENEFITS**(1) Retirement benefit costs**

The NCB Group contributes to defined contribution retirement schemes under either recognised ORSO schemes or MPF schemes that are available to the NCB Group's employees. Contributions to the schemes by the NCB Group and employees are calculated as a percentage of employees' basic salaries for the ORSO schemes and in accordance with the MPF rules for MPF schemes. The retirement benefit scheme costs are charged to the income statements as incurred and represent contributions payable by the NCB Group to the schemes. Contributions made by the NCB Group that are forfeited by those employees who leave the ORSO scheme prior to the full vesting of their entitlement to the contributions are used by the NCB Group to reduce the existing level of contributions or to meet its expenses under the trust deed of the ORSO schemes.

The assets of the schemes are held in independently-administered funds separate from those of the NCB Group.

(2) Leave entitlements

Employee entitlements to annual leave and sick leave are recognised when they accrue to employees. A provision is made for the estimated liability for unused annual leave and the amount of sick leave expected to be paid as a result of services rendered by employees up to the end of the reporting period.

Compensated absences other than sick leave and special approved annual leaves are non-accumulating; they lapse if the current period's entitlement is not used in full. Except for unexpired annual leaves, they do not entitle employees to a cash payment for unused entitlement on leaving the NCB Group.

(3) Bonus plans

The expected cost of bonus payments are recognised as a liability when the NCB Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for bonus plans that are expected to be settled longer than twelve months will be discounted if the amounts are significant.

2.23 CURRENT AND DEFERRED INCOME TAXES

Tax expenses for the period comprises current and deferred tax. Tax is recognised in the income statements, except to the extent that it relates to items recognised directly in other comprehensive income. In this case, the tax is also recognised in other comprehensive income.

Income tax payable on profits, based on the applicable tax law enacted or substantially enacted at the end of the reporting period in each jurisdiction where Nanyang Bank and the subsidiaries operate and generate taxable income, is recognised as a current income tax expense in the period in which profits arise.

Deferred income tax is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Information of the NCB Group. Deferred income tax is determined using tax rates and laws

that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from asset impairment provisions, depreciation of premises and equipment, revaluation of certain assets including available-for-sale securities, and tax losses carried forward. However, the deferred income tax is not recognised if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax liabilities are provided in full on all taxable temporary differences and deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is charged or credited in the income statements except for deferred income tax relating to fair value re-measurement of available-for-sale securities which are charged or credited to other comprehensive income, in which case the deferred income tax is also credited or charged to other comprehensive income and is subsequently recognised in the income statements together with the realisation of the deferred gain and loss.

2.24 REPOSSESSED ASSETS

Repossessed assets are initially recognised at the lower of their fair value less costs to sell and the amortised cost of the related outstanding loans on the date of repossession, and the related loans and advances together with the related impairment allowances are derecognised from the balance sheet. Subsequently, repossessed assets are measured at the lower of their cost and fair values less costs to sell and are reported as “non-current assets held for sale” included in “Other assets”.

2.25 FIDUCIARY ACTIVITIES

The NCB Group commonly acts as a trustee, or in other fiduciary capacities, that result in its holding or managing assets on behalf of individuals, trusts and other institutions. These assets and any gains or losses arising thereon are excluded from these Financial Information, as they are not assets of the NCB Group.

2.26 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the NCB Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised as a provision but is disclosed in the notes to the Financial Information. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the NCB Group.

Contingent assets are not recognised but are disclosed in the notes to the Financial Information when an inflow of economic benefits is probable. When the inflow is virtually certain, it will be recognised as an asset.

2.27 RELATED PARTIES

For the purposes of the Financial Information, a party is considered to be related to the NCB Group if (i) that party controls, jointly controls or has significant influence over the NCB Group; (ii) is a member of the same financial reporting group, such as parents, subsidiaries and fellow subsidiaries; (iii) is an associate or a joint venture of the NCB Group or parent reporting group; (iv) is a key management personnel of the NCB Group or parents; (v) the party is subject to common control with the NCB Group; and (vi) an entity in which a person identified in (iv) controls. Related parties may be individuals or entities.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The NCB Group makes estimates and assumptions that affect the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Areas susceptible to changes in essential estimates and judgements, which affect the carrying amount of assets and liabilities, are set out below. The effect of changes to either the key assumptions or other estimation uncertainties will be presented below if it is practicable to determine. It is possible that actual results may require material adjustments to the estimates referred to below.

3.1 IMPAIRMENT ALLOWANCES ON LOANS AND ADVANCES

The NCB Group reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statements, the NCB 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 and advances 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 (e.g. payment delinquency or default), or economic conditions that correlate with defaults on assets in the group. The 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 estimating expected future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly.

Carrying amounts of loans and advances as at 31 December 2012, 2013, 2014 and 30 September 2015 are shown in Note 20.

3.2 IMPAIRMENT OF HELD-TO-MATURITY AND AVAILABLE-FOR-SALE SECURITIES

The NCB Group reviews its held-to-maturity and available-for-sale investment portfolios to assess impairment at least on a quarterly basis. In determining whether any of these investments is

impaired, risk characteristics and performance such as external credit rating, market price etc. will be assessed. The NCB Group makes estimates on the default rate and loss severity of each investment with reference to market performance of the portfolios, current payment status of the issuers or performance of the underlying assets, or economic conditions that correlate with defaults on the collateralised assets. The methodology and assumptions used for impairment assessments are reviewed regularly.

Carrying amounts of investment in securities as at 31 December 2012, 2013, 2014 and 30 September 2015 are shown in Note 22.

3.3 FAIR VALUES OF DERIVATIVE FINANCIAL INSTRUMENTS

The fair values of derivative financial instruments that are not quoted in active markets are determined by using valuation techniques. Valuation techniques used include discounted cash flows analysis and models with built-in functions available in externally acquired financial analysis or risk management systems widely used by the industry such as option pricing models. To the extent practical, the models use observable data. In addition, valuation adjustments may be adopted if factors such as credit risk are not considered in the valuation models. Management judgement and estimates are required for the selection of appropriate valuation parameters, assumptions and modeling techniques. Further details will be discussed in Note 41.

Carrying amounts of derivative financial instruments as at 31 December 2012, 2013, 2014 and 30 September 2015 are shown in Note 19.

3.4 HELD-TO-MATURITY SECURITIES

The NCB Group follows the guidance of HKAS 39 in classifying certain non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity securities. This classification requires significant management judgement to evaluate the NCB Group's intention and ability to hold such investments to maturity. If the NCB Group fails to hold these investments to maturity other than for specific circumstances defined in HKAS 39, such as selling an insignificant amount, selling close to maturity or due to significant credit deterioration of such investments, it will be required to reclassify the entire portfolio of financial assets as available-for-sale securities. The investments would then be measured at fair value and not amortised cost.

Carrying amounts of held-to-maturity securities as at 31 December 2012, 2013, 2014 and 30 September 2015 are shown in Note 22.

4. NET INTEREST INCOME

| | For the year ended 31 December | | | For the 9 months ended 30 September | |
|---|-----------------------------------|--------------------|--------------------|--|--------------------|
| | 2012 HK\$'000 | 2013 HK\$'000 | 2014 HK\$'000 | 2014 HK\$'000 (Unaudited) | 2015 HK\$'000 |
| Interest income | | | | | |
| Due from banks and other financial institutions | 2,329,108 | 2,256,247 | 2,961,173 | 2,215,738 | 1,644,788 |
| Advances to customers | 4,355,000 | 5,294,805 | 5,630,733 | 4,247,610 | 4,011,544 |
| Listed investments | 319,579 | 327,562 | 250,446 | 200,354 | 106,532 |
| Unlisted investments | 680,723 | 881,056 | 1,159,854 | 839,370 | 988,887 |
| Others | 26,046 | 17,126 | 35,034 | 19,056 | 13,805 |
| | <u>7,710,456</u> | <u>8,776,796</u> | <u>10,037,240</u> | <u>7,522,128</u> | <u>6,765,556</u> |
| Interest expense | | | | | |
| Due to banks and other financial institutions | (601,733) | (779,789) | (1,027,085) | (748,896) | (589,289) |
| Deposits from customers | (3,014,699) | (3,068,188) | (3,527,257) | (2,680,882) | (2,380,430) |
| Others | (161,211) | (237,653) | (292,849) | (215,936) | (213,639) |
| | <u>(3,777,643)</u> | <u>(4,085,630)</u> | <u>(4,847,191)</u> | <u>(3,645,714)</u> | <u>(3,183,358)</u> |
| Net interest income | <u>3,932,813</u> | <u>4,691,166</u> | <u>5,190,049</u> | <u>3,876,414</u> | <u>3,582,198</u> |

Included within interest income is HK\$973,000 (period ended 30 September 2014: HK\$824,000 (unaudited); year ended 31 December 2014: HK\$211,000; year ended 31 December 2013: HK\$2,594,000; year ended 31 December 2012: HK\$8,079,000) of interest with respect to income accrued on advances classified as impaired.

Included within interest income and interest expense are HK\$6,753,770,000 (period ended 30 September 2014: HK\$7,503,152,000 (unaudited); year ended 31 December 2014: HK\$10,014,009,000; year ended 31 December 2013: HK\$8,732,588,000; year ended 31 December 2012: HK\$7,653,870,000) and HK\$3,181,803,000 (period ended 30 September 2014: HK\$3,641,685,000 (unaudited); year ended 31 December 2014: HK\$4,842,420,000; year ended 31 December 2013: HK\$4,080,742,000; year ended 31 December 2012: HK\$3,763,585,000), for financial assets and financial liabilities that are not recognised at fair value through profit or loss respectively.

5. NET FEE AND COMMISSION INCOME

| | For the year ended 31 December | | | For the 9 months ended 30 September | |
|--|-----------------------------------|------------------|------------------|--|------------------|
| | 2012 | 2013 | 2014 | 2014 | 2015 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 (Unaudited) | HK\$'000 |
| Fee and commission income | | | | | |
| Loan commissions | 164,207 | 194,970 | 213,931 | 153,393 | 259,973 |
| Bills commissions | 183,902 | 240,188 | 298,396 | 219,057 | 212,342 |
| Securities brokerage | 150,725 | 218,959 | 235,620 | 180,323 | 147,983 |
| Funds distribution | 72,126 | 118,762 | 159,240 | 128,733 | 133,731 |
| Insurance | 77,018 | 101,524 | 117,692 | 93,079 | 110,251 |
| Payment services | 761 | 5,004 | 64,026 | 43,623 | 80,606 |
| Credit card business | 74,734 | 72,189 | 69,222 | 51,499 | 49,919 |
| Safe deposit box | 21,688 | 21,800 | 23,218 | 17,760 | 19,495 |
| Trust and custody services | 109 | 1,389 | 7,825 | 5,166 | 6,213 |
| Currency exchange | 600 | 534 | 543 | 415 | 413 |
| Others | 76,907 | 99,807 | 143,252 | 100,880 | 105,860 |
| | <u>822,777</u> | <u>1,075,126</u> | <u>1,332,965</u> | <u>993,928</u> | <u>1,126,786</u> |
| Fee and commission expense | | | | | |
| Securities brokerage | (26,224) | (27,549) | (30,154) | (21,998) | (34,681) |
| Payment services | (6,604) | (6,539) | (236) | (224) | (17) |
| Credit card business | (78) | (914) | (3,743) | (2,351) | (7,636) |
| Others | (34,692) | (31,499) | (44,106) | (32,549) | (27,099) |
| | <u>(67,598)</u> | <u>(66,501)</u> | <u>(78,239)</u> | <u>(57,122)</u> | <u>(69,433)</u> |
| Net fee and commission income | <u>755,179</u> | <u>1,008,625</u> | <u>1,254,726</u> | <u>936,806</u> | <u>1,057,353</u> |
| Of which arise from | | | | | |
| Financial assets or financial liabilities not at fair value through profit or loss | | | | | |
| —Fee and commission income | 193,677 | 219,867 | 261,207 | 185,520 | 194,426 |
| —Fee and commission expense | (1,584) | (2,954) | (7,317) | (5,793) | (2,569) |
| | <u>192,093</u> | <u>216,913</u> | <u>253,890</u> | <u>179,727</u> | <u>191,857</u> |
| Trust and other fiduciary activities | | | | | |
| —Fee and commission income | 12,262 | 13,071 | 19,593 | 11,043 | 12,260 |
| —Fee and commission expense | (1,183) | (1,202) | (1,207) | (905) | (907) |
| | <u>11,079</u> | <u>11,869</u> | <u>18,386</u> | <u>10,138</u> | <u>11,353</u> |

6. NET TRADING GAIN/(LOSS)

| | For the year ended 31 December | | | For the 9 months ended 30 September | |
|---|-----------------------------------|---------------|--------------|--|-----------------|
| | 2012 | 2013 | 2014 | 2014 | 2015 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 (Unaudited) | HK\$'000 |
| Net gain/(loss) from: | | | | | |
| —foreign exchange and foreign exchange products | 131,080 | (5,065) | (32,236) | 32,011 | (12,501) |
| —interest rate instruments | 16,136 | 102,286 | 44,835 | 37,890 | 6,638 |
| —commodities | — | — | (3,783) | (2,838) | (6,597) |
| —equity instruments | — | — | 42 | — | (41) |
| | <u>147,216</u> | <u>97,221</u> | <u>8,858</u> | <u>67,063</u> | <u>(12,501)</u> |

7. NET GAIN ON OTHER FINANCIAL INVESTMENTS

| | For the year ended 31 December | | | For the 9 months ended 30 September | |
|---|-----------------------------------|---------------|----------------|--|----------------|
| | 2012 | 2013 | 2014 | 2014 | 2015 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 (Unaudited) | HK\$'000 |
| Net gain from disposal of available-for-sale securities | 11,839 | 31,292 | 93,642 | 57,482 | 135,298 |
| Others | 4,762 | 21,204 | 28,888 | 32,679 | 47,584 |
| | <u>16,601</u> | <u>52,496</u> | <u>122,530</u> | <u>90,161</u> | <u>182,882</u> |

8. OTHER OPERATING INCOME

| | For the year ended 31 December | | | For the 9 months ended 30 September | |
|--|-----------------------------------|---------------|---------------|--|---------------|
| | 2012 | 2013 | 2014 | 2014 | 2015 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 (Unaudited) | HK\$'000 |
| Dividend income from investment in securities | 6,940 | 7,975 | 9,345 | 5,592 | 6,336 |
| —unlisted investments | 40,881 | 45,545 | 49,846 | 36,619 | 27,505 |
| Gross rental income from investment properties | (2,066) | (2,906) | (3,063) | (2,418) | (2,144) |
| Less: Outgoings in respect of investment properties .. | 11,354 | 24,856 | 14,680 | 12,203 | 4,508 |
| Others | <u>57,109</u> | <u>75,470</u> | <u>70,808</u> | <u>51,996</u> | <u>36,205</u> |

Included in the “Outgoings in respect of investment properties” is HK\$136,000 (period ended 30 September 2014: HK\$30,000 (unaudited); year ended 31 December 2014: HK\$34,000; year ended 31 December 2013: HK\$163,000; year ended 31 December 2012: HK\$177,000) of direct operating expenses related to investment properties that were not let during the period.

Contingent rent included in the “Gross rental income from investment properties” amounted to HK\$347,000 for the period (period ended 30 September 2014: HK\$327,000 (unaudited); year ended 31 December 2014: HK\$454,000; year ended 31 December 2013: HK\$346,000; year ended 31 December 2012: HK\$112,000).

9. NET CHARGE OF IMPAIRMENT ALLOWANCES

| | For the year ended 31 December | | | For the 9 months ended 30 September | |
|---|-----------------------------------|------------------|------------------|--|------------------|
| | 2012 | 2013 | 2014 | 2014 | 2015 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 (Unaudited) | HK\$'000 |
| Advances to customers | | | | | |
| Individually assessed | | | | | |
| —new allowances | (155,261) | (222,187) | (848,826) | (742,626) | (907,155) |
| —releases | 5,185 | 11,572 | 23,909 | 30,674 | 226,857 |
| —recoveries | 13,523 | 51,936 | 5,984 | 5,420 | 14,007 |
| Net charge of individually assessed loan impairment allowances (Note 21) | <u>(136,553)</u> | <u>(158,679)</u> | <u>(818,933)</u> | <u>(706,532)</u> | <u>(666,291)</u> |
| Collectively assessed | | | | | |
| —new allowances | (260,395) | (211,288) | (163,900) | (84,473) | (60,042) |
| —releases | — | — | 78,348 | — | 221,522 |
| —recoveries | — | — | 191 | 144 | 709 |
| Net (charge)/reversal of collectively assessed loan impairment allowances (Note 21) | <u>(260,395)</u> | <u>(211,288)</u> | <u>(85,361)</u> | <u>(84,329)</u> | <u>162,189</u> |
| Net charge of impairment allowances | <u>(396,948)</u> | <u>(369,967)</u> | <u>(904,294)</u> | <u>(790,861)</u> | <u>(504,102)</u> |

10. OPERATING EXPENSE

| | For the year ended 31 December | | | For the 9 months ended 30 September | |
|---|-----------------------------------|------------------|------------------|--|------------------|
| | 2012 | 2013 | 2014 | 2014 | 2015 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 (Unaudited) | HK\$'000 |
| Staff costs (including directors' emoluments) | | | | | |
| —salaries and other costs | 904,165 | 1,064,036 | 1,092,159 | 821,442 | 830,736 |
| —pension cost | 109,887 | 127,780 | 143,334 | 106,322 | 113,264 |
| | <u>1,014,052</u> | <u>1,191,816</u> | <u>1,235,493</u> | <u>927,764</u> | <u>944,000</u> |
| Premises and equipment expenses (excluding depreciation) | | | | | |
| —rental of premises | 211,026 | 242,896 | 253,337 | 188,890 | 191,003 |
| —information technology | 111,466 | 156,632 | 172,342 | 127,697 | 129,633 |
| —others | 47,921 | 53,375 | 53,176 | 38,079 | 40,166 |
| | <u>370,413</u> | <u>452,903</u> | <u>478,855</u> | <u>354,666</u> | <u>360,802</u> |
| Depreciation | 102,822 | 126,636 | 130,757 | 97,529 | 86,537 |
| Auditor's remuneration | | | | | |
| —audit services | 7,377 | 5,727 | 6,044 | 4,481 | 4,648 |
| —non-audit services | 671 | 199 | 294 | 251 | 164 |
| Other operating expenses | 386,845 | 494,897 | 552,135 | 391,634 | 366,930 |
| | <u>1,882,180</u> | <u>2,272,178</u> | <u>2,403,578</u> | <u>1,776,325</u> | <u>1,763,081</u> |

11. NET GAIN FROM DISPOSAL OF INVESTMENT PROPERTIES

| | For the year ended 31 December | | | For the 9 months ended 30 September | |
|---|-----------------------------------|----------|----------|--|----------------|
| | 2012 | 2013 | 2014 | 2014 | 2015 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 (Unaudited) | HK\$'000 |
| Net gain from disposal of investment properties . . | — | — | — | — | 850,474 |
| | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>850,474</u> |

12. NET GAIN/(LOSS) FROM DISPOSAL OF PROPERTIES, PLANT AND EQUIPMENT

| | For the year ended 31 December | | | For the 9 months ended 30 September | |
|--|-----------------------------------|----------------|----------------|--|----------------|
| | 2012 | 2013 | 2014 | 2014 | 2015 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 (Unaudited) | HK\$'000 |
| Net gain from disposal of premises | 4,109 | — | — | — | 383,594 |
| Net loss from disposal of other fixed assets | (3,894) | (4,609) | (2,380) | (705) | (563) |
| | <u>215</u> | <u>(4,609)</u> | <u>(2,380)</u> | <u>(705)</u> | <u>383,031</u> |

13. TAXATION

Taxation in the income statements represents:

| | For the year ended 31 December | | | For the 9 months ended 30 September | |
|--|-----------------------------------|------------------|------------------|--|------------------|
| | 2012 HK\$'000 | 2013 HK\$'000 | 2014 HK\$'000 | 2014 HK\$'000 (Unaudited) | 2015 HK\$'000 |
| Current tax | | | | | |
| Hong Kong profits tax | | | | | |
| —current year taxation | 365,036 | 439,500 | 435,114 | 332,786 | 328,767 |
| —over-provision in prior years | (7,942) | (6,254) | (5,293) | — | — |
| | <u>357,094</u> | <u>433,246</u> | <u>429,821</u> | <u>332,786</u> | <u>328,767</u> |
| Overseas taxation | | | | | |
| —current year taxation | 71,372 | 179,858 | 230,721 | 212,880 | 34,236 |
| —under/(over) -provision in prior years | 2,863 | (17,010) | 3,747 | 3,796 | (5,373) |
| | <u>431,329</u> | <u>596,094</u> | <u>664,289</u> | <u>549,462</u> | <u>357,630</u> |
| Deferred tax | | | | | |
| Origination and reversal of temporary differences (Note 30) | (15,559) | (68,849) | (49,633) | (80,913) | 71,958 |
| | <u>415,770</u> | <u>527,245</u> | <u>614,656</u> | <u>468,549</u> | <u>429,588</u> |

Hong Kong profits tax has been provided at the rate of 16.5% (2014: 16.5%; 2013: 16.5%; 2012: 16.5%) on the estimated assessable profits arising in Hong Kong for the period. Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries in which the NCB Group operates.

The taxation on the NCB Group's profit before taxation that differs from the theoretical amount that would arise using the taxation rate of Hong Kong is as follows:

| | For the year ended 31 December | | | For the 9 months ended 30 September | |
|--|-----------------------------------|------------------|------------------|--|------------------|
| | 2012 HK\$'000 | 2013 HK\$'000 | 2014 HK\$'000 | 2014 HK\$'000 (Unaudited) | 2015 HK\$'000 |
| Profit before taxation | <u>2,651,964</u> | <u>3,262,031</u> | <u>3,328,761</u> | <u>2,449,071</u> | <u>3,808,733</u> |
| Calculated at a taxation rate of 16.5% | 437,574 | 538,235 | 549,246 | 404,097 | 628,441 |
| Effect of different taxation rates in other countries | 15,892 | 23,729 | 21,971 | 20,917 | 19,545 |
| Income not subject to taxation | (41,022) | (51,007) | (34,136) | (19,755) | (258,878) |
| Expenses not deductible for taxation purposes | 3,818 | 7,513 | 38,699 | 29,703 | 10,974 |
| Tax losses not recognised | 298 | 1 | 1 | 1 | 1 |
| Utilisation of previously unrecognised tax losses | — | (385) | (14) | (13) | (8) |
| Under/(over)-provision in prior years | (7,942) | (23,264) | (1,546) | 3,796 | (5,373) |
| Foreign withholding tax | 7,152 | 32,423 | 40,435 | 29,803 | 34,886 |
| Taxation charge | <u>415,770</u> | <u>527,245</u> | <u>614,656</u> | <u>468,549</u> | <u>429,588</u> |
| Effective tax rate | <u>15.68%</u> | <u>16.16%</u> | <u>18.47%</u> | <u>19.13%</u> | <u>11.28%</u> |

14. DIVIDENDS

| | For the year ended 31 December 2012 | | For the year ended 31 December 2013 | | For the year ended 31 December 2014 | | For the 9 months ended 30 September 2014 | | For the 9 months ended 30 September 2015 | |
|-----------------------------|--|-------------------|--|-------------------|--|-------------------|---|----------------------------------|---|-------------------|
| | Per share HK\$ | Total HK\$'000 | Per share HK\$ | Total HK\$'000 | Per share HK\$ | Total HK\$'000 | Per share HK\$ (Unaudited) | Total HK\$'000 (Unaudited) | Per share HK\$ | Total HK\$'000 |
| Interim dividend paid | 56 | 392,000 | 77 | 539,000 | 100 | 700,000 | 100 | 700,000 | 77.5 | 542,500 |

On 11 June 2015, the Board declared an interim dividend of HK\$77.5 per ordinary share amounting to HK\$542,500,000, which was paid on 30 June 2015.

On 6 June 2014, the Board declared an interim dividend of HK\$100 per ordinary share amounting to HK\$700,000,000, which was paid on 27 June 2014.

On 12 December 2013, the Board declared an interim dividend of HK\$77 per ordinary share for 2013 amounting to HK\$539,000,000.

On 12 June 2012, the Board declared an interim dividend of HK\$56 per ordinary share for 2012 accounting to HK\$ 392,000,000.

15. RETIREMENT BENEFIT COSTS

Defined contribution schemes for the NCB Group's employees are ORSO schemes exempted under the MPF Schemes Ordinance and the BOC-Prudential Easy Choice MPF Scheme. Under the ORSO schemes, employees make monthly contributions to the ORSO schemes equal to 5% of their basic salaries, while the employer makes monthly contributions equal to 5% to 15% of the employees' monthly basic salaries, depending on years of service. The employees are entitled to receive 100% of the employer's contributions upon retirement, early retirement or termination of employment after completing 10 years of service. Employees with 3 to 9 years of service are entitled to receive the employer's contributions at a scale ranging from 30% to 90% upon termination of employment for other reasons other than summary dismissal. All employer's contributions received by employee are subject to MPF Schemes Ordinance.

With the implementation of the MPF Schemes Ordinance on 1 December 2000, the NCB Group also participates in the BOC-Prudential Easy Choice MPF Scheme, of which the trustee is BOCI-Prudential Trustee Limited and the investment manager is BOCI-Prudential Asset Management Limited, which are related parties of Nanyang Bank.

The NCB Group's total contributions made to the ORSO schemes for the period ended 30 September 2015 amounted to approximately HK\$29,746,000 (30 September 2014: approximately HK\$28,550,000 (unaudited); 31 December 2014: approximately HK\$38,204,000; 31 December 2013: approximately HK\$37,267,000; 31 December 2012: approximately HK\$36,771,000), after a deduction of forfeited contributions of approximately HK\$744,000 (30 September 2014: approximately HK\$405,000 (unaudited); 31 December 2014: approximately HK\$699,000; 31 December 2013: approximately HK\$358,000; 31 December 2012: approximately HK\$318,000). For the MPF Scheme, the NCB Group contributed approximately HK\$5,958,000 (30 September 2014: approximately HK\$5,084,000 (unaudited); 31 December 2014: approximately HK\$6,950,000; 31 December 2013: approximately HK\$5,976,000; 31 December 2012: approximately HK\$5,375,000) for the period ended 30 September 2015.

16. DIRECTORS', SENIOR MANAGEMENT'S AND KEY PERSONNEL'S EMOLUMENTS**(a) Directors' emoluments**

Details of the emoluments paid to or receivable by the directors of Nanyang Bank in respect of their services rendered for Nanyang Bank and managing the subsidiaries within the NCB Group during the year/period are as follows:

| | For the year ended 31 December | | | For the 9 months ended 30 September | |
|------------------------|-----------------------------------|------------------|------------------|--|------------------|
| | 2012 HK\$'000 | 2013 HK\$'000 | 2014 HK\$'000 | 2014 HK\$'000 (Unaudited) | 2015 HK\$'000 |
| Fees | 6,515 | 6,045 | 2,674 | 2,285 | 918 |
| Other emoluments | 10,426 | 8,063 | 8,516 | 6,374 | 6,526 |
| | <u>16,941</u> | <u>14,108</u> | <u>11,190</u> | <u>8,659</u> | <u>7,444</u> |

(b) Remuneration for Senior Management and Key Personnel under CG-5

Pursuant to CG-5 Guideline on a Sound Remuneration System issued by the HKMA, details of the remuneration for senior management and key personnel of the NCB Group during the year/period are as follows:

Remuneration awarded during the year

| | For the year ended 31 December 2012 | | | | | |
|-----------------------|-------------------------------------|------------|---------------|---------------|----------|--------------|
| | Senior Management | | | Key Personnel | | |
| | Non-deferred | Deferred | Total | Non-deferred | Deferred | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Fixed remuneration | | | | | | |
| Cash | 9,530 | — | 9,530 | 5,215 | — | 5,215 |
| Variable remuneration | | | | | | |
| Cash | 3,740 | 500 | 4,240 | 1,961 | — | 1,961 |
| Total | <u>13,270</u> | <u>500</u> | <u>13,770</u> | <u>7,176</u> | <u>—</u> | <u>7,176</u> |

| | For the year ended 31 December 2013 | | | | | |
|-----------------------|-------------------------------------|------------|---------------|---------------|----------|--------------|
| | Senior Management | | | Key Personnel | | |
| | Non-deferred | Deferred | Total | Non-deferred | Deferred | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Fixed remuneration | | | | | | |
| Cash | 10,005 | — | 10,005 | 5,552 | — | 5,552 |
| Variable remuneration | | | | | | |
| Cash | 3,939 | 531 | 4,470 | 2,068 | — | 2,068 |
| Total | <u>13,944</u> | <u>531</u> | <u>14,475</u> | <u>7,620</u> | <u>—</u> | <u>7,620</u> |

| | For the year ended 31 December 2014 | | | | | |
|-----------------------|-------------------------------------|------------|---------------|---------------|----------|--------------|
| | Senior Management | | | Key Personnel | | |
| | Non-deferred | Deferred | Total | Non-deferred | Deferred | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Fixed remuneration | | | | | | |
| Cash | 10,336 | — | 10,336 | 6,766 | — | 6,766 |
| Variable remuneration | | | | | | |
| Cash | 4,147 | 542 | 4,689 | 2,142 | — | 2,142 |
| Total | <u>14,483</u> | <u>542</u> | <u>15,025</u> | <u>8,908</u> | <u>—</u> | <u>8,908</u> |

| | For the 9 months ended 30 September 2014 | | | | | |
|-----------------------|--|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | Senior Management | | | Key Personnel | | |
| | Non-deferred | Deferred | Total | Non-deferred | Deferred | Total |
| | HK\$'000 (Unaudited) | HK\$'000 (Unaudited) | HK\$'000 (Unaudited) | HK\$'000 (Unaudited) | HK\$'000 (Unaudited) | HK\$'000 (Unaudited) |
| Fixed remuneration | | | | | | |
| Cash | 7,734 | — | 7,734 | 5,095 | — | 5,095 |
| Variable remuneration | | | | | | |
| Cash | 3,110 | 407 | 3,517 | 1,563 | — | 1,563 |
| Total | <u>10,844</u> | <u>407</u> | <u>11,251</u> | <u>6,658</u> | <u>—</u> | <u>6,658</u> |

| | For the 9 months ended 30 September 2015 | | | | | |
|-----------------------|--|----------------------|-------------------|------------------------------|----------------------|-------------------|
| | Senior Management | | | Key Personnel | | |
| | Non- deferred HK\$'000 | Deferred HK\$'000 | Total HK\$'000 | Non- deferred HK\$'000 | Deferred HK\$'000 | Total HK\$'000 |
| Fixed remuneration | | | | | | |
| Cash | 8,011 | — | 8,011 | 4,604 | — | 4,604 |
| Variable remuneration | | | | | | |
| Cash | 3,006 | 393 | 3,399 | 1,351 | — | 1,351 |
| Total | <u>11,017</u> | <u>393</u> | <u>11,410</u> | <u>5,955</u> | <u>—</u> | <u>5,955</u> |

17. CASH AND BALANCES WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

| | At 31 December | | | At 30 September |
|---|-------------------|-------------------|-------------------|-------------------|
| | 2012 HK\$'000 | 2013 HK\$'000 | 2014 HK\$'000 | 2015 HK\$'000 |
| Cash | 651,229 | 883,699 | 593,355 | 615,857 |
| Balances with central banks | 13,139,030 | 17,068,323 | 18,694,761 | 11,030,557 |
| Balances with banks and other financial institutions | 13,263,797 | 13,858,127 | 17,112,902 | 6,651,381 |
| Placements with banks and other financial institutions maturing within one month | 13,734,264 | 12,929,170 | 21,881,782 | 29,154,328 |
| | <u>40,788,320</u> | <u>44,739,319</u> | <u>58,282,800</u> | <u>47,452,123</u> |

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | Trading securities | | | | | | Financial assets designated at fair value through profit or loss | | | | | | Total | |
|---------------------------|--------------------|-----------|-----------------|----------|----------------|----------|--|-----------|----------------|-----------|-----------------|-----------|-----------------|----------|
| | At 31 December | | At 30 September | | At 31 December | | At 30 September | | At 31 December | | At 30 September | | At 30 September | |
| | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At fair value | 4,272,358 | 5,899,294 | 3,666,036 | 79,981 | — | — | — | — | — | 4,352,339 | 3,666,036 | 5,899,294 | 3,787,468 | |
| Debt securities | | | | | | | | | | | | | | |
| —Listed in Hong Kong | — | — | — | 264,125 | 260,730 | 255,919 | 255,513 | 264,125 | 260,730 | 255,513 | 255,513 | 255,919 | 255,513 | |
| —Listed outside Hong Kong | — | — | — | 508,696 | 237,927 | — | — | 508,696 | 237,927 | — | — | — | — | |
| —Unlisted | — | — | — | 772,821 | 498,657 | 255,919 | 255,513 | 772,821 | 498,657 | 772,821 | 498,657 | 255,919 | 255,513 | |
| Total | 4,272,358 | 5,899,294 | 3,666,036 | 852,802 | 498,657 | 255,919 | 255,513 | 5,125,160 | 4,164,693 | 5,125,160 | 4,164,693 | 6,155,213 | 4,042,981 | |

Financial assets at fair value through profit or loss are analysed by type of issuer as follows:

| | At 31 December | | | At |
|-------------------------------|------------------|------------------|------------------|------------------|
| | 2012 | 2013 | 2014 | 30 September |
| | HK\$'000 | HK\$'000 | HK\$'000 | 2015 |
| Sovereigns | 4,271,737 | 3,665,412 | 5,899,294 | 3,787,468 |
| Public sector entities* | 621 | 624 | — | — |
| Corporate entities | 852,802 | 498,657 | 255,919 | 255,513 |
| | <u>5,125,160</u> | <u>4,164,693</u> | <u>6,155,213</u> | <u>4,042,981</u> |

* Included financial assets at fair value through profit or loss of Nil (2014: Nil; 2013: HK\$624,000; 2012: HK\$621,000) which are eligible to be classified as public sector entities under the Banking (Capital) Rules.

Financial assets at fair value through profit or loss are analysed as follows:

| | At 31 December | | | At |
|----------------------|------------------|------------------|------------------|------------------|
| | 2012 | 2013 | 2014 | 30 September |
| | HK\$'000 | HK\$'000 | HK\$'000 | 2015 |
| Treasury bills | 4,271,737 | 3,665,412 | 5,899,294 | 3,787,468 |
| Others | 853,423 | 499,281 | 255,919 | 255,513 |
| | <u>5,125,160</u> | <u>4,164,693</u> | <u>6,155,213</u> | <u>4,042,981</u> |

19. DERIVATIVE FINANCIAL INSTRUMENTS

The NCB Group enters into the following exchange rate, interest rate, commodity and equity related derivative financial instrument contracts for trading and risk management purposes:

Currency forwards represent commitments to purchase and sell foreign currency on a future date.

Currency, interest rate and precious metal swaps are commitments to exchange one set of cash flows or commodity for another. Swaps result in an exchange of currencies, interest rates (for example, fixed rate for floating rate), or precious metals (for example, gold swaps) or a combination of all these (for example, cross-currency interest rate swaps). Except for certain currency swap contracts, no exchange of principal takes place.

Foreign currency options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of the financial instrument at a predetermined price. In consideration for the assumption of foreign exchange risk, the seller receives a premium from the purchaser. Options are negotiated over-the-counter (“OTC”) between the NCB Group and its counterparty.

The contract/notional amounts and fair values of derivative financial instruments held by the NCB Group are set out in the following tables. The contract/notional amounts of these instruments indicate the volume of transactions outstanding at the balance sheet dates and certain of them provide a basis for comparison with fair value instruments recognised on the balance sheet. However, they do not necessarily indicate the amounts of future cash flows involved or the current fair values of the instruments and, therefore, do not indicate the NCB Group's exposure to credit or market risks. The derivative financial instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in

foreign exchange rates, market interest rates, metal prices or equity prices relative to their terms. The aggregate fair values of derivative financial instruments can fluctuate significantly from time to time.

The NCB Group trades OTC derivative products mainly for customer business. The NCB Group strictly follows risk management policies and requirement in providing derivative products to our customers and in trading of derivative products in the interbank market.

Derivatives are also used to manage the interest rate risk of the banking book. A derivative instrument must be included in the approved product list before any transactions for that instrument can be made. There are limits to control the notional amount of exposure arising from derivative transactions, and the maximum tenor of the deal is set. Every derivative transaction must be input into the relevant system for settlement, mark-to-market revaluation, reporting and control.

The following tables summarise the contract/notional amounts of each class of derivative financial instrument:

| | At 31 December 2012 | | |
|--------------------------|---------------------|--|-------------------|
| | Trading | Not qualified for hedge accounting | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Exchange rate contracts | | | |
| Spot and forwards | 23,183,476 | — | 23,183,476 |
| Swaps | 19,932,539 | — | 19,932,539 |
| Foreign currency options | | | |
| —Options purchased | 29,589 | — | 29,589 |
| —Options written | 29,589 | — | 29,589 |
| | <u>43,175,193</u> | <u>—</u> | <u>43,175,193</u> |
| Interest rate contracts | | | |
| Swaps | 35,851,341 | 720,082 | 36,571,423 |
| Commodity contracts | 142,395 | — | 142,395 |
| Equity contracts | 47,104 | — | 47,104 |
| Other contracts | 4,496 | — | 4,496 |
| Total | <u>79,220,529</u> | <u>720,082</u> | <u>79,940,611</u> |
| | | | |
| | At 31 December 2013 | | |
| | Trading | Not qualified for hedge accounting | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Exchange rate contracts | | | |
| Spot and forwards | 13,620,622 | — | 13,620,622 |
| Swaps | 27,813,930 | — | 27,813,930 |
| Foreign currency options | | | |
| —Options purchased | 22,156 | — | 22,156 |
| —Options written | 22,156 | — | 22,156 |
| | <u>41,478,864</u> | <u>—</u> | <u>41,478,864</u> |
| Interest rate contracts | | | |
| Swaps | 43,343,986 | 464,465 | 43,808,451 |
| Commodity contracts | 211,761 | — | 211,761 |
| Other contracts | 3,837 | — | 3,837 |
| Total | <u>85,038,448</u> | <u>464,465</u> | <u>85,502,913</u> |

| | At 31 December 2014 | | |
|---------------------------|----------------------|--|-------------------|
| | Trading | Not qualified for hedge accounting | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Exchange rate contracts | | | |
| Spot and forwards | 13,828,777 | — | 13,828,777 |
| Swaps | 28,700,798 | — | 28,700,798 |
| Foreign currency options | | | |
| —Options purchased | 5,994 | — | 5,994 |
| —Options written | 5,994 | — | 5,994 |
| | <u>42,541,563</u> | <u>—</u> | <u>42,541,563</u> |
| Interest rate contracts | | | |
| Swaps | 24,589,557 | 231,885 | 24,821,442 |
| Commodity contracts | 684,545 | — | 684,545 |
| Equity contracts | 260,297 | — | 260,297 |
| Total | <u>68,075,962</u> | <u>231,885</u> | <u>68,307,847</u> |
| | | | |
| | At 30 September 2015 | | |
| | Trading | Not qualified for hedge accounting | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Exchange rate contracts | | | |
| Spot and forwards | 13,280,559 | — | 13,280,559 |
| Swaps | 34,422,614 | — | 34,422,614 |
| Foreign currency options | | | |
| —Options purchased | 11,981 | — | 11,981 |
| —Options written | 11,981 | — | 11,981 |
| | <u>47,727,135</u> | <u>—</u> | <u>47,727,135</u> |
| Interest rate contracts | | | |
| Swaps | 40,177,005 | 231,726 | 40,408,731 |
| Commodity contracts | 327,870 | — | 327,870 |
| Total | <u>88,232,010</u> | <u>231,726</u> | <u>88,463,736</u> |

The table below gives the credit risk-weighted amounts of the above derivative financial instruments and is prepared with reference to the Completion Instructions for the HKMA return of capital adequacy ratio.

| | At 31 December | | | At 30 September |
|--------------------------|----------------|----------------|----------------|-----------------|
| | 2012 | 2013 | 2014 | 2015 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Exchange rate contracts | | | | |
| Forwards | 174,157 | 196,207 | 118,792 | 98,487 |
| Swaps | 77,605 | 88,727 | 74,363 | 128,273 |
| Foreign currency options | | | | |
| —Options purchased | — | — | 61 | 55 |
| | <u>251,762</u> | <u>284,934</u> | <u>193,216</u> | <u>226,815</u> |
| Interest rate contracts | | | | |
| Swaps | 31,045 | 35,998 | 19,156 | 15,270 |
| | <u>2,809</u> | <u>—</u> | <u>—</u> | <u>—</u> |
| Equity contracts | 1,173 | — | 8,273 | — |
| Total | <u>286,789</u> | <u>320,932</u> | <u>220,645</u> | <u>242,085</u> |

The credit risk-weighted amounts are calculated in accordance with the Banking (Capital) Rules. The amounts are dependent upon the status of the counterparty and the maturity characteristics of each type of contract.

The total fair values of derivatives subject to valid bilateral netting agreements for the NCB Group amounted to HK\$83,512,000 (31 December 2014: HK\$48,045,000; 31 December 2013: Nil; 31 December 2012: Nil), and the effect of valid bilateral netting agreements for the NCB Group amounted to HK\$38,942,000 (31 December 2014: HK\$16,832,000; 31 December 2013: Nil; 31 December 2012: Nil).

20. ADVANCES AND OTHER ACCOUNTS

| | At 31 December | | | At 30 September |
|------------------------------|--------------------|--------------------|--------------------|--------------------|
| | 2012 | 2013 | 2014 | 2015 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Personal loans and advances | 22,002,049 | 26,727,594 | 31,455,884 | 34,189,593 |
| Corporate loans and advances | 109,151,060 | 116,814,449 | 118,046,372 | 127,001,564 |
| Advances to customers* | 131,153,109 | 143,542,043 | 149,502,256 | 161,191,157 |
| Loan impairment allowances | | | | |
| —Individually assessed | (220,593) | (280,913) | (731,598) | (713,642) |
| —Collectively assessed | (969,449) | (1,187,015) | (1,238,522) | (977,103) |
| | <u>129,963,067</u> | <u>142,074,115</u> | <u>147,532,136</u> | <u>159,500,412</u> |
| Trade bills | 8,069,618 | 13,242,636 | 16,371,563 | 11,406,959 |
| Total | <u>138,032,685</u> | <u>155,316,751</u> | <u>163,903,699</u> | <u>170,907,371</u> |

As at 30 September 2015, advances to customers of the NCB Group included accrued interest of HK\$384,559,000 (31 December 2014: HK\$367,805,000; 31 December 2013: HK\$326,587,000; 31 December 2012: HK\$522,723,000).

As at 30 September 2015, no impairment allowance was made in respect of trade bills (31 December 2014: Nil; 31 December 2013: Nil; 31 December 2012: Nil.).

* Included advances to customers of the NCB Group denominated in HK dollars of HK\$75,710,598,000 (31 December 2014: HK\$71,075,114,000; 31 December 2013: HK\$64,930,071,000; 31 December 2012: 65,256,992,000) and US dollars equivalent to HK\$39,879,433,000 (31 December 2014: HK\$38,535,511,000; 31 December 2013: HK\$34,374,429,000; 31 December 2012: HK\$27,860,495,000).

21. LOAN IMPAIRMENT ALLOWANCES

| | At 31 December 2012 | | | | | |
|--|-----------------------|----------------|----------------|-----------------------|------------------|------------------|
| | Individual assessment | | | Collective assessment | | |
| | Personal | Corporate | Total | Personal | Corporate | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 January 2012 | 4,566 | 83,049 | 87,615 | 42,177 | 662,955 | 705,132 |
| Charged to income statements | 2,979 | 133,574 | 136,553 | 4,979 | 255,416 | 260,395 |
| Loans written off during the year as uncollectible | (38) | (9,796) | (9,834) | — | — | — |
| Recoveries | 1,071 | 12,452 | 13,523 | — | — | — |
| Unwind of discount on impairment allowances | (377) | (7,702) | (8,079) | — | — | — |
| Exchange difference | 104 | 711 | 815 | 45 | 3,877 | 3,922 |
| At 31 December 2012 | <u>8,305</u> | <u>212,288</u> | <u>220,593</u> | <u>47,201</u> | <u>922,248</u> | <u>969,449</u> |
| | At 31 December 2013 | | | | | |
| | Individual assessment | | | Collective assessment | | |
| | Personal | Corporate | Total | Personal | Corporate | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 January 2013 | 8,305 | 212,288 | 220,593 | 47,201 | 922,248 | 969,449 |
| Charged to income statements | 3,645 | 155,034 | 158,679 | 36,935 | 174,353 | 211,288 |
| Loans written off during the year as uncollectible | — | (153,427) | (153,427) | (6,747) | — | (6,747) |
| Recoveries | 1,493 | 50,443 | 51,936 | — | — | — |
| Unwind of discount on impairment allowances | (371) | (2,223) | (2,594) | — | — | — |
| Exchange difference | 127 | 5,599 | 5,726 | 456 | 12,569 | 13,025 |
| At 31 December 2013 | <u>13,199</u> | <u>267,714</u> | <u>280,913</u> | <u>77,845</u> | <u>1,109,170</u> | <u>1,187,015</u> |
| | At 31 December 2014 | | | | | |
| | Individual assessment | | | Collective assessment | | |
| | Personal | Corporate | Total | Personal | Corporate | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 January 2014 | 13,199 | 267,714 | 280,913 | 77,845 | 1,109,170 | 1,187,015 |
| Charged to income statements | 7,520 | 811,413 | 818,933 | 37,933 | 47,428 | 85,361 |
| Loans written off during the year as uncollectible | (4,234) | (357,425) | (361,659) | (17,193) | — | (17,193) |
| Recoveries | 1,883 | 4,101 | 5,984 | 191 | — | 191 |
| Unwind of discount on impairment allowances | — | (211) | (211) | — | — | — |
| Exchange difference | (1,070) | (11,292) | (12,362) | 88 | (16,940) | (16,852) |
| At 31 December 2014 | <u>17,298</u> | <u>714,300</u> | <u>731,598</u> | <u>98,864</u> | <u>1,139,658</u> | <u>1,238,522</u> |

| | At 30 September 2015 | | | | | |
|--|-----------------------|----------------|----------------|-----------------------|----------------|----------------|
| | Individual assessment | | | Collective assessment | | |
| | Personal | Corporate | Total | Personal | Corporate | Total |
| HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | |
| At 1 January 2015 | 17,298 | 714,300 | 731,598 | 98,864 | 1,139,658 | 1,238,522 |
| Charged/(credited) to income statements | 15,063 | 651,228 | 666,291 | 59,333 | (221,522) | (162,189) |
| Loans written off during the year as uncollectible | (8,660) | (668,118) | (676,778) | (90,551) | — | (90,551) |
| Recoveries | 1,335 | 12,672 | 14,007 | 709 | — | 709 |
| Unwind of discount on impairment allowances | — | (973) | (973) | — | — | — |
| Exchange difference | (697) | (19,806) | (20,503) | (2,302) | (7,086) | (9,388) |
| At 30 September 2015 | <u>24,339</u> | <u>689,303</u> | <u>713,642</u> | <u>66,053</u> | <u>911,050</u> | <u>977,103</u> |

22. INVESTMENT IN SECURITIES

| | At 31 December | | | At 30 September |
|--|-------------------|-------------------|-------------------|-------------------|
| | 2012 | 2013 | 2014 | 2015 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| (a) Available-for-sale securities | | | | |
| Debt securities, at fair value | | | | |
| —Listed in Hong Kong | 3,125,220 | 3,479,005 | 2,118,557 | 3,041,255 |
| —Listed outside Hong Kong | 5,058,760 | 4,580,287 | 3,613,234 | 3,127,325 |
| | 8,183,980 | 8,059,292 | 5,731,791 | 6,168,580 |
| —Unlisted | 24,550,772 | 24,202,495 | 28,770,098 | 34,088,360 |
| | <u>32,734,752</u> | <u>32,261,787</u> | <u>34,501,889</u> | <u>40,256,940</u> |
| Certificates of deposit, at fair value | | | | |
| —Listed outside Hong Kong | 304,946 | 260,416 | 205,215 | 180,443 |
| —Unlisted | 5,265,017 | 7,416,469 | 7,692,470 | 9,237,455 |
| | <u>5,569,963</u> | <u>7,676,885</u> | <u>7,897,685</u> | <u>9,417,898</u> |
| Equity securities, at fair value | | | | |
| —Unlisted | 56,146 | 63,965 | 75,766 | 3,407 |
| | <u>38,360,861</u> | <u>40,002,637</u> | <u>42,475,340</u> | <u>49,678,245</u> |
| (b) Held-to-maturity securities | | | | |
| Debt securities, at amortised cost | | | | |
| —Listed outside Hong Kong | — | — | 49,148 | 39,565 |
| —Unlisted | 1,006,783 | 585,442 | 2,569,242 | 2,469,575 |
| Certificates of deposit, at amortised cost | | | | |
| —Unlisted | 464,743 | — | — | — |
| | <u>1,471,526</u> | <u>585,442</u> | <u>2,618,390</u> | <u>2,509,140</u> |
| (c) Loans and receivables | | | | |
| Unlisted, at amortised cost | 1,157,262 | 1,684,064 | 2,074,594 | 953,573 |
| Total | <u>40,989,649</u> | <u>42,272,143</u> | <u>47,168,324</u> | <u>53,140,958</u> |
| Market value of listed held-to-maturity securities | | | | |
| | <u>—</u> | <u>—</u> | <u>48,095</u> | <u>40,465</u> |

Investment in securities is analysed by type of issuer as follows:

| At 31 December 2012 | | | | |
|--|--------------------------------------|------------------------------------|--------------------------|-------------------|
| | Available- for-sale securities | Held-to- maturity securities | Loans and receivables | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Sovereigns | 14,408,938 | 884,701 | — | 15,293,639 |
| Public sector entities* | 506,992 | — | — | 506,992 |
| Banks and other financial institutions | 16,454,503 | 465,639 | — | 16,920,142 |
| Corporate entities | 6,990,428 | 121,186 | 1,157,262 | 8,268,876 |
| | <u>38,360,861</u> | <u>1,471,526</u> | <u>1,157,262</u> | <u>40,989,649</u> |
| At 31 December 2013 | | | | |
| | Available- for-sale securities | Held-to- maturity securities | Loans and receivables | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Sovereigns | 9,942,492 | 585,144 | — | 10,527,636 |
| Public sector entities* | 604,814 | — | — | 604,814 |
| Banks and other financial institutions | 20,094,280 | 298 | 850,686 | 20,945,264 |
| Corporate entities | 9,361,051 | — | 833,378 | 10,194,429 |
| | <u>40,002,637</u> | <u>585,442</u> | <u>1,684,064</u> | <u>42,272,143</u> |
| At 31 December 2014 | | | | |
| | Available- for-sale securities | Held-to- maturity securities | Loans and receivables | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Sovereigns | 11,981,667 | 1,778,199 | — | 13,759,866 |
| Public sector entities* | 233,982 | 130,399 | — | 364,381 |
| Banks and other financial institutions | 21,682,684 | 596,741 | — | 22,279,425 |
| Corporate entities | 8,577,007 | 113,051 | 2,074,594 | 10,764,652 |
| | <u>42,475,340</u> | <u>2,618,390</u> | <u>2,074,594</u> | <u>47,168,324</u> |
| At 30 September 2015 | | | | |
| | Available- for-sale securities | Held-to- maturity securities | Loans and receivables | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Sovereigns | 12,896,017 | 1,731,700 | — | 14,627,717 |
| Public sector entities* | 148,334 | 106,039 | — | 254,373 |
| Banks and other financial institutions | 27,039,976 | 579,647 | 354,538 | 27,974,161 |
| Corporate entities | 9,593,918 | 91,754 | 599,035 | 10,284,707 |
| | <u>49,678,245</u> | <u>2,509,140</u> | <u>953,573</u> | <u>53,140,958</u> |

* Included available-for-sale securities of HK\$148,334,000 (31 December 2014: HK\$233,982,000; 31 December 2013: HK\$604,814,000; 31 December 2012: HK\$506,992,000) and held-to-maturity securities of HK\$106,039,000 (31 December 2014: HK\$130,399,000; 31 December 2013: Nil; 31 December 2012: Nil) which are eligible to be classified as public sector entities under the Banking (Capital) Rules.

The movements in investment in securities are summarised as follows:

| | At 31 December 2012 | | |
|---|--------------------------------------|------------------------------------|--------------------------|
| | Available- for-sale securities | Held-to- maturity securities | Loans and receivables |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 January 2012 | 26,755,985 | 1,550,700 | 1,875,919 |
| Additions | 127,753,821 | 2,086,927 | 1,367,099 |
| Disposals, redemptions and maturity | (116,673,519) | (2,200,797) | (2,143,510) |
| Amortisation | 50,460 | 7,575 | 14,195 |
| Change in fair value | 328,116 | — | — |
| Reclassification | — | — | — |
| Exchange difference | 145,998 | 27,121 | 43,559 |
| At 31 December 2012 | <u>38,360,861</u> | <u>1,471,526</u> | <u>1,157,262</u> |
| | At 31 December 2013 | | |
| | Available- for-sale securities | Held-to- maturity securities | Loans and receivables |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 January 2013 | 38,360,861 | 1,471,526 | 1,157,262 |
| Additions | 56,982,757 | — | 2,305,726 |
| Disposals, redemptions and maturity | (54,005,892) | (908,005) | (1,828,041) |
| Amortisation | (32,171) | (5,142) | 6,548 |
| Change in fair value | (624,520) | — | — |
| Reclassification | — | — | — |
| Exchange difference | (678,398) | 27,063 | 42,569 |
| At 31 December 2013 | <u>40,002,637</u> | <u>585,442</u> | <u>1,684,064</u> |
| | At 31 December 2014 | | |
| | Available- for-sale securities | Held-to- maturity securities | Loans and receivables |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 January 2014 | 40,002,637 | 585,442 | 1,684,064 |
| Additions | 53,708,654 | 2,317,602 | 2,664,630 |
| Disposals, redemptions and maturity | (50,504,041) | (561,214) | (2,301,827) |
| Amortisation | 1,053 | 47,288 | 42,432 |
| Change in fair value | 557,098 | — | — |
| Reclassification | (263,152) | 263,152 | — |
| Exchange difference | (1,026,909) | (33,880) | (14,705) |
| At 31 December 2014 | <u>42,475,340</u> | <u>2,618,390</u> | <u>2,074,594</u> |
| | At 30 September 2015 | | |
| | Available- for-sale securities | Held-to- maturity securities | Loans and receivables |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 January 2015 | 42,475,340 | 2,618,390 | 2,074,594 |
| Additions | 44,942,460 | — | 1,800,033 |
| Disposals, redemptions and maturity | (36,730,767) | — | (2,848,955) |
| Amortisation | 124,858 | (15,126) | (40,764) |
| Change in fair value | 221,436 | — | — |
| Reclassification | — | — | — |
| Exchange difference | (1,355,082) | (94,124) | (31,335) |
| At 30 September 2015 | <u>49,678,245</u> | <u>2,509,140</u> | <u>953,573</u> |

The NCB Group reclassified certain debt securities with fair value of HK\$263,152,000 out of available-for-sale category into held-to-maturity category during the year 2014 (2013: Nil; 2012: Nil). The NCB Group had the intention and ability to hold these reclassified debt securities until maturity at the date of reclassification.

Available-for-sale and held-to-maturity securities are analysed as follows:

| | Available-for-sale securities | | | | Held-to-maturity securities | | | |
|-------------------------------|-------------------------------|-------------------|-------------------|----------------------|-----------------------------|------------------|------------------|----------------------|
| | 2012 | 31 December 2013 | 2014 | At 30 September 2015 | 2012 | 31 December 2013 | 2014 | At 30 September 2015 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Treasury bills | 13,385,213 | 8,447,909 | 12,699,355 | 14,579,540 | 884,701 | 585,144 | 2,374,940 | 2,311,347 |
| Certificates of deposit | 5,569,963 | 7,676,885 | 7,897,685 | 9,417,898 | 464,743 | — | — | — |
| Others | 19,405,685 | 23,877,843 | 21,878,300 | 25,680,807 | 122,082 | 298 | 243,450 | 197,793 |
| | <u>38,360,861</u> | <u>40,002,637</u> | <u>42,475,340</u> | <u>49,678,245</u> | <u>1,471,526</u> | <u>585,442</u> | <u>2,618,390</u> | <u>2,509,140</u> |

23. INVESTMENT PROPERTIES

| | At 31 December | | | At |
|--|----------------|----------------|----------------|---------------|
| | 2012 | 2013 | 2014 | 30 September |
| | HK\$'000 | HK\$'000 | HK\$'000 | 2015 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At the beginning of the year/period | 193,899 | 192,450 | 184,261 | 172,712 |
| Additions | — | — | 821 | 2,903 |
| Disposals | — | — | — | (136,326) |
| Depreciation for the period | (1,759) | (1,785) | (1,591) | (862) |
| Reclassification to properties, plant and equipment (Note 24) | — | (7,510) | (9,792) | (2,468) |
| Exchange difference | 310 | 1,106 | (987) | (520) |
| At the end of the year/period | <u>192,450</u> | <u>184,261</u> | <u>172,712</u> | <u>35,439</u> |
| At year/period end | | | | |
| Cost | 223,813 | 214,752 | 198,486 | 56,709 |
| Accumulated depreciation | (31,363) | (30,491) | (25,774) | (21,270) |
| Net book value at year/period end | <u>192,450</u> | <u>184,261</u> | <u>172,712</u> | <u>35,439</u> |

The carrying value of investment properties is analysed based on the remaining terms of the leases as follows:

| | At 31 December | | | At |
|--|----------------|----------------|----------------|---------------|
| | 2012 | 2013 | 2014 | 30 September |
| | HK\$'000 | HK\$'000 | HK\$'000 | 2015 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Held in Hong Kong | | | | |
| On long-term lease (over 50 years) | 151,491 | 143,850 | 144,279 | 10,736 |
| On medium-term lease (10–50 years) | 3,514 | 3,562 | 3,490 | 3,360 |
| Held outside Hong Kong | | | | |
| On medium-term lease (10–50 years) | 37,445 | 36,849 | 24,943 | 21,343 |
| | <u>192,450</u> | <u>184,261</u> | <u>172,712</u> | <u>35,439</u> |

The fair value of investments properties of the NCB Group as of 30 September 2015 was HK\$399,872,000 (31 December 2014: HK\$1,280,271,000; 31 December 2013: HK\$1,174,938,000; 31 December 2012: HK\$1,027,083,000).

The valuations of investment properties and premises were carried out at 30 June 2015, 31 December 2014, 31 December 2013 and 31 December 2012 on the basis of their fair value by an independent firm of chartered surveyors, Savills Valuation and Professional Services Limited, who have among their staff Fellow and Members of The Hong Kong Institute of Surveyors with recent experience in the locations and categories of properties being valued. The NCB Group's Management had discussions with the surveyors on the valuation methods, valuation assumptions and valuation results when the valuation is performed at each interim and annual reporting date. There has been no change in valuation methods during the period/year.

24. PROPERTIES, PLANT AND EQUIPMENT

| | Premises | Equipment, fixtures and fittings | Total |
|---|----------------|--|------------------|
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Net book value at 1 January 2012 | 371,549 | 352,069 | 723,618 |
| Additions | 306,817 | 122,702 | 429,519 |
| Disposals | (783) | (4,504) | (5,287) |
| Depreciation for the year | (7,646) | (93,417) | (101,063) |
| Exchange difference | 608 | 1,350 | 1,958 |
| Net book value at 31 December 2012 | <u>670,545</u> | <u>378,200</u> | <u>1,048,745</u> |
| At 31 December 2012 | | | |
| Cost | 801,716 | 764,461 | 1,566,177 |
| Accumulated depreciation | (131,171) | (386,261) | (517,432) |
| Net book value at 31 December 2012 | <u>670,545</u> | <u>378,200</u> | <u>1,048,745</u> |
| | | | |
| | Premises | Equipment, fixtures and fittings | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Net book value at 1 January 2013 | 670,545 | 378,200 | 1,048,745 |
| Additions | 21,258 | 88,697 | 109,955 |
| Disposals | — | (5,329) | (5,329) |
| Depreciation for the year | (15,598) | (109,253) | (124,851) |
| Reclassification from investment properties (Note 23) | 7,510 | — | 7,510 |
| Exchange difference | 10,386 | 7,544 | 17,930 |
| Net book value at 31 December 2013 | <u>694,101</u> | <u>359,859</u> | <u>1,053,960</u> |
| At 31 December 2013 | | | |
| Cost | 845,320 | 835,072 | 1,680,392 |
| Accumulated depreciation | (151,219) | (475,213) | (626,432) |
| Net book value at 31 December 2013 | <u>694,101</u> | <u>359,859</u> | <u>1,053,960</u> |
| | | | |
| | Premises | Equipment, fixtures and fittings | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Net book value at 1 January 2014 | 694,101 | 359,859 | 1,053,960 |
| Additions | 29,233 | 55,763 | 84,996 |
| Disposals | — | (2,628) | (2,628) |
| Depreciation for the year | (16,211) | (112,955) | (129,166) |
| Reclassification from investment properties (Note 23) | 9,792 | — | 9,792 |
| Exchange difference | (9,456) | (6,852) | (16,308) |
| Net book value at 31 December 2014 | <u>707,459</u> | <u>293,187</u> | <u>1,000,646</u> |
| At 31 December 2014 | | | |
| Cost | 879,209 | 836,325 | 1,715,534 |
| Accumulated depreciation | (171,750) | (543,138) | (714,888) |
| Net book value at 31 December 2014 | <u>707,459</u> | <u>293,187</u> | <u>1,000,646</u> |

| | Premises | Equipment, fixtures and fittings | Total |
|---|------------------|--|------------------|
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Net book value at 1 January 2015 | 707,459 | 293,187 | 1,000,646 |
| Additions | 20,725 | 26,637 | 47,362 |
| Disposals | (13,281) | (586) | (13,867) |
| Depreciation for the year | (12,593) | (73,082) | (85,675) |
| Reclassification from investment properties (Note 23) | 2,468 | — | 2,468 |
| Exchange difference | (7,157) | (4,015) | (11,172) |
| Net book value at 30 September 2015 | <u>697,621</u> | <u>242,141</u> | <u>939,762</u> |
| At 30 September 2015 | | | |
| Cost | 881,469 | 836,224 | 1,717,693 |
| Accumulated depreciation | <u>(183,848)</u> | <u>(594,083)</u> | <u>(777,931)</u> |
| Net book value at 30 September 2015 | <u>697,621</u> | <u>242,141</u> | <u>939,762</u> |

The carrying value of premises is analysed based on the remaining terms of the leases as follows:

| | At 31 December | | | At 30 September |
|--|----------------|----------------|----------------|--------------------|
| | 2012 | 2013 | 2014 | 2015 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Held in Hong Kong | | | | |
| On long-term lease (over 50 years) | 175,883 | 198,482 | 220,009 | 225,978 |
| On medium-term lease (10–50 years) | 142,481 | 142,715 | 144,180 | 141,009 |
| Held outside Hong Kong | | | | |
| On medium-term lease (10–50 years) | 347,167 | 348,915 | 340,994 | 329,585 |
| On short-term lease (less than 10 years) | 5,014 | 3,989 | 2,276 | 1,049 |
| | <u>670,545</u> | <u>694,101</u> | <u>707,459</u> | <u>697,621</u> |

25. OTHER ASSETS

| | At 31 December | | | At 30 September |
|---|------------------|------------------|------------------|--------------------|
| | 2012 | 2013 | 2014 | 2015 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Repossessed assets | 17,792 | 32,234 | 4,664 | 99,632 |
| Precious metals | — | — | 11,691 | 10,974 |
| Accounts receivable and prepayments | 1,424,506 | 3,709,361 | 997,089 | 1,531,638 |
| | <u>1,442,298</u> | <u>3,741,595</u> | <u>1,013,444</u> | <u>1,642,244</u> |

26. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

| | At 31 December | | | At 30 September |
|--|----------------|-----------|-----------|--------------------|
| | 2012 | 2013 | 2014 | 2015 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Trading liabilities | | | | |
| —Short positions in Exchange Fund Bills and Notes | 4,975,073 | 4,433,736 | 4,970,693 | 4,781,296 |

At 30 September 2015, there is no financial liabilities designated at fair value through profit or loss (31 December 2014: Nil; 31 December 2013: Nil; 31 December 2012: Nil).

27. DEPOSITS FROM CUSTOMERS**(a) Deposits from customers**

| | At 31 December | | | At |
|--|----------------|-------------|-------------|--------------|
| | 2012 | 2013 | 2014 | 30 September |
| | HK\$'000 | HK\$'000 | HK\$'000 | 2015 |
| Current, savings and other deposit accounts (per balance sheets) | 185,533,717 | 198,160,417 | 209,633,935 | 216,068,867 |
| Analysed by: | | | | |
| Demand deposits and current accounts | | | | |
| —corporate | 14,545,822 | 15,518,333 | 17,677,460 | 16,169,188 |
| —personal | 2,433,335 | 2,377,882 | 2,519,367 | 2,871,364 |
| | 16,979,157 | 17,896,215 | 20,196,827 | 19,040,552 |
| Savings deposits | | | | |
| —corporate | 16,078,426 | 17,170,844 | 16,662,177 | 23,840,072 |
| —personal | 33,772,779 | 34,145,500 | 34,635,346 | 38,032,130 |
| | 49,851,205 | 51,316,344 | 51,297,523 | 61,872,202 |
| Time, call and notice deposits | | | | |
| —corporate | 58,500,903 | 66,014,321 | 74,389,992 | 83,362,850 |
| —personal | 60,202,452 | 62,933,537 | 63,749,593 | 51,793,263 |
| | 118,703,355 | 128,947,858 | 138,139,585 | 135,156,113 |
| | 185,533,717 | 198,160,417 | 209,633,935 | 216,068,867 |

(b) Hedge accounting

Hedges of net investments in foreign operations

As at 30 September 2015, a proportion of the NCB Group's RMB-denominated deposits from customers of HK\$1,364,486,000 (31 December 2014: HK\$1,393,565,000; 31 December 2013: HK\$1,431,965,000; 31 December 2012: HK\$1,390,910,000) were designated as a hedging instrument to hedge against the net investments in foreign operations.

There were no gains or losses on ineffective portion recognised in the income statements during the relevant period.

28. OTHER ACCOUNTS AND PROVISIONS

| | At 31 December | | | At |
|----------------------------------|----------------|------------|------------|--------------|
| | 2012 | 2013 | 2014 | 30 September |
| | HK\$'000 | HK\$'000 | HK\$'000 | 2015 |
| Other accounts payable | 9,937,324 | 15,163,133 | 15,101,242 | 12,849,517 |
| Provisions | 61,661 | 66,368 | 80,724 | 67,955 |
| | 9,998,985 | 15,229,501 | 15,181,966 | 12,917,472 |

29. ASSETS PLEDGED AS SECURITY

As at 30 September 2015, liabilities of the NCB Group amounting to HK\$5,298,814,000 (31 December 2014: HK\$6,532,608,000; 31 December 2013: HK\$4,148,807,000; 31 December 2012: HK\$4,234,713,000) were secured by assets deposited with central depositories to facilitate settlement

operations. In addition, the liabilities of the NCB Group amounting to HK\$6,802,000 (31 December 2014: HK\$2,090,606,000; 31 December 2013: HK\$1,268,641,000; 31 December 2012: HK\$348,822,000) were secured by debt securities and bills related to sale and repurchase arrangements. The amount of assets pledged by the NCB Group to secure these liabilities was HK\$5,313,290,000 (31 December 2014: HK\$8,677,155,000; 31 December 2013: HK\$5,454,505,000; 31 December 2012: HK\$4,643,771,000) mainly included in "Trading securities", "Available-for-sale securities", "Held-to-maturity securities" and "Trade bills".

30. DEFERRED TAXATION

Deferred tax is recognised in respect of the temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Information in accordance with HKAS 12 "Income Taxes".

The major components of deferred tax (assets)/liabilities recorded in the balance sheet, and the movements are as follows:

| | At 31 December 2012 | | | | | |
|---|------------------------------|----------------------|--------------|-----------------------|-----------------------------|------------------|
| | Accelerated tax depreciation | Property revaluation | Losses | Impairment allowances | Other temporary differences | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 January 2012 | 31,303 | — | — | (146,369) | (21,747) | (136,813) |
| Charged/(credited) to income statements (Note 13) | 3,948 | — | (297) | (18,532) | (678) | (15,559) |
| Charged/(credited) to other comprehensive income | — | — | — | — | 47,000 | 47,000 |
| Exchange difference | (2) | — | — | (194) | 76 | (120) |
| At 31 December 2012 | <u>35,249</u> | <u>—</u> | <u>(297)</u> | <u>(165,095)</u> | <u>24,651</u> | <u>(105,492)</u> |
| | At 31 December 2013 | | | | | |
| | Accelerated tax depreciation | Property revaluation | Losses | Impairment allowances | Other temporary differences | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 January 2013 | 35,249 | — | (297) | (165,095) | 24,651 | (105,492) |
| Charged/(credited) to income statements (Note 13) | 3,669 | — | (115) | (50,716) | (21,687) | (68,849) |
| Charged/(credited) to other comprehensive income | — | — | — | — | (117,817) | (117,817) |
| Exchange difference | (4) | — | — | (2,468) | (975) | (3,447) |
| At 31 December 2013 | <u>38,914</u> | <u>—</u> | <u>(412)</u> | <u>(218,279)</u> | <u>(115,828)</u> | <u>(295,605)</u> |

| | At 31 December 2014 | | | | | |
|---|------------------------------|----------------------|-----------------|-----------------------|-----------------------------|------------------|
| | Accelerated tax depreciation | Property revaluation | Losses | Impairment allowances | Other temporary differences | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 January 2014 | 38,914 | — | (412) | (218,279) | (115,828) | (295,605) |
| Charged/(credited) to income statements (Note 13) | 4,290 | — | 412 | (43,489) | (10,846) | (49,633) |
| Charged/(credited) to other comprehensive income | — | — | — | — | 95,845 | 95,845 |
| Exchange difference | — | — | — | 3,598 | 2,331 | 5,929 |
| At 31 December 2014 | <u>43,204</u> | <u>—</u> | <u>—</u> | <u>(258,170)</u> | <u>(28,498)</u> | <u>(243,464)</u> |
| | At 30 September 2015 | | | | | |
| | Accelerated tax depreciation | Property revaluation | Losses | Impairment allowances | Other temporary differences | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 January 2015 | 43,204 | — | — | (258,170) | (28,498) | (243,464) |
| Charged/(credited) to income statements (Note 13) | (16,076) | — | (35,333) | 61,847 | 61,520 | 71,958 |
| Charged/(credited) to other comprehensive income | — | — | — | — | 24,743 | 24,743 |
| Exchange difference | — | — | 728 | 2,456 | (477) | 2,707 |
| At 30 September 2015 | <u>27,128</u> | <u>—</u> | <u>(34,605)</u> | <u>(193,867)</u> | <u>57,288</u> | <u>(144,056)</u> |

Deferred tax assets and liabilities are offset on an individual entity basis when there is a legal right to set off current tax assets against current tax liabilities and when the deferred taxation relates to the same authority. The following amounts, determined after appropriate offsetting, are shown in the balance sheet:

| | At 31 December | | | At |
|---|------------------|------------------|------------------|------------------|
| | 2012 | 2013 | 2014 | 30 September |
| | HK\$'000 | HK\$'000 | HK\$'000 | 2015 |
| Deferred tax assets | <u>(105,492)</u> | <u>(295,605)</u> | <u>(243,464)</u> | <u>(144,056)</u> |
| | At 31 December | | | At |
| | 2012 | 2013 | 2014 | 30 September |
| | HK\$'000 | HK\$'000 | HK\$'000 | 2015 |
| Deferred tax assets to be recovered after more than twelve months | <u>(179,885)</u> | <u>(185,742)</u> | <u>(221,501)</u> | <u>(173,208)</u> |

The NCB Group has not recognised deferred tax assets in respect of tax losses amounting to HK\$2,515,000 and HK\$2,552,000 as at 30 September 2015 and 31 December 2014 respectively, which is considered unlikely to be utilised and has no expiry date.

The NCB Group has not recognised deferred tax assets in respect of tax losses amounting to HK\$1,260,000 and HK\$4,617,000 as at 31 December 2013 and 31 December 2012 respectively, which is considered unlikely to be utilised. Of the amount, HK\$130,000 and HK\$134,000 as at 31 December 2013 and 31 December 2012 respectively for the NCB Group have no expiry date, meanwhile HK\$1,130,000 and HK\$4,483,000 as at 31 December 2013 and 31 December 2012 respectively for the NCB Group is scheduled to expire within five years.

31. SHARE CAPITAL

| | At 31 December | | | At |
|---|----------------|----------|-----------|--------------|
| | 2012 | 2013 | 2014 | 30 September |
| | HK\$'000 | HK\$'000 | HK\$'000 | 2015 |
| Authorised: | | | | HK\$'000 |
| 7,000,000 ordinary shares of HK\$100 each | 700,000 | 700,000 | — | — |
| Issued and fully paid: | | | | |
| 7,000,000 ordinary shares | 700,000 | 700,000 | 3,144,517 | 3,144,517 |

32. RESERVES

The NCB Group's reserves and the movements therein for the Relevant Periods are presented in the consolidated statements of changes in equity on pages II-7 to II-11 of Appendix II.

33. NOTES TO CONSOLIDATED CASH FLOW STATEMENTS**(a) Reconciliation of operating profit to operating cash (outflow) / inflow before taxation**

| | For the year ended | | | For the 9 months ended | |
|---|--------------------|--------------|-------------|------------------------|--------------|
| | 31 December | | | 30 September | |
| | 2012 | 2013 | 2014 | 2014 | 2015 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| | | | | (Unaudited) | |
| Operating profit | 2,651,749 | 3,266,640 | 3,331,141 | 2,449,776 | 2,575,228 |
| Depreciation | 102,822 | 126,636 | 130,757 | 97,529 | 86,537 |
| Net charge of impairment allowances | 396,948 | 369,967 | 904,294 | 790,861 | 504,102 |
| Unwind of discount on impairment allowances | (8,079) | (2,594) | (211) | (824) | (973) |
| Advances written off net of recoveries | 3,689 | (108,238) | (372,677) | (52,543) | (752,613) |
| Change in balances with banks and other financial institutions with original maturity over three months | (482,176) | (1,863,602) | 1,769,870 | 1,144,273 | 189,624 |
| Change in placements with banks and other financial institutions with original maturity over three months | 5,102,436 | (1,728,068) | 1,698,994 | 4,722,303 | 6,954,873 |
| Change in financial assets at fair value through profit or loss | (2,410,450) | 1,511,233 | (1,902,773) | (1,436,109) | 999,798 |
| Change in derivative financial instruments | (161,185) | 139,673 | 4,731 | 41,549 | (109,580) |
| Change in advances and other accounts | (5,515,755) | (17,561,952) | (9,089,140) | (18,692,800) | (6,724,297) |
| Change in investment in securities | (14,544,859) | (1,576,105) | (5,076,011) | (5,774,826) | (7,276,642) |
| Change in other assets | (622,821) | (2,299,297) | 2,728,151 | 1,068,285 | (628,801) |
| Change in deposits and balances from banks and other financial institutions | (7,804,217) | 8,583,958 | 8,889,582 | 10,699,597 | (14,151,568) |
| Change in financial liabilities at fair value through profit or loss | 3,897,177 | (541,337) | 536,957 | (483,209) | (189,397) |
| Change in deposits from customers | 11,064,249 | 12,626,700 | 11,473,518 | 11,980,681 | 6,434,932 |
| Change in other accounts and provisions | 1,602,315 | 5,230,516 | (47,535) | (546,708) | (2,264,494) |
| Effect of changes in exchange rates | 18,043 | (247,044) | 695,114 | 230,070 | 295,601 |
| Operating cash (outflow)/inflow before taxation | (6,710,114) | 5,927,086 | 15,674,762 | 6,237,905 | (14,057,670) |
| Cash flows from operating activities included: | | | | | |
| —Interest received | 7,616,520 | 8,834,527 | 9,741,510 | 7,275,582 | 7,143,211 |
| —Interest paid | (3,506,002) | (3,811,186) | (4,664,043) | (3,471,772) | (3,424,608) |
| —Dividend received | 6,940 | 7,975 | 9,345 | 5,592 | 6,336 |

(b) Analysis of the balances of cash and cash equivalents

| | For the year ended 31 December | | | For the 9 months ended 30 September | |
|--|-----------------------------------|-------------------|-------------------|--|-------------------|
| | 2012 | 2013 | 2014 | 2014 | 2015 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 (Unaudited) | HK\$'000 |
| Cash and balances with banks and other financial institutions with original maturity within three months | 28,267,206 | 30,354,603 | 45,667,954 | 35,433,639 | 35,026,901 |
| Placements with banks and other financial institutions with original maturity within three months | 2,621,986 | 4,928,974 | 3,464,730 | 4,908,703 | 2,635,376 |
| Treasury bills with original maturity within three months | 2,812,021 | 3,724,988 | 3,168,387 | 3,533,266 | 665,010 |
| | <u>33,701,213</u> | <u>39,008,565</u> | <u>52,301,071</u> | <u>43,875,608</u> | <u>38,327,287</u> |

34. CONTINGENT LIABILITIES AND COMMITMENTS

The following is a summary of the contractual amounts of each significant class of contingent liability and commitment and the aggregate credit risk-weighted amount and is prepared with reference to the Completion Instructions for the HKMA return of capital adequacy ratio.

| | At 31 December | | | At 30 September |
|---|-------------------|--------------------|--------------------|--------------------|
| | 2012 | 2013 | 2014 | 2015 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Direct credit substitutes | 12,758,884 | 15,907,292 | 23,145,228 | 22,772,745 |
| Transaction-related contingencies | 2,614,550 | 5,484,250 | 2,571,980 | 1,976,826 |
| Trade-related contingencies | 8,488,076 | 11,870,541 | 7,957,417 | 8,900,961 |
| Asset sales with recourse | — | — | 4,741,257 | 16,952,880 |
| Commitments that are unconditionally cancellable without prior notice | 57,032,568 | 71,071,494 | 68,666,899 | 69,659,686 |
| Other commitments with an original maturity of | | | | |
| —up to one year | 2,212,197 | 567,314 | 1,158,435 | 1,410,949 |
| —over one year | 4,962,820 | 5,245,225 | 4,673,119 | 6,228,714 |
| | <u>88,069,095</u> | <u>110,146,116</u> | <u>112,914,335</u> | <u>127,902,761</u> |
| Credit risk-weighted amount | <u>14,156,562</u> | <u>14,703,603</u> | <u>16,759,631</u> | <u>26,629,292</u> |

The credit risk-weighted amount is calculated in accordance with the Banking (Capital) Rules. The amount is dependent upon the status of the counterparty and the maturity characteristics of each type of contract.

35. CAPITAL COMMITMENTS

| | At 31 December | | | At 30 September |
|--|----------------|--------------|---------------|-----------------|
| | 2012 | 2013 | 2014 | 2015 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Authorised and contracted for but not provided for | 8,688 | 2,879 | 20,086 | 11,132 |
| Authorised but not contracted for | 212 | 725 | 60 | 2,995 |
| | <u>8,900</u> | <u>3,604</u> | <u>20,146</u> | <u>14,127</u> |

The above capital commitments mainly relate to commitments to purchase computer equipment and software, and to renovate the NCB Group's premises.

36. OPERATING LEASE COMMITMENTS

(a) As lessee

The NCB Group has commitments to make the following future minimum lease payments under non-cancellable operating leases:

| | At 31 December | | | At 30 September |
|---|------------------|------------------|------------------|------------------|
| | 2012 | 2013 | 2014 | 2015 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Land and buildings | | | | |
| —not later than one year | 223,950 | 234,147 | 248,005 | 254,665 |
| —later than one year but not later than five years | 653,918 | 704,338 | 698,705 | 633,510 |
| —later than five years | 420,901 | 322,987 | 225,768 | 128,659 |
| | <u>1,298,769</u> | <u>1,261,472</u> | <u>1,172,478</u> | <u>1,016,834</u> |
| Other commitments | | | | |
| —not later than one year | 184 | 420 | 915 | 1,146 |
| —later than one year but not later than five years | 22 | 323 | 250 | 215 |
| | <u>1,298,975</u> | <u>1,262,215</u> | <u>1,173,643</u> | <u>1,018,195</u> |

(b) As lessor

The NCB Group has contracted with tenants for the following future minimum lease receivables under non-cancellable operating leases:

| | At 31 December | | | At 30 September |
|---|----------------|----------------|---------------|-----------------|
| | 2012 | 2013 | 2014 | 2015 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Land and buildings | | | | |
| —not later than one year | 33,100 | 48,571 | 46,783 | 14,515 |
| —later than one year but not later than five years | 25,637 | 53,436 | 25,986 | 18,578 |
| | <u>58,737</u> | <u>102,007</u> | <u>72,769</u> | <u>33,093</u> |

37. SIGNIFICANT RELATED PARTY TRANSACTIONS

The NCB Group is subject to the control of the State Council of the PRC government through China Investment Corporation ("CIC"), its wholly-owned subsidiary Central Huijin Investment Ltd. ("Central Huijin"), Bank of China Limited ("BOC") and BOCHK in which Central Huijin has controlling equity interests.

The significant related party transactions are defined according to HKAS 24.

(a) Transactions with the parent companies and the other companies controlled by the parent companies

General information of the parent companies:

The NCB Group's immediate holding company is BOCHK, which is in turn controlled by BOC. Central Huijin is the controlling entity of BOC, and it is a wholly-owned subsidiary of CIC which is a wholly state-owned company engaging in foreign currency investment management.

Central Huijin has controlling equity interests in certain other entities in the PRC.

The NCB Group enters into banking and other transactions with these entities in the normal course of business which include loans, investment securities and money market.

The majority of transactions with BOC arise from money market activities. At 30 September 2015, the related aggregate amounts due from and to BOC of the NCB Group were HK\$2,644,916,000 (31 December 2014: HK\$4,756,693,000; 31 December 2013: HK\$6,796,023,000; 31 December 2012: HK\$5,503,655,000) and HK\$8,088,931,000 (31 December 2014: HK\$13,986,923,000; 31 December 2013: HK\$2,702,999,000; 31 December 2012: HK\$2,396,034,000) respectively. The aggregate amounts of income and expenses of the NCB Group arising from these transactions with BOC for the period ended 30 September 2015 were HK\$85,341,000 (period ended 30 September 2014: HK\$240,235,000 (unaudited); year ended 31 December 2014: HK\$295,494,000; year ended 31 December 2013: HK\$240,822,000; year ended 31 December 2012: HK\$252,609,000) and HK\$163,899,000 (period ended 30 September 2014: HK\$97,975,000 (unaudited); year ended 31 December 2014: HK\$191,080,000; year ended 31 December 2013: HK\$39,549,000; year ended 31 December 2012: HK\$28,013,000) respectively.

The majority of transactions with BOCHK arise from money market activities. At 30 September 2015, the related aggregate amounts due from and to BOCHK of the NCB Group were HK\$6,549,353,000 (year ended 31 December 2014: HK\$1,840,662,000; year ended 31 December 2013: HK\$2,139,709,000; year ended 31 December 2012: HK\$4,594,543,000) and HK\$9,696,585,000 (year ended 31 December 2014: HK\$17,173,914,000; year ended 31 December 2013: HK\$21,270,585,000; year ended 31 December 2012: HK\$16,336,165,000) respectively. The aggregate amounts of income and expenses of the NCB Group arising from these transactions with BOCHK for the period ended 30 September 2015 were HK\$2,648,000 (period ended 30 September 2014: HK\$1,730,000 (unaudited); year ended 31 December 2014: HK\$2,560,000; year ended 31 December 2013: HK\$10,252,000; year ended 31 December 2012: HK\$17,298,000) and HK\$306,887,000 (period ended 30 September 2014: HK\$582,721,000 (unaudited); year ended 31 December 2014: HK\$729,578,000; year ended 31 December 2013: HK\$708,001,000; year ended 31 December 2012: HK\$613,384,000) respectively.

During the period, the NCB Group sold certain investment properties and premises to BOCHK with selling price amounting to HK\$986,800,000 and HK\$392,600,000 respectively. The gain from disposal of investment properties and premises were approximately HK\$850,474,000 and HK\$383,031,000 respectively. The transactions were entered on normal commercial terms.

The majority of transactions with other companies controlled by the parent companies arise from deposits from customers. At 30 September 2015, the related aggregate amount of the NCB Group was HK\$14,677,889,000 (31 December 2014: HK\$12,914,910,000; 31 December 2013: HK\$7,093,494,000; 31 December 2012: HK\$8,218,014,000). The aggregate amount of expenses of the NCB Group arising from these transactions with other companies controlled by the parent companies for the period ended 30 September 2015 was HK\$92,129,000 (period ended 30 September 2014: HK\$61,854,000 (unaudited); year ended 31 December 2014: HK\$83,057,000; year ended 31 December 2013: HK\$95,069,000; year ended 31 December 2012: HK\$81,454,000).

Save as disclosed above, transactions with other parent companies and the other companies controlled by the parent companies are not considered material.

(b) Transactions with government authorities, agencies, affiliates and other state controlled entities

The NCB Group is subject to the control of the State Council of the PRC government through CIC and Central Huijin, which also directly and indirectly controls a significant number of entities through its government authorities, agencies, affiliates and other state controlled entities. The NCB Group enters into banking transactions with government authorities, agencies, affiliates and other state controlled entities in the normal course of business at commercial terms.

These transactions include, but are not limited to, the following:

- lending, provision of credits and guarantees, and deposit taking;
- inter-bank balance taking and placing;
- sales, purchase, underwriting and redemption of bonds issued by other state controlled entities;
- rendering of foreign exchange, remittance and investment related services;
- provision of fiduciary activities; and
- purchase of utilities, transport, telecommunication and postage services.

(c) Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the NCB Group, directly or indirectly, including directors and senior management. The NCB Group accepts deposits from and grants loans and credit facilities to key management personnel in the ordinary course of business. During both the current and prior years, no material transaction was conducted with key management personnel of Nanyang Bank and its holding companies, as well as parties related to them.

The compensation of key management personnel is detailed as follows:

| | For the year ended 31 December | | | For the 9 months ended 30 September | |
|---|--------------------------------|---------------|---------------|-------------------------------------|---------------|
| | 2012 | 2013 | 2014 | 2014 | 2015 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 (Unaudited) | HK\$'000 |
| Salaries and other short-term employee benefits | 31,079 | 28,882 | 26,740 | 21,998 | 19,100 |
| Post-employment benefits | 1,597 | 1,635 | 1,694 | 1,299 | 1,224 |
| | <u>32,676</u> | <u>30,517</u> | <u>28,434</u> | <u>23,297</u> | <u>20,324</u> |

38. SEGMENT REPORTING**(a) By operating segment**

The NCB Group divides its business into four major segments, Personal Banking, Corporate Banking, Treasury and Investment.

Both Personal Banking and Corporate Banking provide general banking services. Personal Banking serves individual customers while Corporate Banking deals with non-individual customers. The Treasury segment is responsible for managing the capital, liquidity, and the interest rate and

foreign exchange positions of the NCB Group in addition to proprietary trades. It provides funds to other business segments and receives funds from deposit taking activities of Personal Banking and Corporate Banking. These inter-segment funding is charged according to the internal funds transfer pricing mechanism of the NCB Group. The assets and liabilities of Treasury have not been adjusted to reflect the effect of inter-segment borrowing and lending (i.e. the profit and loss information in relation to Treasury is not comparable to the assets and liabilities information about Treasury).

Investment includes bank premises and equipment used by supporting units. Charges are paid to this segment from other business segments based on market rates per square foot for their occupation of the NCB Group's premises. The exchange difference arising from capital of our subsidiary, NCB China, which is recognised in its income statements, is also included in this class.

"Others" refers to other group operations and mainly comprises of items related to the NCB Group as a whole and totally independent of the other four business segments.

Revenues and expenses of any business segment mainly include items directly attributable to the segment. For management overheads, allocations are made on reasonable bases.

APPENDIX II

ACCOUNTANTS' REPORT OF NANYANG BANK

| | Personal Banking | Corporate Banking | Treasury | Investment | Others | Subtotal | Eliminations | Consolidated |
|--|---------------------|----------------------|----------------|----------------|-----------------|------------------|--------------|------------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Year ended | | | | | | | | |
| 31 December 2012 | | | | | | | | |
| Net interest income/ (expense) | | | | | | | | |
| —external | (784,960) | 2,336,718 | 2,381,051 | 4 | — | 3,932,813 | — | 3,932,813 |
| —inter-segment | 1,589,823 | (319,320) | (1,270,503) | — | — | — | — | — |
| | 804,863 | 2,017,398 | 1,110,548 | 4 | — | 3,932,813 | — | 3,932,813 |
| Net fee and commission income/(expense) | 310,863 | 426,546 | 20,806 | 108 | (3,144) | 755,179 | — | 755,179 |
| Net trading gain/(loss) | 27,573 | 93,693 | 62,931 | (37,646) | 665 | 147,216 | — | 147,216 |
| Net loss on financial instruments designated at fair value through profit or loss | — | — | 21,959 | — | — | 21,959 | — | 21,959 |
| Net gain on other financial assets | — | 4,762 | 11,376 | 463 | — | 16,601 | — | 16,601 |
| Other operating income | 2 | 41 | — | 143,487 | 11,311 | 154,841 | (97,732) | 57,109 |
| Net operating income/ (expense) before impairment allowances | 1,143,301 | 2,542,440 | 1,227,620 | 106,416 | 8,832 | 5,028,609 | (97,732) | 4,930,877 |
| Net charge of impairment allowances | (7,958) | (388,990) | — | — | — | (396,948) | — | (396,948) |
| Net operating income/ (expense) | 1,135,343 | 2,153,450 | 1,227,620 | 106,416 | 8,832 | 4,631,661 | (97,732) | 4,533,929 |
| Operating expenses | (637,703) | (903,926) | (392,859) | (75,125) | (34,416) | (2,044,029) | 97,732 | (1,946,297) |
| Operating profit/(loss) | 497,640 | 1,249,524 | 834,761 | 31,291 | (25,584) | 2,587,632 | — | 2,587,632 |
| Net gain from disposal of/ fair value adjustments on investment properties | — | — | — | 178,766 | — | 178,766 | — | 178,766 |
| Net gain from disposal of properties, plant and equipment | — | — | — | (6,627) | — | (6,627) | — | (6,627) |
| Segment results | <u>497,640</u> | <u>1,249,524</u> | <u>834,761</u> | <u>203,430</u> | <u>(25,584)</u> | <u>2,759,771</u> | <u>—</u> | <u>2,759,771</u> |
| <i>Reconciliation:</i> | | | | | | | | |
| Adjustments for premises from measurement at fair value model to cost model | | | | | | | | 1,738 |
| Adjustments for investment properties from measurement at fair value model to cost model | | | | | | | | (178,766) |
| Adjustments for depreciation charge | | | | | | | | 64,117 |
| Adjustments for net gain from disposal of investment properties and premises | | | | | | | | 5,104 |
| Profit/(loss) before taxation | | | | | | | | <u>2,651,964</u> |

APPENDIX II

ACCOUNTANTS' REPORT OF NANYANG BANK

| | Personal Banking | Corporate Banking | Treasury | Investment | Others | Subtotal | Eliminations | Consolidated |
|--|-----------------------------|------------------------------|--------------------|-------------------|------------------|--------------------|---------------------|---------------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 31 December 2012 | | | | | | | | |
| Segment assets | <u>23,673,053</u> | <u>116,089,179</u> | <u>104,531,029</u> | <u>7,329,689</u> | <u>130,488</u> | <u>251,753,438</u> | <u>—</u> | <u>251,753,438</u> |
| <i>Reconciliation:</i> | | | | | | | | |
| Adjustments for premises from measurement at fair value model to cost model | | | | | | | | (5,045,079) |
| Adjustments for investment properties from measurement at fair value model to cost model | | | | | | | | (803,270) |
| Adjustments for accumulated depreciation | | | | | | | | (162,534) |
| Adjustments to deferred tax assets relations to changes of investment properties and premises from measurement at fair value model to cost model. | | | | | | | | 55,765 |
| Total assets | | | | | | | | <u>245,798,320</u> |
| Segment liabilities | <u>98,868,912</u> | <u>96,141,906</u> | <u>25,747,324</u> | <u>6,813</u> | <u>1,375,262</u> | <u>222,140,217</u> | <u>—</u> | <u>222,140,217</u> |
| <i>Reconciliation:</i> | | | | | | | | |
| Adjustments to deferred tax liabilities relations to changes of investment properties and premises from measurement at fair value model to cost model. | | | | | | | | (828,380) |
| Total liabilities | | | | | | | | <u>221,311,837</u> |
| Year ended | | | | | | | | |
| 31 December 2012 | | | | | | | | |
| Other information | | | | | | | | |
| Capital expenditure | — | — | — | 429,519 | — | 429,519 | — | 429,519 |
| Depreciation | 25,037 | 40,495 | 24,059 | 73,522 | 3,826 | 166,939 | — | 166,939 |
| <i>Reconciliation:</i> | | | | | | | | |
| Adjustments for depreciation charge | | | | | | | | (64,117) |
| | | | | | | | | <u>102,822</u> |
| Amortisation of securities | — | — | 72,230 | — | — | 72,230 | — | 72,230 |

APPENDIX II

ACCOUNTANTS' REPORT OF NANYANG BANK

| | Personal Banking | Corporate Banking | Treasury | Investment | Others | Subtotal | Eliminations | Consolidated |
|--|---------------------|----------------------|------------------|---------------|-----------------|------------------|--------------|------------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Year ended | | | | | | | | |
| 31 December 2013 | | | | | | | | |
| Net interest income/ (expense) | | | | | | | | |
| —external | (597,519) | 2,944,696 | 2,343,989 | — | — | 4,691,166 | — | 4,691,166 |
| —inter-segment . . . | 1,435,071 | (374,646) | (1,060,425) | — | — | — | — | — |
| | 837,552 | 2,570,050 | 1,283,564 | — | — | 4,691,166 | — | 4,691,166 |
| Net fee and commission income/(expense) | 418,917 | 565,333 | 25,641 | 173 | (1,439) | 1,008,625 | — | 1,008,625 |
| Net trading gain/(loss) . . | 37,976 | 116,764 | 94,749 | (152,278) | 10 | 97,221 | — | 97,221 |
| Net loss on financial instruments designated at fair value through profit or loss | — | — | (16,193) | — | — | (16,193) | — | (16,193) |
| Net gain on other financial assets | — | 21,204 | 31,292 | — | — | 52,496 | — | 52,496 |
| Other operating income | 123 | 59 | — | 148,438 | 24,674 | 173,294 | (97,824) | 75,470 |
| Net operating income/ (expense) before impairment allowances | 1,294,568 | 3,273,410 | 1,419,053 | (3,667) | 23,245 | 6,006,609 | (97,824) | 5,908,785 |
| Net charge of impairment allowances | (40,580) | (329,387) | — | — | — | (369,967) | — | (369,967) |
| Net operating income/ (expense) | 1,253,988 | 2,944,023 | 1,419,053 | (3,667) | 23,245 | 5,636,642 | (97,824) | 5,538,818 |
| Operating expenses | (751,369) | (1,144,769) | (387,541) | (97,468) | (69,175) | (2,450,322) | 97,824 | (2,352,498) |
| Operating profit/(loss) . . | 502,619 | 1,799,254 | 1,031,512 | (101,135) | (45,930) | 3,186,320 | — | 3,186,320 |
| Net gain from fair value adjustments on investment properties | — | — | — | 169,414 | — | 169,414 | — | 169,414 |
| Net loss from disposal of properties, plant and equipment | — | — | — | 3,476 | — | 3,476 | — | 3,476 |
| Segment results | 502,619 | 1,799,254 | 1,031,512 | 71,755 | (45,930) | 3,359,210 | — | 3,359,210 |
| <i>Reconciliation:</i> | | | | | | | | |
| Adjustments for premises from measurement at fair value model to cost model | | | | | | | | (8,085) |
| Adjustments for investment properties from measurement at fair value model to cost model | | | | | | | | (169,414) |
| Adjustments for depreciation charge . . | | | | | | | | 80,320 |
| Profit/(loss) before taxation | | | | | | | | 3,262,031 |

APPENDIX II

ACCOUNTANTS' REPORT OF NANYANG BANK

| | Personal Banking | Corporate Banking | Treasury | Investment | Others | Subtotal | Eliminations | Consolidated |
|---|---------------------|----------------------|-------------|------------|-----------|-------------|--------------|--------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 31 December 2013 | | | | | | | | |
| Segment assets | 28,853,019 | 128,704,708 | 114,367,231 | 8,238,515 | 220,487 | 280,383,960 | — | 280,383,960 |
| <i>Reconciliation:</i> | | | | | | | | |
| Adjustments for premises from measurement at fair value model to cost model | | | | | | | | (5,764,059) |
| Adjustments for investment properties from measurement at fair value model to cost model | | | | | | | | (960,186) |
| Adjustments for accumulated depreciation | | | | | | | | (181,709) |
| Adjustments to deferred tax assets relations to changes of investment properties and premises from measurement at fair value model to cost model. | | | | | | | | 142,774 |
| Total assets | | | | | | | | 273,620,780 |
| Segment liabilities | 101,329,458 | 108,918,619 | 36,005,845 | 7,225 | 1,822,824 | 248,083,971 | — | 248,083,971 |
| <i>Reconciliation:</i> | | | | | | | | |
| Adjustments to deferred tax liabilities relations to changes of investment properties and premises from measurement at fair value model to cost model. | | | | | | | | (865,545) |
| Total liabilities | | | | | | | | 247,218,426 |
| Year ended | | | | | | | | |
| 31 December 2013 | | | | | | | | |
| Other information | | | | | | | | |
| Capital expenditure | — | — | — | 109,955 | — | 109,955 | — | 109,955 |
| Depreciation | 26,990 | 56,140 | 23,021 | 97,703 | 3,102 | 206,956 | — | 206,956 |
| <i>Reconciliation:</i> | | | | | | | | |
| Adjustments for depreciation charge . . . | | | | | | | | (80,320) |
| | | | | | | | | 126,636 |
| Amortisation of securities | — | — | (30,765) | — | — | (30,765) | — | (30,765) |

APPENDIX II

ACCOUNTANTS' REPORT OF NANYANG BANK

| | Personal Banking | Corporate Banking | Treasury | Investment | Others | Subtotal | Eliminations | Consolidated |
|----------------------------------|---------------------|----------------------|------------------|---------------|-----------------|------------------|--------------|------------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Year ended | | | | | | | | |
| 31 December 2014 | | | | | | | | |
| Net interest | | | | | | | | |
| income/(expense) | | | | | | | | |
| —external | (418,490) | 2,750,511 | 2,858,028 | — | — | 5,190,049 | — | 5,190,049 |
| —inter-segment | 1,307,961 | (114,871) | (1,193,090) | — | — | — | — | — |
| | 889,471 | 2,635,640 | 1,664,938 | — | — | 5,190,049 | — | 5,190,049 |
| Net fee and commission | | | | | | | | |
| income/(expense) | 538,300 | 623,126 | 94,697 | 95 | (1,492) | 1,254,726 | — | 1,254,726 |
| Net trading gain/(loss) . . . | 50,406 | 105,572 | (125,113) | (22,424) | 417 | 8,858 | — | 8,858 |
| Net loss on financial | | | | | | | | |
| instruments designated | | | | | | | | |
| at fair value through | | | | | | | | |
| profit or loss | — | — | (7,958) | — | — | (7,958) | — | (7,958) |
| Net gain on other financial | | | | | | | | |
| assets | — | 28,888 | 93,642 | — | — | 122,530 | — | 122,530 |
| Other operating income . . . | 140 | 174 | — | 174,357 | 13,780 | 188,451 | (117,643) | 70,808 |
| Net operating | | | | | | | | |
| income/(expense) before | | | | | | | | |
| impairment | | | | | | | | |
| allowances | 1,478,317 | 3,393,400 | 1,720,206 | 152,028 | 12,705 | 6,756,656 | (117,643) | 6,639,013 |
| Net charge of impairment | | | | | | | | |
| allowances | (45,453) | (858,841) | — | — | — | (904,294) | — | (904,294) |
| Net operating | | | | | | | | |
| income/(expense) | 1,432,864 | 2,534,559 | 1,720,206 | 152,028 | 12,705 | 5,852,362 | (117,643) | 5,734,719 |
| Operating expenses | (763,907) | (1,257,493) | (301,253) | (204,538) | (88,041) | (2,615,232) | 117,643 | (2,497,589) |
| Operating profit/(loss) . . . | 668,957 | 1,277,066 | 1,418,953 | (52,510) | (75,336) | 3,237,130 | — | 3,237,130 |
| Net gain from fair value | | | | | | | | |
| adjustments on | | | | | | | | |
| investment properties . . | — | — | — | 129,896 | — | 129,896 | — | 129,896 |
| Net loss from disposal of | | | | | | | | |
| properties, plant and | | | | | | | | |
| equipment | — | — | — | (347) | — | (347) | — | (347) |
| Segment results | 668,957 | 1,277,066 | 1,418,953 | 77,039 | (75,336) | 3,366,679 | — | 3,366,679 |
| <i>Reconciliation:</i> | | | | | | | | |
| Adjustments for premises | | | | | | | | |
| from measurement at | | | | | | | | |
| fair value model to cost | | | | | | | | |
| model | | | | | | | | (2,033) |
| Adjustments for | | | | | | | | |
| investment properties | | | | | | | | |
| from measurement at | | | | | | | | |
| fair value model to cost | | | | | | | | |
| model | | | | | | | | (129,896) |
| Adjustments for | | | | | | | | |
| depreciation charge | | | | | | | | 94,011 |
| Profit/(loss) before | | | | | | | | |
| taxation | | | | | | | | 3,328,761 |

APPENDIX II

ACCOUNTANTS' REPORT OF NANYANG BANK

| | Personal Banking | Corporate Banking | Treasury | Investment | Others | Subtotal | Eliminations | Consolidated |
|---|-----------------------------|------------------------------|--------------------|-------------------|------------------|--------------------|---------------------|---------------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 31 December 2014 | | | | | | | | |
| Segment assets | <u>33,101,750</u> | <u>132,582,987</u> | <u>129,285,776</u> | <u>8,717,158</u> | <u>216,582</u> | <u>303,904,253</u> | <u>—</u> | <u>303,904,253</u> |
| Adjustments for premises from measurement at fair value model to cost model | | | | | | | | (6,156,102) |
| Adjustments for investment properties from measurement at fair value model to cost model | | | | | | | | (1,081,785) |
| Adjustments for accumulated depreciation | | | | | | | | (197,523) |
| Adjustments to deferred tax assets relations to changes of investment properties and premises from measurement at fair value model to cost model | | | | | | | | 91,293 |
| Total assets | | | | | | | | <u>296,560,136</u> |
| Segment liabilities | <u>103,437,642</u> | <u>120,438,397</u> | <u>43,259,903</u> | <u>7,582</u> | <u>1,865,885</u> | <u>269,009,409</u> | <u>—</u> | <u>269,009,409</u> |
| <i>Reconciliation:</i> | | | | | | | | |
| Adjustments to deferred tax liabilities relations to changes of investment properties and premises from measurement at fair value model to cost model | | | | | | | | (986,473) |
| Total liabilities | | | | | | | | <u>268,022,936</u> |
| Year ended | | | | | | | | |
| 31 December 2014 | | | | | | | | |
| Other information | | | | | | | | |
| Capital expenditure | — | — | — | 85,817 | — | 85,817 | — | 85,817 |
| Depreciation | 10,350 | 5,705 | 982 | 204,528 | 3,203 | 224,768 | — | 224,768 |
| <i>Reconciliation:</i> | | | | | | | | |
| Adjustments for depreciation charge | | | | | | | | (94,011) |
| | | | | | | | | <u>130,757</u> |
| Amortisation of securities | — | — | 90,773 | — | — | 90,773 | — | 90,773 |

APPENDIX II

ACCOUNTANTS' REPORT OF NANYANG BANK

| | Personal Banking | Corporate Banking | Treasury | Investment | Others | Subtotal | Eliminations | Consolidated |
|--|---------------------|----------------------|------------------|--------------|-----------------|------------------|--------------|------------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Period ended | | | | | | | | |
| 30 September 2014 | | | | | | | | |
| (Unaudited) | | | | | | | | |
| Net interest income/ (expense) | | | | | | | | |
| —external | (342,375) | 2,080,823 | 2,137,966 | — | — | 3,876,414 | — | 3,876,414 |
| —inter-segment | 984,094 | (93,015) | (891,079) | — | — | — | — | — |
| | 641,719 | 1,987,808 | 1,246,887 | — | — | 3,876,414 | — | 3,876,414 |
| Net fee and commission income/(expense) | 368,306 | 505,351 | 65,990 | 84 | (2,925) | 936,806 | — | 936,806 |
| Net trading gain/(loss) | 38,703 | 80,107 | (16,433) | (35,315) | 1 | 67,063 | — | 67,063 |
| Net loss on financial instruments designated at fair value through profit or loss | — | — | (5,478) | — | — | (5,478) | — | (5,478) |
| Net gain on other financial assets | — | 32,679 | 57,482 | — | — | 90,161 | — | 90,161 |
| Other operating income | 96 | 7 | (1,072) | 128,312 | 12,885 | 140,228 | (88,232) | 51,996 |
| Net operating income/ (expense) before impairment allowances | 1,048,824 | 2,605,952 | 1,347,376 | 93,081 | 9,961 | 5,105,194 | (88,232) | 5,016,962 |
| Net charge of impairment allowances | (71,921) | (718,940) | — | — | — | (790,861) | — | (790,861) |
| Net operating income/ (expense) | 976,903 | 1,887,012 | 1,347,376 | 93,081 | 9,961 | 4,314,333 | (88,232) | 4,226,101 |
| Operating expenses | (551,854) | (920,994) | (232,383) | (151,602) | (77,280) | (1,934,113) | 88,232 | (1,845,881) |
| Operating profit/(loss) | 425,049 | 966,018 | 1,114,993 | (58,521) | (67,319) | 2,380,220 | — | 2,380,220 |
| Net gain from disposal of investment properties | — | — | — | 60,523 | — | 60,523 | — | 60,523 |
| Net loss from disposal of properties, plant and equipment | — | — | — | 133 | — | 133 | — | 133 |
| Segment results | 425,049 | 966,018 | 1,114,993 | 2,135 | (67,319) | 2,440,876 | — | 2,440,876 |
| <i>Reconciliation:</i> | | | | | | | | |
| Adjustments for premises from measurement at fair value model to cost model | | | | | | | | (838) |
| Adjustments for investment properties from measurement at fair value model to cost model | | | | | | | | (60,523) |
| Adjustments for depreciation charge | | | | | | | | 69,556 |
| Profit/(loss) before taxation | | | | | | | | 2,449,071 |

APPENDIX II

ACCOUNTANTS' REPORT OF NANYANG BANK

| | Personal Banking | Corporate Banking | Treasury | Investment | Others | Subtotal | Eliminations | Consolidated |
|--|---------------------|----------------------|-------------|------------|-----------|-------------|--------------|--------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 31 December 2014 | | | | | | | | |
| Segment assets | 33,101,750 | 132,582,987 | 129,285,776 | 8,717,158 | 216,582 | 303,904,253 | — | 303,904,253 |
| Adjustments for premises from measurement at fair value model to cost model | | | | | | | | (6,156,102) |
| Adjustments for investment properties from measurement at fair value model to cost model | | | | | | | | (1,081,785) |
| Adjustments for accumulated depreciation | | | | | | | | (197,523) |
| Adjustments to deferred tax assets relations to changes of investment properties and premises from measurement at fair value model to cost model. | | | | | | | | 91,293 |
| Total assets | | | | | | | | 296,560,136 |
| Segment liabilities | 103,437,642 | 120,438,397 | 43,259,903 | 7,582 | 1,865,885 | 269,009,409 | — | 269,009,409 |
| <i>Reconciliation:</i> | | | | | | | | |
| Adjustments to deferred tax liabilities relations to changes of investment properties and premises from measurement at fair value model to cost model. | | | | | | | | (986,473) |
| Total liabilities | | | | | | | | 268,022,936 |
| Period ended 30 September 2014 (Unaudited) | | | | | | | | |
| Other information | | | | | | | | |
| Capital expenditure | — | — | — | 47,410 | — | 47,410 | — | 47,410 |
| Depreciation | 8,027 | 4,408 | 743 | 151,592 | 2,315 | 167,085 | — | 167,085 |
| <i>Reconciliation:</i> | | | | | | | | |
| Adjustments for depreciation charge | | | | | | | | (69,556) |
| | | | | | | | | 97,529 |
| Amortisation of securities | — | — | 181,935 | — | — | 181,935 | — | 181,935 |

APPENDIX II

ACCOUNTANTS' REPORT OF NANYANG BANK

| | Personal Banking | Corporate Banking | Treasury | Investment | Others | Subtotal | Eliminations | Consolidated |
|--|---------------------|----------------------|----------------|----------------|---------------|------------------|--------------|------------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Period ended | | | | | | | | |
| 30 September 2015 | | | | | | | | |
| Net interest income/ (expense) | | | | | | | | |
| —external | 49,274 | 2,082,313 | 1,450,611 | — | — | 3,582,198 | — | 3,582,198 |
| —inter-segment | 868,737 | 81,741 | (950,478) | — | — | — | — | — |
| | 918,011 | 2,164,054 | 500,133 | — | — | 3,582,198 | — | 3,582,198 |
| Net fee and commission income/(expense) | 561,952 | 450,088 | 45,948 | 53 | (688) | 1,057,353 | — | 1,057,353 |
| Net trading gain/(loss) | 35,301 | 44,755 | (117,087) | 24,573 | (43) | (12,501) | — | (12,501) |
| Net loss on financial instruments designated at fair value through profit or loss | — | — | (3,726) | — | — | (3,726) | — | (3,726) |
| Net gain on other financial assets | — | 47,102 | 63,887 | — | 71,893 | 182,882 | — | 182,882 |
| Other operating income | 151 | — | — | 118,191 | 4,286 | 122,628 | (86,423) | 36,205 |
| Net operating income/(expense) before impairment allowances | 1,515,415 | 2,705,999 | 489,155 | 142,817 | 75,448 | 4,928,834 | (86,423) | 4,842,411 |
| Net charge of impairment allowances | (74,396) | (429,706) | — | — | — | (504,102) | — | (504,102) |
| Net operating income/(expense) | 1,441,019 | 2,276,293 | 489,155 | 142,817 | 75,448 | 4,424,732 | (86,423) | 4,338,309 |
| Operating expenses | (691,255) | (813,964) | (214,536) | (154,418) | (56,690) | (1,930,863) | 86,423 | (1,844,440) |
| Operating profit/(loss) | 749,764 | 1,462,329 | 274,619 | (11,601) | 18,758 | 2,493,869 | — | 2,493,869 |
| Net gain from disposal of investment properties | — | — | — | 105,509 | — | 105,509 | — | 105,509 |
| Net gain from disposal of properties, plant and equipment | — | — | — | 18,489 | — | 18,489 | — | 18,489 |
| Segment results | 749,764 | 1,462,329 | 274,619 | 112,397 | 18,758 | 2,617,867 | — | 2,617,867 |
| <i>Reconciliation:</i> | | | | | | | | |
| Adjustments for premises from measurement at fair value model to cost model | | | | | | | | (1,320) |
| Adjustments for investment properties from measurement at fair value model to cost model | | | | | | | | (19,909) |
| Adjustments for depreciation charge | | | | | | | | 81,355 |
| Adjustments for disposal of investment properties | | | | | | | | 764,874 |
| Adjustments for disposal of premises | | | | | | | | 365,866 |
| Profit/(loss) before taxation | | | | | | | | 3,808,733 |

APPENDIX II

ACCOUNTANTS' REPORT OF NANYANG BANK

| | Personal Banking | Corporate Banking | Treasury | Investment | Others | Subtotal | Eliminations | Consolidated |
|---|---------------------|----------------------|-------------|------------|-----------|-------------|--------------|--------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 30 September 2015 | | | | | | | | |
| Segment assets | 36,524,139 | 136,831,731 | 114,670,254 | 7,485,667 | 184,179 | 295,695,970 | — | 295,695,970 |
| Adjustments for premises from measurement at fair value model to cost model | | | | | | | | (5,959,630) |
| Adjustments for investment properties from measurement at fair value model to cost model | | | | | | | | (343,163) |
| Adjustments for accumulated depreciation | | | | | | | | (171,857) |
| Adjustments to deferred tax assets relations to changes of investment properties and premises from measurement at fair value model to cost model | | | | | | | | 86,512 |
| Total assets | | | | | | | | 289,307,832 |
| Segment liabilities | 94,534,212 | 133,741,452 | 28,811,699 | 4,369 | 1,936,457 | 259,028,189 | — | 259,028,189 |
| <i>Reconciliation:</i> | | | | | | | | |
| Adjustments to deferred tax liabilities relations to changes of investment properties and premises from measurement at fair value model to cost model | | | | | | | | (961,757) |
| Total liabilities | | | | | | | | 258,066,432 |
| Period ended | | | | | | | | |
| 30 September 2015 | | | | | | | | |
| Other information | | | | | | | | |
| Capital expenditure | — | — | — | 50,265 | — | 50,265 | — | 50,265 |
| Depreciation | 12,941 | 6,849 | 525 | 154,407 | (6,826) | 167,896 | — | 167,896 |
| <i>Reconciliation:</i> | | | | | | | | |
| Adjustments for depreciation charge | | | | | | | | (81,359) |
| | | | | | | | | 86,537 |
| Amortisation of securities | — | — | 68,968 | — | — | 68,968 | — | 68,968 |

(b) By geographical area

The following information is presented based on the principal places of operations of the subsidiaries, or in the case of Nanyang Bank, on the locations of the branches responsible for reporting the results or booking the assets:

| | For the year ended 31 December | | | Net operating income before impairment allowance | | For the year ended 31 December | | | Profit before taxation | |
|--------------------------------|-----------------------------------|-----------|-----------|--|-----------|-----------------------------------|-----------|-----------|--|-----------|
| | | | | For the 9 months ended 30 September | | | | | For the 9 months ended 30 September | |
| | 2012 | 2013 | 2014 | 2014 | 2015 | 2012 | 2013 | 2014 | 2014 | 2015 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 (Unaudited) | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 (Unaudited) | HK\$'000 |
| Hong Kong | 3,367,514 | 3,754,292 | 4,059,329 | 3,016,719 | 3,049,917 | 2,325,424 | 2,805,396 | 3,104,085 | 2,275,835 | 3,446,183 |
| Mainland of China | 1,525,417 | 2,111,161 | 2,535,739 | 1,956,391 | 1,740,988 | 311,954 | 441,181 | 214,947 | 157,994 | 326,847 |
| Others | 37,946 | 43,332 | 43,945 | 43,852 | 51,506 | 14,586 | 15,454 | 9,729 | 15,242 | 35,703 |
| Total | 4,930,877 | 5,908,785 | 6,639,013 | 5,016,962 | 4,842,411 | 2,651,964 | 3,262,031 | 3,328,761 | 2,449,071 | 3,808,733 |

At 31 December 2012

| | Total assets | Total liabilities | Non-current assets | Contingent liabilities and commitments |
|-----------------------------|-----------------|----------------------|-----------------------|---|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Hong Kong | 151,033,515 | 138,399,106 | 548,982 | 31,329,350 |
| Mainland of China | 93,127,356 | 82,827,479 | 688,285 | 56,538,445 |
| Others | 1,637,449 | 85,252 | 4,276 | 201,300 |
| Total | 245,798,320 | 221,311,837 | 1,241,543 | 88,069,095 |

At 31 December 2013

| | Total assets | Total liabilities | Non-current assets | Contingent liabilities and commitments |
|-----------------------------|-----------------|----------------------|-----------------------|---|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Hong Kong | 158,001,445 | 145,601,913 | 584,971 | 30,381,110 |
| Mainland of China | 112,760,671 | 99,487,847 | 682,530 | 79,638,140 |
| Others | 2,858,664 | 2,128,666 | 3,467 | 126,866 |
| Total | 273,620,780 | 247,218,426 | 1,270,968 | 110,146,116 |

At 31 December 2014

| | Total assets | Total liabilities | Non-current assets | Contingent liabilities and commitments |
|-----------------------------|-----------------|----------------------|-----------------------|---|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Hong Kong | 177,273,650 | 161,060,798 | 570,830 | 33,849,154 |
| Mainland of China | 116,512,040 | 104,331,044 | 605,180 | 78,941,179 |
| Others | 2,774,446 | 2,631,094 | 2,349 | 124,002 |
| Total | 296,560,136 | 268,022,936 | 1,178,359 | 112,914,335 |

At 30 September 2015

| | Total assets | Total liabilities | Non-current assets | Contingent liabilities and commitments |
|-------------------------|--------------------|--------------------|--------------------|--|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Hong Kong | 186,030,156 | 168,284,323 | 449,215 | 35,295,142 |
| Mainland of China | 100,942,203 | 89,552,843 | 623,716 | 92,113,857 |
| Others | 2,335,473 | 229,266 | 2,097 | 493,762 |
| Total | <u>289,307,832</u> | <u>258,066,432</u> | <u>1,075,028</u> | <u>127,902,761</u> |

39. OFFSETTING FINANCIAL INSTRUMENTS

The following tables present details of the NCB Group's financial instruments subject to offsetting, enforceable master netting agreements and similar agreements.

At 31 December 2012

| | Gross amounts of recognised financial assets | Gross amounts of recognised financial liabilities set off in the balance sheet | Net amounts of financial assets presented in the balance sheet | Related amounts not set off in the balance sheet | | Net amount |
|--|--|--|--|--|--------------------------|----------------|
| | | | | Financial instruments | Cash collateral received | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Assets | | | | | | |
| Derivative financial instruments | 173,442 | — | 173,442 | (60,919) | — | 112,523 |
| Other assets | 1,382,570 | (1,166,909) | 215,661 | — | — | 215,661 |
| Total | <u>1,556,012</u> | <u>(1,166,909)</u> | <u>389,103</u> | <u>(60,919)</u> | <u>—</u> | <u>328,184</u> |

| | Gross amounts of recognised financial liabilities | Gross amounts of recognised financial assets set off in the balance sheet | Net amounts of financial liabilities presented in the balance sheet | Related amounts not set off in the balance sheet | | Net amount |
|--|---|---|---|--|-------------------------|----------------|
| | | | | Financial instruments | Cash collateral pledged | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Liabilities | | | | | | |
| Derivative financial instruments | 248,893 | — | 248,893 | (60,919) | — | 187,974 |
| Other liabilities | 1,200,803 | (1,166,909) | 33,894 | — | — | 33,894 |
| Total | <u>1,449,696</u> | <u>(1,166,909)</u> | <u>282,787</u> | <u>(60,919)</u> | <u>—</u> | <u>221,868</u> |

At 31 December 2013

| | Gross amounts of recognised financial assets | Gross amounts of recognised financial liabilities set off in the balance sheet | Net amounts of financial assets presented in the balance sheet | Related amounts not set off in the balance sheet | | Net amount |
|--|--|--|--|--|--------------------------|----------------|
| | | | | Financial instruments | Cash collateral received | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Assets | | | | | | |
| Derivative financial instruments | 82,212 | — | 82,212 | (27,605) | — | 54,607 |
| Other assets | 1,193,321 | (883,177) | 310,144 | — | — | 310,144 |
| Total | <u>1,275,533</u> | <u>(883,177)</u> | <u>392,356</u> | <u>(27,605)</u> | <u>—</u> | <u>364,751</u> |

| | Gross amounts of recognised financial liabilities | Gross amounts of recognised financial assets set off in the balance sheet | Net amounts of financial liabilities presented in the balance sheet | Financial instruments | Cash collateral pledged | Net amount |
|--|---|---|---|-----------------------|-------------------------|------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Liabilities | | | | | | |
| Derivative financial instruments | 239,495 | — | 239,495 | (27,605) | — | 211,890 |
| Other liabilities | 946,711 | (883,177) | 63,534 | — | — | 63,534 |
| Total | 1,186,206 | (883,177) | 303,029 | (27,605) | — | 275,424 |

At 31 December 2014

| | Gross amounts of recognised financial assets | Gross amounts of recognised financial liabilities set off in the balance sheet | Net amounts of financial assets presented in the balance sheet | Related amounts not set off in the balance sheet | | Net amount |
|--|--|--|--|--|--------------------------|------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | Financial instruments | Cash collateral received | HK\$'000 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Assets | | | | | | |
| Derivative financial instruments | 59,439 | — | 59,439 | (26,746) | — | 32,693 |
| Other assets | 1,389,548 | (1,094,061) | 295,487 | — | — | 295,487 |
| Total | 1,448,987 | (1,094,061) | 354,926 | (26,746) | — | 328,180 |

| | Gross amounts of recognised financial liabilities | Gross amounts of recognised financial assets set off in the balance sheet | Net amounts of financial liabilities presented in the balance sheet | Financial instruments | Cash collateral pledged | Net amount |
|--|---|---|---|-----------------------|-------------------------|------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Liabilities | | | | | | |
| Derivative financial instruments | 174,708 | — | 174,708 | (26,746) | — | 147,962 |
| Other liabilities | 1,128,061 | (1,094,061) | 34,000 | — | — | 34,000 |
| Total | 1,302,769 | (1,094,061) | 208,708 | (26,746) | — | 181,962 |

At 30 September 2015

| | Gross amounts of recognised financial assets | Gross amounts of recognised financial liabilities set off in the balance sheet | Net amounts of financial assets presented in the balance sheet | Related amounts not set off in the balance sheet | | Net amount |
|--|--|--|--|--|--------------------------|------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | Financial instruments | Cash collateral received | HK\$'000 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Assets | | | | | | |
| Derivative financial instruments | 185,907 | — | 185,907 | (75,552) | — | 110,355 |
| Other assets | 1,720,367 | (988,538) | 731,829 | — | — | 731,829 |
| Total | 1,906,274 | (988,538) | 917,736 | (75,552) | — | 842,184 |

| | Gross amounts recognised financial liabilities | Gross amounts of recognised financial assets set off in the balance sheet | Net amounts of financial liabilities presented in the balance sheet | Financial instruments | Cash collateral pledged | Net amount |
|---|--|--|--|--------------------------|-------------------------------|----------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Liabilities | | | | | | |
| Derivative financial instruments | 157,585 | — | 157,585 | (75,552) | — | 82,033 |
| Other liabilities | 1,184,778 | (988,538) | 196,240 | — | — | 196,240 |
| Total | <u>1,342,363</u> | <u>(988,538)</u> | <u>353,825</u> | <u>(75,552)</u> | <u>—</u> | <u>278,273</u> |

For master netting agreements of OTC derivative and sale and repurchase transactions entered into by the NCB Group, related amounts with the same counterparty can be offset if an event of default or other predetermined events occur.

40. FINANCIAL RISK MANAGEMENT

The NCB Group is exposed to financial risks as a result of engaging in a variety of business activities. The principal financial risks are credit risk, market risk (including currency risk and interest rate risk) and liquidity risk. This note summarises the NCB Group's exposures to these risks, as well as its objectives, risk management governance structure, policies and processes for managing and the methods used to measure these risks.

Financial risk management framework

The NCB Group's risk management governance structure is designed to cover all business processes and ensures various risks are properly managed and controlled in the course of conducting business. The NCB Group has a robust risk management organisational structure with a comprehensive set of policies and procedures to identify, measure, monitor and control various risks that may arise. These risk management policies and procedures are regularly reviewed and updated to reflect changes in markets and business strategies. Various groups of risk takers assume their respective responsibilities for risk management.

The Board of Directors, representing the interests of shareholders, is the highest decision-making authority of the NCB Group and has the ultimate responsibility for risk management. The Board, with the assistance of its committees, has the primary responsibility for the formulation of risk management strategies and for ensuring that the NCB Group has an effective risk management system to implement these strategies.

The Risk Management Committee, a standing committee established by the Board of Directors, is responsible for overseeing the NCB Group's various types of risks, approving high-level risk-related policies and monitoring their implementation, approving significant or high risk exposures or transactions. The Risk Management Committee would refer any specific transaction to the Board if it is deemed so significant that Board approval is desirable. The Audit Committee assists the Board in fulfilling its role in overseeing the internal control system.

Various units of the NCB Group have their respective risk management responsibilities. Business units act as the first line of defence while risk management units, which are independent from

the business units, are responsible for the day-to-day management of different kinds of risks. Risk management units have the primary responsibilities for drafting, reviewing and updating various risk management policies and procedures.

The NCB Group has put in place appropriate internal control systems, including establishment of an organisation structure that sets clear lines of authority and responsibility for monitoring compliance with policies, procedures and limits. Proper reporting lines also provide sufficient independence of the control functions from the business areas, as well as adequate segregation of duties throughout the organisation which helps promote an appropriate internal control environment.

Pursuant to a risk-based approach, the Audit Department conducts independent reviews on areas including principal risks, regulatory compliance, adequacy and effectiveness of risk policies and internal control systems.

Product development and risk monitoring

To ensure the effectiveness of risk assessment and monitoring, the NCB Group has a comprehensive product development and risk monitoring system where roles and responsibilities of all related units are clearly defined and proper due diligence processes on product development are in place.

In accordance with the strategic objectives set by the Board and the Management, the respective product management units are responsible for formulating business and product development plans, and proceeding to specific product development activities. The division of strategic development shall ensure the plans are aligned with the NCB Group's overall strategies. Divisions that are responsible for risk management, legal, compliance and finance etc. are accountable for risk assessment and review.

Apart from product development, the respective product management units shall work closely with relevant risk evaluating divisions to identify and assess the risks of new products. Risk evaluating divisions shall conduct independent review on the risk assessment results and the corresponding risk management measures. Products can only be launched upon completion of the product due diligence process to the satisfaction of all risk evaluating divisions.

A prudent approach is adopted in offering treasury products to our clients. All new treasury products require approval from the Management or the special committee before launching.

40.1 Credit Risk

Credit risk is the risk of loss that a customer or counterparty is unable to or unwilling to meet its contractual obligations. Credit risk exists in the trading book and banking book, as well as from on- and off-balance sheet transactions of the NCB Group. It arises principally from lending, trade finance and treasury businesses.

Credit risk management framework

The NCB Group has formulated a comprehensive set of credit risk management policies and procedures, and appropriate credit risk limits to manage and control credit risk that may arise. These policies, procedures and credit risk limits are regularly reviewed and updated to cope with changes in market conditions and business strategies.

The NCB Group's organisation structure establishes a clear set of authority and responsibility for monitoring compliance with policies, procedures and limits.

The Credit and Loans Management Committee, a management committee authorised by the Chief Executive, is responsible for the implementation of the credit risk management strategies as well as the approval of credit policies. It also monitors various aspects of the NCB Group's loan portfolio such as asset quality, risk concentration. Various units of the NCB Group have their respective credit risk management responsibilities. Business units act as the first line of defence. They are obliged to make thorough assessment on every credit application and are fully responsible for monitoring credit performance and punctual repayments. The business activities conducted should also comply with the credit policies and procedures. The risk management units, which are independent from the business units, are responsible for the day-to-day management of credit risks and have the primary responsibilities for providing an independent due diligence through identifying, measuring, monitoring and controlling credit risk, as well as drafting, reviewing and updating credit risk management policies and procedures. They report directly to the Credit and Loans Management Committee, Chief Executive and Risk Management Committee. NCB China sets up independent risk monitoring teams to monitor credit risk, and submits management information and reports to Nanyang Bank on a regular basis.

The Board of Directors is the ultimate source of credit authority. The Board of Directors delegates credit approval authority to the Chief Executive. Based on management needs, the Chief Executive can further delegate to the subordinates within the limits authorised by the Board of Directors. The NCB Group sets the limits of credit approval authority according to business nature, internal rating, level of transaction risk and extent of the credit exposure.

Credit risk measurement and control

In view of the rapidly changing market conditions, the NCB Group has been continuously revisiting its credit strategies and conducting rigorous reviews on the concerned portfolios.

Advances

Different credit approval and control procedures are adopted according to level of risk associated with the customer, counterparty or transaction. All credit applications are subject to thorough risk assessment and proper approval. In general, most of the credit applications will be reviewed and assessed by independent officers of risk management units before approval, with exceptions given to certain designated products which satisfy certain conditions. These designated advances will be reviewed by designated units which are independent from the front line business units after funding being drawn. Obligor ratings (in terms of probability of default) and facility ratings (in terms of loss given default) are assigned to credit applications for non-retail exposures to support credit approval. Retail internal rating systems are deployed in the risk assessment of retail credit transactions, including small business retail exposures, residential mortgage loans and personal loans. Loan grades, obligor and facility ratings as well as loss estimates (if applicable) are used to support credit approval.

The NCB Group also uses loan grades, obligor ratings and loss estimates (if applicable) to support credit monitoring, reporting and analysis of credit risk information. For non-retail exposures, more frequent rating review and closer monitoring are required for higher-risk customers. For retail exposures, monthly updated internal ratings and loss estimates are used for credit monitoring on a portfolio basis. More comprehensive review is required for obligors being identified under high-risk pools.

The NCB Group employs an internal master rating scale that can be mapped to Standard & Poor's external credit ratings. The structure of internal master rating scale is in compliance with the requirement of the Banking (Capital) Rules under the Hong Kong Banking Ordinance.

Regular credit management information reports and ad hoc reports are provided to the Management, Risk Management Committee and Board of Directors to facilitate their continuous monitoring of credit risk.

In addition, the NCB Group identifies credit concentration risk by industry, geography, customer and counterparty. The NCB Group monitors changes to counterparties credit risk, quality of the credit portfolio and risk concentrations, and reports regularly to the NCB Group's management.

In the year of 2015, the NCB Group continues to adopt loan grading criteria which divide credit assets into 5 categories with reference to HKMA's guidelines, as below:

"Pass" represents loans where the borrower is current in meeting its repayment obligations and full repayment of interest and principal is not in doubt.

"Special Mention" represents loans where the borrower is experiencing difficulties which may threaten the NCB Group's position. Ultimate loss is not expected at this stage but could occur if adverse conditions persist.

"Substandard" represents loans where the borrower displays a definable weakness that is likely to jeopardise repayment.

"Doubtful" represents loans where collection in full is improbable and the NCB Group expects to sustain a loss of principal and/or interest, taking into account the net realisable value of the collateral.

"Loss" represents loans which are considered uncollectible after all collection options (such as the realisation of collateral or the institution of legal proceedings) have been exhausted.

Debt securities and derivatives

For investments in debt securities and securitisation assets, the obligor ratings or external credit ratings, assessment of the underlying assets and credit limits setting on customer/security issuer basis are used for managing credit risk associated with the investment. For derivatives, the NCB Group sets customer limits to manage the credit risk involved and follows the same approval and control processes as applied for advances. On-going monitoring and stop-loss procedures are established.

Settlement risk arises mainly from foreign exchange transactions with counterparties and also from derivatives transactions 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 or customer to cover all settlement risks arising from the NCB Group's market transactions on any single day.

Collateral held as security and other credit enhancements

The valuation and management of collateral have been documented in the credit risk management policies and procedures which cover acceptance criteria, validity of collateral,

loan-to-value ratio, haircut ratio, valuation and insurance, etc. The collateral is revalued on a regular basis, though the frequency and the method used varies with the type of collateral involved and the nature and the risk of the underlying credit. The NCB Group has established a mechanism to update the value of its main type of collateral, real estate properties, with the use of public indices on a portfolio basis. Collateral is insured with the NCB Group as the beneficiary.

For loans guaranteed by a third party, the NCB Group assesses the guarantor's financial condition, credit history and ability to meet obligations.

As at 30 September 2015, the NCB Group did not hold any collateral that it was permitted to sell or re-pledge in the absence of default by the borrower (31 December 2014: Nil).

(A) Credit exposures

The maximum credit exposure is the worst case scenario of exposure to the NCB Group without taking into account any collateral held or other credit enhancements. For on-balance sheet assets, the maximum exposure to credit risk equals their carrying amount. For letters of guarantee issued, the maximum exposure to credit risk is the maximum amount that the NCB Group could be required to pay if the guarantees are called upon. For loan commitment and other credit related liabilities, the maximum exposure to credit risk is the full amount of the committed facilities.

The nature of the collateral held and other credit enhancements and their financial effect to the different classes of the NCB Group's financial assets are as follows.

Balances and placements with banks and other financial institutions

These exposures are generally considered to be low risk due to the nature of the counterparties. Collateral is generally not sought on these assets.

Financial assets at fair value through profit or loss and investment in securities

Collateral is generally not sought on debt securities.

Derivative financial instruments

The Master Agreement published by the International Swaps and Derivatives Association, Inc. ("ISDA Master Agreement") is the preferred agreement for documenting derivatives activities of the NCB Group. It provides the contractual framework under which dealing activities across a full range of OTC transactions are conducted, and set out close-out netting provisions upon termination following the occurrence of an event of default or a termination event. In addition, if deemed necessary, Credit Support Annex ("CSA") will be included to form part of the Schedule to the ISDA Master Agreement. Under a CSA, collateral is passed from one counterparty to another, as appropriate, to mitigate the exposures.

Advances and other accounts, contingent liabilities and commitments

The general types of collateral are disclosed on page II-82. Advances and other accounts, contingent liabilities and commitments are collateralised to the extent considered appropriate by the NCB Group taking account of the risk assessment of individual exposures. The collateral coverage of

advances to customers is analysed on pages II-122 to II-125. The components and nature of contingent liabilities and commitments are disclosed in Note 34. Regarding the commitments that are unconditionally cancellable without prior notice, the NCB Group would assess the necessity to withdraw the credit line in case where the credit quality of a borrower deteriorates. For contingent liabilities and commitments, 14.35% is covered by collateral as at 30 September 2015 (31 December 2014: 12.62%; 31 December 2013; 14.94%; 31 December 2012: 15.79%).

(B) Gross advances and other accounts

Gross advances and other accounts before impairment allowances are summarised by product type as follows:

| | At 31 December | | | At |
|-------------------------|----------------|-------------|-------------|------------------|
| | 2012 | 2013 | 2014 | 30 September |
| | HK\$'000 | HK\$'000 | HK\$'000 | 2015 HK\$'000 |
| Advances to customers | | | | |
| Personal | | | | |
| —Mortgages | 17,143,632 | 19,071,015 | 21,137,660 | 23,588,095 |
| —Credit cards | — | 454,882 | 1,058,032 | 852,285 |
| —Others | 4,858,417 | 7,201,697 | 9,260,192 | 9,749,213 |
| Corporate | | | | |
| —Commercial loans | 103,158,279 | 108,469,101 | 110,404,053 | 120,194,522 |
| —Trade finance | 5,992,781 | 8,345,348 | 7,642,319 | 6,807,042 |
| | 131,153,109 | 143,542,043 | 149,502,256 | 161,191,157 |
| Trade bills | 8,069,618 | 13,242,636 | 16,371,563 | 11,406,959 |
| Total | 139,222,727 | 156,784,679 | 165,873,819 | 172,598,116 |

Advances with a specific repayment date are classified as overdue when the principal or interest is past due and remains unpaid. Advances repayable by regular instalments are classified as overdue when an instalment payment is past due and remains unpaid. Advances repayable on demand are classified as overdue either when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instruction or when the advances have remained continuously outside the approved limit that was advised to the borrower.

Advances are impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred and that loss event(s) has an impact on the estimated future cash flows of the advances that can be reliably estimated.

If there is objective evidence that an impairment loss on advances has been incurred, the amount of loss is measured as the difference between the carrying amount and the present value of estimated future cash flows generated by the advances. Objective evidence that advances are impaired includes observable data that comes to the attention of the NCB Group about the loss events.

The criteria that the NCB Group uses to determine that there is objective evidence of an impairment loss mainly include:

- Significant financial difficulty incurred by the borrower;
- A breach of contract, such as a default or delinquency in principal or interest payment;
- For economic or legal reasons related to the borrower's financial difficulty, the NCB Group has granted to the borrower a concession that it would not otherwise consider;

- Probable that the borrower will become bankrupt or undergo other financial reorganisation; or
- Other observable data indicating that there is a measurable decrease in the estimated future cash flows from such advances.

(a) Advances neither overdue nor impaired

Advances that were neither overdue nor impaired are analysed by internal credit grades as follows:

| | At 31 December 2012 | | | |
|-------------------------|---------------------|------------------|----------------------|--------------------|
| | Pass | Special mention | Substandard or below | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Advances to customers | | | | |
| Personal | | | | |
| —Mortgages | 16,895,662 | 23,523 | 2,066 | 16,921,251 |
| —Credit cards | — | — | — | — |
| —Others | 4,792,158 | 8,453 | 1,607 | 4,802,218 |
| Corporate | | | | |
| —Commercial loans | 100,427,042 | 2,145,488 | 72 | 102,572,602 |
| — Trade finance | 5,686,815 | 240,980 | — | 5,927,795 |
| | 127,801,677 | 2,418,444 | 3,745 | 130,223,866 |
| Trade bills | 8,069,618 | — | — | 8,069,618 |
| Total | 135,871,295 | 2,418,444 | 3,745 | 138,293,484 |
| | | | | |
| | At 31 December 2013 | | | |
| | Pass | Special mention | Substandard or below | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Advances to customers | | | | |
| Personal | | | | |
| —Mortgages | 18,699,997 | 23,672 | 1,958 | 18,725,627 |
| —Credit cards | 445,096 | — | — | 445,096 |
| —Others | 7,111,627 | 3,798 | 1,697 | 7,117,122 |
| Corporate | | | | |
| —Commercial loans | 104,860,954 | 2,953,206 | 12,863 | 107,827,023 |
| —Trade finance | 8,193,494 | 87,262 | — | 8,280,756 |
| | 139,311,168 | 3,067,938 | 16,518 | 142,395,624 |
| Trade bills | 13,242,636 | — | — | 13,242,636 |
| Total | 152,553,804 | 3,067,938 | 16,518 | 155,638,260 |

| | At 31 December 2014 | | | |
|-------------------------|---------------------|--------------------|-------------------------|-------------|
| | Pass | Special mention | Substandard or below | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Advances to customers | | | | |
| Personal | | | | |
| —Mortgages | 20,837,952 | 19,811 | 1,729 | 20,859,492 |
| —Credit cards | 988,572 | — | 99 | 988,671 |
| —Others | 9,187,486 | 3,660 | 1,363 | 9,192,509 |
| Corporate | | | | |
| —Commercial loans | 107,368,945 | 1,492,590 | 29,394 | 108,890,929 |
| —Trade finance | 7,368,171 | 163,793 | — | 7,531,964 |
| | 145,751,126 | 1,679,854 | 32,585 | 147,463,565 |
| Trade bills | 16,371,563 | — | — | 16,371,563 |
| Total | 162,122,689 | 1,679,854 | 32,585 | 163,835,128 |

| | At 30 September 2015 | | | |
|-------------------------|----------------------|--------------------|-------------------------|-------------|
| | Pass | Special mention | Substandard or below | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Advances to customers | | | | |
| Personal | | | | |
| —Mortgages | 23,270,748 | 16,297 | 2,027 | 23,289,072 |
| —Credit cards | 778,487 | — | 10 | 778,497 |
| —Others | 9,626,483 | 17,860 | — | 9,644,343 |
| Corporate | | | | |
| —Commercial loans | 117,736,837 | 1,192,006 | 927 | 118,929,770 |
| —Trade finance | 6,600,664 | 80,060 | — | 6,680,724 |
| | 158,013,219 | 1,306,223 | 2,964 | 159,322,406 |
| Trade bills | 11,406,959 | — | — | 11,406,959 |
| Total | 169,420,178 | 1,306,223 | 2,964 | 170,729,365 |

The occurrence of loss event(s) may not necessarily result in impairment loss where the advances are fully collateralised. While such advances are of “substandard” or lower grades, they are regarded as not being impaired and have been included in the above tables.

(b) Advances overdue but not impaired

The gross amount of advances overdue but not impaired is analysed as follows:

| | At 31 December 2012 | | | | |
|-------------------------|--|---|--|---------------------------------|----------|
| | Overdue for three months or less | Overdue for six months or less but over three months | Overdue for one year or less but over six months | Overdue for over one year | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Advances to customers | | | | | |
| Personal | | | | | |
| —Mortgages | 199,852 | 4,227 | — | 191 | 204,270 |
| —Credit cards | — | — | — | — | — |
| —Others | 51,452 | — | — | — | 51,452 |
| Corporate | | | | | |
| —Commercial loans | 199,491 | 6,371 | 2 | 1 | 205,865 |
| —Trade finance | 3,404 | — | — | — | 3,404 |
| Total | 454,199 | 10,598 | 2 | 192 | 464,991 |

At 31 December 2013

| | Overdue for three months or less | Overdue for six months or less but over three months | Overdue for one year or less but over six months | Overdue for over one year | Total |
|-------------------------|--|---|--|---------------------------------|----------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Advances to customers | | | | | |
| Personal | | | | | |
| —Mortgages | 312,480 | 92 | — | 5,475 | 318,047 |
| —Credit cards | 9,243 | 543 | — | — | 9,786 |
| —Others | 69,397 | 1,174 | 5,117 | — | 75,688 |
| Corporate | | | | | |
| —Commercial loans | 288,300 | 6,221 | 2,178 | 1,042 | 297,741 |
| —Trade finance | 9,882 | — | 477 | — | 10,359 |
| Total | <u>689,302</u> | <u>8,030</u> | <u>7,772</u> | <u>6,517</u> | <u>711,621</u> |

At 31 December 2014

| | Overdue for three months or less | Overdue for six months or less but over three months | Overdue for one year or less but over six months | Overdue for over one year | Total |
|-------------------------|--|---|--|---------------------------------|----------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Advances to customers | | | | | |
| Personal | | | | | |
| —Mortgages | 246,890 | 4,993 | — | 7,087 | 258,970 |
| —Credit cards | 31,892 | — | — | — | 31,892 |
| —Others | 47,856 | 2,441 | — | 6,014 | 56,311 |
| Corporate | | | | | |
| —Commercial loans | 523,957 | 18,936 | 1,160 | 1,090 | 545,143 |
| —Trade finance | 7,488 | 24 | — | — | 7,512 |
| Total | <u>858,083</u> | <u>26,394</u> | <u>1,160</u> | <u>14,191</u> | <u>899,828</u> |

At 30 September 2015

| | Overdue for three months or less | Overdue for six months or less but over three months | Overdue for one year or less but over six months | Overdue for over one year | Total |
|-------------------------|--|---|--|---------------------------------|----------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Advances to customers | | | | | |
| Personal | | | | | |
| —Mortgages | 215,415 | 1,670 | 2,821 | — | 219,906 |
| —Credit cards | 45,398 | — | — | — | 45,398 |
| —Others | 87,627 | 1,375 | 503 | 353 | 89,858 |
| Corporate | | | | | |
| —Commercial loans | 467,169 | 26,232 | 199 | 18,307 | 511,907 |
| —Trade finance | 10,474 | — | — | 1,176 | 11,650 |
| Total | <u>826,083</u> | <u>29,277</u> | <u>3,523</u> | <u>19,836</u> | <u>878,719</u> |

(c) Impaired advances

Advances individually identified to be impaired are analysed by product type as follows:

| | Gross advances | | | | Market value of collateral | | | |
|--|----------------|----------------|------------------|-----------------|----------------------------|----------------|----------------|-----------------|
| | At 31 December | | | At 30 September | At 31 December | | | At 30 September |
| | 2012 | 2013 | 2014 | 2015 | 2012 | 2013 | 2014 | 2015 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Advances to customers | | | | | | | | |
| Personal | | | | | | | | |
| —Mortgages | 18,111 | 27,341 | 19,198 | 79,117 | 19,217 | 30,941 | 12,425 | 104,483 |
| —Credit cards | — | — | 37,469 | 28,390 | — | — | — | — |
| —Others | 4,747 | 8,887 | 11,372 | 15,012 | 5,586 | 5,702 | 10,027 | 15,580 |
| Corporate | | | | | | | | |
| —Commercial loans | 379,812 | 344,337 | 967,981 | 752,845 | 157,993 | 109,922 | 883,162 | 359,933 |
| —Trade finance | 61,582 | 54,233 | 102,843 | 114,668 | 83,399 | 57,575 | 45,703 | 30,804 |
| Total | <u>464,252</u> | <u>434,798</u> | <u>1,138,863</u> | <u>990,032</u> | <u>266,195</u> | <u>204,140</u> | <u>951,317</u> | <u>510,800</u> |
| Impairment allowances made in respect of such advances | <u>220,593</u> | <u>280,913</u> | <u>732,356</u> | <u>714,494</u> | | | | |

| | At 31 December | | | At 30 September |
|---|----------------|----------------|----------------|-----------------|
| | 2012 | 2013 | 2014 | 2015 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Current market value of collateral held against the covered portion of such advances to customers | <u>266,195</u> | <u>204,140</u> | <u>951,317</u> | <u>510,800</u> |
| Covered portion of such advances to customers | <u>177,725</u> | <u>153,690</u> | <u>637,382</u> | <u>391,433</u> |
| Uncovered portion of such advances to customers | <u>286,527</u> | <u>281,108</u> | <u>501,481</u> | <u>598,599</u> |

The impairment allowances were made after taking into account the value of collateral in respect of impaired advances.

As at 30 September 2015, there were no impaired trade bills (31 December 2014: Nil; 31 December 2013: Nil; 31 December 2012: Nil).

Classified or impaired advances to customers are analysed as follows:

| | At 31 December | | | At 30 September |
|---|----------------|----------------|------------------|------------------|
| | 2012 | 2013 | 2014 | 2015 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Gross classified or impaired advances to customers | <u>483,659</u> | <u>485,811</u> | <u>1,254,636</u> | <u>1,050,613</u> |
| Gross classified or impaired advances to customers as a percentage of gross advances to customers | <u>0.37%</u> | <u>0.34%</u> | <u>0.84%</u> | <u>0.65%</u> |
| Individually assessed impairment allowances made in respect of such advances | <u>220,593</u> | <u>280,913</u> | <u>731,598</u> | <u>713,642</u> |

Classified or impaired advances to customers represent advances which are either classified as “substandard”, “doubtful” or “loss” under the NCB Group’s classification of loan quality, or individually assessed to be impaired.

(d) Advances overdue for more than three months

The gross amount of advances overdue for more than three months is analysed as follows:

| | Amount | | | | % of gross advances to customers | | | |
|--|----------------|----------|----------|--------------|----------------------------------|----------|----------|--------------|
| | At 31 December | | | At | At 31 December | | | At |
| | 2012 | 2013 | 2014 | 30 September | 2012 | 2013 | 2014 | 30 September |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Gross advances to customers which have been overdue for: | | | | | | | | |
| —six months or less but over three months | 37,443 | 197,953 | 261,805 | 273,427 | 0.03% | 0.14% | 0.17% | 0.17% |
| —one year or less but over six months | 101,388 | 67,182 | 153,074 | 400,920 | 0.08% | 0.04% | 0.10% | 0.25% |
| —over one year | 125,587 | 126,102 | 173,289 | 158,195 | 0.09% | 0.09% | 0.12% | 0.10% |
| Advances overdue for over three months | 264,418 | 391,237 | 588,168 | 832,542 | 0.20% | 0.27% | 0.39% | 0.52% |
| Individually assessed impairment allowances made in respect of such advances | 121,444 | 266,765 | 505,549 | 556,025 | | | | |

| | At 31 December | | | At |
|---|----------------|----------|----------|--------------|
| | 2012 | 2013 | 2014 | 30 September |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Current market value of collateral held against the covered portion of such advances to customers | 611,086 | 201,240 | 430,468 | 442,767 |
| Covered portion of such advances to customers | 150,371 | 145,200 | 284,182 | 255,541 |
| Uncovered portion of such advances to customers | 114,047 | 246,037 | 303,986 | 577,001 |

Collateral held against overdue or impaired loans is principally represented by charges over business assets such as commercial and residential premises for corporate loans and mortgages over residential properties for personal loans.

At 30 September 2015, there were no trade bills overdue for more than three months (31 December 2014: Nil; 31 December 2013: Nil; 31 December 2012: Nil).

(e) Rescheduled advances

| | Amount | | | | % of gross advances to customers | | | |
|--|----------------|----------|----------|--------------|----------------------------------|----------|----------|--------------|
| | At 31 December | | | At | At 31 December | | | At |
| | 2012 | 2013 | 2014 | 30 September | 2012 | 2013 | 2014 | 30 September |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Rescheduled advances to customers net of amounts included in "Advances overdue for more than three months" | 11,039 | 6,288 | 9,803 | 646 | 0.01% | 0.00% | 0.01% | 0.00% |

Rescheduled advances are those advances that have been restructured or renegotiated because of deterioration in the financial position of the borrower or of the inability of the borrower to meet the original repayment schedule. Rescheduled advances, which have been overdue for more than three months under the revised repayment terms, are included in "Advances overdue for more than three months".

(C) Repossessed assets

During the year, the NCB Group obtained assets by taking possession of collateral held as security. The nature and carrying value of these assets held are summarised as follows:

| | At 31 December | | | At 30 September |
|----------------------------------|----------------|---------------|------------|-----------------|
| | 2012 | 2013 | 2014 | 2015 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Industrial properties | 4,644 | 2,790 | — | 81,629 |
| Residential properties | 12,198 | 19,494 | — | 14,006 |
| Other | — | — | 583 | — |
| | <u>16,842</u> | <u>22,284</u> | <u>583</u> | <u>95,635</u> |

The estimated market value of repossessed assets held by the NCB Group as at 30 September 2015 amounted to HK\$111,872,000 (31 December 2014: HK\$4,906,000; 31 December 2013: HK\$38,822,000; 31 December 2012: HK\$24,229,000). They comprise properties in respect of which the NCB Group has acquired access or control (e.g. through court proceedings or voluntary actions by the proprietors concerned) for release in full or in part of the obligations of the borrowers.

When the repossessed assets are not readily convertible into cash, the NCB Group may consider the following alternatives:

- adjusting the selling prices
- selling the loans together with the assets
- arranging loan restructure

(D) Balances and placements with banks and other financial institutions

The following tables present an analysis of balances and placements with banks and other financial institutions that are neither overdue nor impaired by rating agency designation.

| | At 31 December 2012 | | | |
|--|---------------------|-------------------|-------------------|-------------------|
| | Aaa to A3 | Lower than A3 | Unrated | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Central banks | 13,139,030 | — | — | 13,139,030 |
| Banks and other financial institutions | 24,276,860 | 12,304,614 | 7,725,531 | 44,307,005 |
| | <u>37,415,890</u> | <u>12,304,614</u> | <u>7,725,531</u> | <u>57,446,035</u> |
| | At 31 December 2013 | | | |
| | Aaa to A3 | Lower than A3 | Unrated | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Central banks | 17,068,323 | — | — | 17,068,323 |
| Banks and other financial institutions | 15,178,049 | 20,416,998 | 12,536,250 | 48,131,297 |
| | <u>32,246,372</u> | <u>20,416,998</u> | <u>12,536,250</u> | <u>65,199,620</u> |

| | At 31 December 2014 | | | |
|--|----------------------|-------------------|-------------------|-------------------|
| | Aaa to A3 | Lower than A3 | Unrated | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Central banks | 18,694,761 | — | — | 18,694,761 |
| Banks and other financial institutions | 20,208,603 | 20,003,535 | 16,963,308 | 57,175,446 |
| | <u>38,903,364</u> | <u>20,003,535</u> | <u>16,963,308</u> | <u>75,870,207</u> |
| | At 30 September 2015 | | | |
| | Aaa to A3 | Lower than A3 | Unrated | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Central banks | 11,030,557 | — | — | 11,030,557 |
| Banks and other financial institutions | 28,551,863 | 12,105,749 | 5,544,631 | 46,202,243 |
| | <u>39,582,420</u> | <u>12,105,749</u> | <u>5,544,631</u> | <u>57,232,800</u> |

As at 30 September 2015, there were no overdue or impaired balances and placements with banks and other financial institutions (31 December 2014: Nil; 31 December 2013: Nil; 31 December 2012: Nil).

(E) Debt securities and certificates of deposit

The following tables present an analysis of the carrying value of debt securities and certificates of deposit by issue rating. In the absence of such issue ratings, the ratings designated for the issuers are reported.

| | At 31 December 2012 | | | | | |
|---|---------------------|-------------------|-------------------|----------------|------------------|-------------------|
| | Aaa | Aa1 to Aa3 | A1 to A3 | Lower than A3 | Unrated | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Available-for-sale securities | 649,815 | 20,427,584 | 12,120,299 | 205,282 | 4,901,735 | 38,304,715 |
| Held-to-maturity securities | — | 884,701 | 585,679 | 896 | 250 | 1,471,526 |
| Loans and receivables | — | — | 199,891 | — | 957,371 | 1,157,262 |
| Financial assets at fair value through profit or loss | 621 | 4,271,737 | 581,712 | 271,090 | — | 5,125,160 |
| Total | <u>650,436</u> | <u>25,584,022</u> | <u>13,487,581</u> | <u>477,268</u> | <u>5,859,356</u> | <u>46,058,663</u> |
| | At 31 December 2013 | | | | | |
| | Aaa | Aa1 to Aa3 | A1 to A3 | Lower than A3 | Unrated | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Available-for-sale securities | 895,932 | 18,002,312 | 15,328,029 | 445,839 | 5,266,560 | 39,938,672 |
| Held-to-maturity securities | — | 585,144 | — | 298 | — | 585,442 |
| Loans and receivables | — | — | 1,008,897 | — | 675,167 | 1,684,064 |
| Financial assets at fair value through profit or loss | 624 | 3,665,412 | 498,657 | — | — | 4,164,693 |
| Total | <u>896,556</u> | <u>22,252,868</u> | <u>16,835,583</u> | <u>446,137</u> | <u>5,941,727</u> | <u>46,372,871</u> |

| At 31 December 2014 | | | | | | |
|---|-------------------|-------------------|-------------------|------------------|------------------|-------------------|
| | Aaa | Aa1 to Aa3 | A1 to A3 | Lower than A3 | Unrated | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Available-for-sale securities . . . | 5,179,077 | 20,657,187 | 11,750,008 | 448,511 | 4,364,791 | 42,399,574 |
| Held-to-maturity securities . . . | 243,450 | 1,759,590 | 615,350 | — | — | 2,618,390 |
| Loans and receivables | — | — | 62,421 | — | 2,012,173 | 2,074,594 |
| Financial assets at fair value through profit or loss | 4,589,985 | 1,309,309 | 255,919 | — | — | 6,155,213 |
| Total | <u>10,012,512</u> | <u>23,726,086</u> | <u>12,683,698</u> | <u>448,511</u> | <u>6,376,964</u> | <u>53,247,771</u> |
| At 30 September 2015 | | | | | | |
| | Aaa | Aa1 to Aa3 | A1 to A3 | Lower than A3 | Unrated | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Available-for-sale securities . . . | 301,999 | 28,407,865 | 15,130,980 | 1,761,044 | 4,072,950 | 49,674,838 |
| Held-to-maturity securities . . . | 197,793 | 2,311,347 | — | — | — | 2,509,140 |
| Loans and receivables | — | — | 752,998 | — | 200,575 | 953,573 |
| Financial assets at fair value through profit or loss | — | 3,787,468 | 255,513 | — | — | 4,042,981 |
| Total | <u>499,792</u> | <u>34,506,680</u> | <u>16,139,491</u> | <u>1,761,044</u> | <u>4,273,525</u> | <u>57,180,532</u> |

As at 30 September 2015, there were no impaired or overdue debt securities and certificates of deposit (31 December 2014: Nil; 31 December 2013: Nil; 31 December 2012: Nil).

40.2 Market Risk

Market risk refers to the risk of loss arising from movements in the value of foreign exchange, interest rate, equity and commodity positions held by the NCB Group due to the volatility of financial market price (foreign exchange rate, interest rate, equity price, commodity price). The NCB Group adopts a moderate market risk appetite to achieve a balance between risk and return.

The NCB Group's objective in managing market risk is to secure healthy growth of the treasury business, by effective management of potential market risk in the NCB Group's business, according to the NCB Group's overall risk appetite and strategy of treasury business on the basis of a well-established risk management regime and related management measures.

In accordance with the NCB Group's corporate governance principles in respect of risk management, the Board and Risk Management Committee, senior management and functional units perform their duties and responsibilities to manage the NCB Group's market risk. The risk management units are responsible for assisting senior management to perform their day-to-day duties, independently monitoring the market risk profile and compliance of management policies and limits of the NCB Group to ensure that the aggregate and individual market risks are within acceptable levels. Independent units are assigned to monitor the risk exposure against risk limits on a daily basis, together with profit and loss reports submitted to senior management on a regular basis, while limit excesses should be reported at once when they occur. NCB China sets up independent risk monitoring teams to monitor daily market risk and limit compliance, and submit management information and reports to Nanyang Bank on a regular basis.

The NCB Group sets up market risk indicators and limits to identify, measure, monitor and control market risk. Major risk indicators and limits include but are not limited to VAR, Stop Loss,

Open Position, Stress Testing and Sensitivity Analysis (Basis Point Value), etc. To meet management requirements, major risk indicators and limits are classified into four levels, and are approved by the Risk Management Committee, Asset and Liability Management Committee or senior management respectively. Treasury business units are required to conduct their business within approved market risk indicators and limits.

(A) VAR

The NCB Group uses the VAR to measure and report general market risks to the Risk Management Committee and senior management on a periodic basis. The NCB Group adopts a uniformed VAR calculation model, using a historical simulation approach and two years of historical market data, to calculate the VAR over 1-day holding period with a 99% confidence level, and sets up the VAR limit.

The following table sets out the VAR for all general market risk exposure¹ of the NCB Group.

| | Year | At 31 December HK\$'000 | Minimum for the period HK\$'000 | Maximum for the period HK\$'000 | Average for the period HK\$'000 |
|---|------|----------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| VAR for all market risk | 2014 | 635 | 635 | 1,901 | 1,181 |
| | 2013 | 1,294 | 1,294 | 2,982 | 2,196 |
| | 2012 | 2,095 | 1,188 | 2,814 | 2,232 |
| VAR for foreign exchange risk | 2014 | 544 | 544 | 1,975 | 1,145 |
| | 2013 | 1,191 | 1,191 | 3,047 | 2,196 |
| | 2012 | 2,007 | 1,150 | 2,774 | 2,171 |
| VAR for interest rate risk | 2014 | 274 | 225 | 883 | 644 |
| | 2013 | 502 | 117 | 635 | 268 |
| | 2012 | 256 | 148 | 534 | 251 |

| | Year | At 30 September HK\$'000 | Minimum for the period HK\$'000 | Maximum for the period HK\$'000 | Average for the period HK\$'000 |
|---|------|-----------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| VAR for all market risk | 2015 | 747 | 559 | 1,387 | 868 |
| | 2014 | 1,515 | 866 | 1,606 | 1,150 |
| VAR for foreign exchange risk | 2015 | 716 | 463 | 1,398 | 833 |
| | 2014 | 1,533 | 684 | 1,675 | 1,108 |
| VAR for interest rate risk | 2015 | 78 | 78 | 301 | 186 |
| | 2014 | 544 | 499 | 883 | 747 |

Note:

1. Structural FX positions have been excluded.

Although VAR is a valuable guide to risk, it should always be viewed in the context of its limitations. For example:

- the use of historical market data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;
- the use of a one-day holding period assumes that all positions can be liquidated or hedged in one day. This may not fully reflect the market risk arising at times of severe illiquidity, when a one-day holding period may be insufficient to liquidate or hedge all positions fully;

- the use of a 99% confidence level, by definition, does not take into account losses that might occur beyond this level of confidence; and
- VAR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures.

The NCB Group recognises these limitations by formulating stress test indicators and limits to assess and manage the market risk uncovered by VAR. The stress testing programme of the market risk includes sensitivity testing on changes in risk factors with various degrees of severity, as well as scenario analysis on historical events including the 1997 Asian Financial Crisis and 2008 Financial Tsunami, etc.

(B) Currency risk

The NCB Group's assets and liabilities are denominated in major currencies, particularly the HK dollar, the US dollar and Renminbi. To ensure the currency risk exposure of the NCB Group is kept to an acceptable level, risk limits (e.g. Position and VAR limit) are used to serve as a monitoring tool. Moreover, the NCB Group seeks to minimise the gap between assets and liabilities in the same currency. Foreign exchange contracts (e.g. FX swaps) are usually used to manage FX risk associated with foreign currency-denominated assets and liabilities.

The tables below summarise the NCB Group's exposure to foreign currency exchange rate risk. Included in the tables are the assets and liabilities at carrying amounts in HK dollars equivalent, categorised by the original currency.

| | At 31 December 2012 | | | | | | | Total HK\$'000 |
|---|---------------------|--------------------|-------------------|------------------|--------------------|------------------|------------------|--------------------|
| | Renminbi | US Dollars | HK Dollars | Euro | Japanese Yen | Pound Sterling | Others | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | |
| Assets | | | | | | | | |
| Cash and balances with banks and other financial institutions .. | 30,049,216 | 1,858,532 | 6,814,663 | 428,490 | 106,430 | 613,309 | 917,680 | 40,788,320 |
| Placements with banks and other financial institutions maturing between one and twelve months | 14,226,915 | 2,272,850 | 809,179 | — | — | — | — | 17,308,944 |
| Financial assets at fair value through profit or loss | — | 772,821 | 4,272,358 | — | — | — | 79,981 | 5,125,160 |
| Derivative financial instruments | 113,918 | 3,910 | 646,749 | — | — | — | — | 764,577 |
| Advances and other accounts | 41,284,919 | 31,387,484 | 64,596,843 | 377,712 | 84,599 | 12,113 | 289,015 | 138,032,685 |
| Investment in securities | | | | | | | | |
| —Available-for-sale securities | 9,199,442 | 7,715,820 | 12,651,215 | 785,618 | 1,468,167 | 15,128 | 6,525,471 | 38,360,861 |
| —Held-to-maturity securities | 884,701 | 464,743 | 1,146 | — | — | — | 120,936 | 1,471,526 |
| —Loans and receivables | 1,157,262 | — | — | — | — | — | — | 1,157,262 |
| Investment properties ... | 37,445 | — | 155,005 | — | — | — | — | 192,450 |
| Properties, plant and equipment | 650,825 | 4,276 | 393,644 | — | — | — | — | 1,048,745 |
| Other assets (including deferred tax assets) ... | 283,109 | 223,760 | 1,036,172 | 6 | 2,554 | 4 | 2,185 | 1,547,790 |
| Total assets | <u>97,887,752</u> | <u>44,704,196</u> | <u>91,376,974</u> | <u>1,591,826</u> | <u>1,661,750</u> | <u>640,554</u> | <u>7,935,268</u> | <u>245,798,320</u> |
| Liabilities | | | | | | | | |
| Deposits and balances from banks and other financial institutions .. | 12,185,592 | 7,171,977 | 785,576 | 21,639 | 15,116 | 7,868 | 74,303 | 20,262,071 |
| Financial liabilities at fair value through profit or loss | — | — | 4,975,073 | — | — | — | — | 4,975,073 |
| Derivative financial instruments | 82,226 | 115,283 | 262,098 | — | — | — | — | 459,607 |
| Deposits from customers | 66,697,901 | 31,214,436 | 77,772,653 | 2,083,241 | 153,534 | 741,624 | 6,870,328 | 185,533,717 |
| Other accounts and provisions (including current and deferred tax liabilities) | 7,314,706 | 892,457 | 1,682,759 | 48,414 | 84,561 | 1,723 | 56,749 | 10,081,369 |
| Total liabilities | <u>86,280,425</u> | <u>39,394,153</u> | <u>85,478,159</u> | <u>2,153,294</u> | <u>253,211</u> | <u>751,215</u> | <u>7,001,380</u> | <u>221,311,837</u> |
| Net on-balance sheet position | <u>11,607,327</u> | <u>5,310,043</u> | <u>5,898,815</u> | <u>(561,468)</u> | <u>1,408,539</u> | <u>(110,661)</u> | <u>933,888</u> | <u>24,486,483</u> |
| Off-balance sheet net notional position* ... | <u>(4,489,727)</u> | <u>(3,248,672)</u> | <u>9,701,784</u> | <u>567,903</u> | <u>(1,406,739)</u> | <u>114,453</u> | <u>(846,095)</u> | <u>392,907</u> |
| Contingent liabilities and commitments | <u>36,717,979</u> | <u>25,800,962</u> | <u>24,774,429</u> | <u>645,012</u> | <u>120,838</u> | <u>—</u> | <u>9,875</u> | <u>88,069,095</u> |

APPENDIX II

ACCOUNTANTS' REPORT OF NANYANG BANK

| | At 31 December 2013 | | | | | | | Total HK\$'000 |
|---|---------------------|-------------------|-------------------|------------------|----------------|----------------|------------------|--------------------|
| | Renminbi | US Dollars | HK Dollars | Euro | Japanese Yen | Pound Sterling | Others | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | |
| Assets | | | | | | | | |
| Cash and balances with banks and other financial institutions . . | 37,895,965 | 3,302,233 | 3,031,355 | 287,594 | 76,650 | 43,356 | 102,166 | 44,739,319 |
| Placements with banks and other financial institutions maturing between one and twelve months | 20,497,328 | 846,672 | — | — | — | — | — | 21,344,000 |
| Financial assets at fair value through profit or loss | — | 498,657 | 3,666,036 | — | — | — | — | 4,164,693 |
| Derivative financial instruments | 95,469 | 15,990 | 396,994 | — | — | — | — | 508,453 |
| Advances and other accounts | 46,507,717 | 43,888,535 | 64,276,248 | 391,263 | 34,633 | 11,410 | 206,945 | 155,316,751 |
| Investment in securities | | | | | | | | |
| —Available-for-sale securities | 14,477,805 | 6,151,826 | 11,191,446 | 780,426 | — | — | 7,401,134 | 40,002,637 |
| —Held-to-maturity securities | 585,144 | — | 298 | — | — | — | — | 585,442 |
| —Loans and receivables | 833,378 | 850,686 | — | — | — | — | — | 1,684,064 |
| Investment properties . . . | 36,849 | — | 147,412 | — | — | — | — | 184,261 |
| Properties, plant and equipment | 641,284 | 3,467 | 409,209 | — | — | — | — | 1,053,960 |
| Other assets (including deferred tax assets) . . . | 360,417 | 49,808 | 3,624,857 | 399 | 7 | 6 | 1,706 | 4,037,200 |
| Total assets | 121,931,356 | 55,607,874 | 86,743,855 | 1,459,682 | 111,290 | 54,772 | 7,711,951 | 273,620,780 |
| Liabilities | | | | | | | | |
| Deposits and balances from banks and other financial institutions . . | 17,115,023 | 9,846,139 | 1,340,154 | 72,617 | 4,195 | 3,290 | 464,611 | 28,846,029 |
| Financial liabilities at fair value through profit or loss | — | — | 4,433,736 | — | — | — | — | 4,433,736 |
| Derivative financial instruments | 92,363 | 59,342 | 191,451 | — | — | — | — | 343,156 |
| Deposits from customers | 82,735,748 | 30,587,345 | 75,681,802 | 2,254,533 | 211,583 | 922,912 | 5,766,494 | 198,160,417 |
| Other accounts and provisions (including current and deferred tax liabilities) | 10,488,966 | 1,026,354 | 3,741,644 | 57,944 | 32,756 | 1,391 | 86,033 | 15,435,088 |
| Total liabilities | 110,432,100 | 41,519,180 | 85,388,787 | 2,385,094 | 248,534 | 927,593 | 6,317,138 | 247,218,426 |
| Net on-balance sheet position | 11,499,256 | 14,088,694 | 1,355,068 | (925,412) | (137,244) | (872,821) | 1,394,813 | 26,402,354 |
| Off-balance sheet net notional position* | (4,137,873) | (12,082,047) | 15,842,217 | 929,725 | 138,070 | 873,190 | (1,347,921) | 215,361 |
| Contingent liabilities and commitments | 58,871,709 | 30,613,919 | 20,015,614 | 566,451 | 54,213 | 8,978 | 15,232 | 110,146,116 |

APPENDIX II

ACCOUNTANTS' REPORT OF NANYANG BANK

| | At 31 December 2014 | | | | | | | Total HK\$'000 |
|---|---------------------|-------------------|--------------------|------------------|----------------|----------------|------------------|--------------------|
| | Renminbi | US Dollars | HK Dollars | Euro | Japanese Yen | Pound Sterling | Others | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | |
| Assets | | | | | | | | |
| Cash and balances with banks and other financial institutions . . | 42,364,659 | 2,960,246 | 11,289,701 | 831,519 | 239,946 | 507,181 | 89,548 | 58,282,800 |
| Placements with banks and other financial institutions maturing between one and twelve months | 16,629,417 | 1,551,345 | — | — | — | — | — | 18,180,762 |
| Financial assets at fair value through profit or loss | — | 255,919 | 5,899,294 | — | — | — | — | 6,155,213 |
| Derivative financial instruments | 29,429 | 23,304 | 386,339 | — | — | — | — | 439,072 |
| Advances and other accounts | 47,159,099 | 45,377,082 | 70,479,469 | 692,972 | 39,198 | 6,024 | 149,855 | 163,903,699 |
| Investment in securities | | | | | | | | |
| —Available-for-sale securities | 18,630,828 | 5,063,554 | 11,506,285 | 1,288,052 | — | 328,143 | 5,658,478 | 42,475,340 |
| —Held-to-maturity securities | 2,374,940 | — | — | — | — | — | 243,450 | 2,618,390 |
| —Loans and receivables | 2,074,594 | — | — | — | — | — | — | 2,074,594 |
| Investment properties | 24,943 | — | 147,769 | — | — | — | — | 172,712 |
| Properties, plant and equipment | 576,152 | 2,349 | 422,145 | — | — | — | — | 1,000,646 |
| Other assets (including deferred tax assets) | 441,622 | 8,160 | 804,898 | 71 | 8 | 1 | 2,148 | 1,256,908 |
| Total assets | 130,305,683 | 55,241,959 | 100,935,900 | 2,812,614 | 279,152 | 841,349 | 6,143,479 | 296,560,136 |
| Liabilities | | | | | | | | |
| Deposits and balances from banks and other financial institutions . . | 27,383,278 | 8,127,490 | 962,567 | 2,631 | 5,388 | 7,837 | 1,246,420 | 37,735,611 |
| Financial liabilities at fair value through profit or loss | — | — | 4,970,693 | — | — | — | — | 4,970,693 |
| Derivative financial instruments | 104,275 | 40,231 | 134,000 | — | — | — | — | 278,506 |
| Deposits from customers | 71,779,386 | 38,596,971 | 91,755,578 | 2,890,697 | 203,270 | 743,193 | 3,664,840 | 209,633,935 |
| Other accounts and provisions (including current and deferred tax liabilities) | 12,005,185 | 1,249,882 | 1,920,180 | 79,319 | 65,738 | 1,910 | 81,977 | 15,404,191 |
| Total liabilities | 111,272,124 | 48,014,574 | 99,743,018 | 2,972,647 | 274,396 | 752,940 | 4,993,237 | 268,022,936 |
| Net on-balance sheet position | 19,033,559 | 7,227,385 | 1,192,882 | (160,033) | 4,756 | 88,409 | 1,150,242 | 28,537,200 |
| Off-balance sheet net notional position* | (11,131,241) | (6,861,852) | 19,219,651 | 172,949 | (2,371) | (87,995) | (1,120,512) | 188,629 |
| Contingent liabilities and commitments | 63,550,780 | 29,571,235 | 19,307,558 | 404,777 | 72,017 | 7,968 | — | 112,914,335 |

APPENDIX II

ACCOUNTANTS' REPORT OF NANYANG BANK

| | At 30 September 2015 | | | | | | | Total HK\$'000 |
|---|----------------------|-------------------|--------------------|------------------|------------------|----------------|------------------|--------------------|
| | Renminbi | US Dollars | HK Dollars | Euro | Japanese Yen | Pound Sterling | Others | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | |
| Assets | | | | | | | | |
| Cash and balances with banks and other financial institutions . . | 20,301,219 | 6,015,371 | 17,910,444 | 2,180,316 | 35,731 | 216,149 | 792,893 | 47,452,123 |
| Placements with banks and other financial institutions maturing between one and twelve months | 7,209,030 | 3,187,504 | — | — | — | — | — | 10,396,534 |
| Financial assets at fair value through profit or loss | — | 255,513 | 3,787,468 | — | — | — | — | 4,042,981 |
| Derivative financial instruments | 141,514 | 27,438 | 408,442 | — | — | — | — | 577,394 |
| Advances and other accounts | 51,261,724 | 41,965,931 | 75,157,955 | 2,098,478 | 40,114 | 706 | 382,463 | 170,907,371 |
| Investment in securities | | | | | | | | |
| —Available-for-sale securities | 24,943,130 | 6,623,860 | 11,247,493 | 678,812 | 2,042,915 | 769,752 | 3,372,283 | 49,678,245 |
| —Held-to-maturity securities | 2,311,347 | — | — | — | — | — | 197,793 | 2,509,140 |
| —Loans and receivables | 599,035 | 354,538 | — | — | — | — | — | 953,573 |
| Investment properties | 21,343 | — | 14,096 | — | — | — | — | 35,439 |
| Properties, plant and equipment | 516,720 | 2,097 | 420,945 | — | — | — | — | 939,762 |
| Other assets (including current and deferred tax assets) | 410,808 | 12,512 | 1,391,140 | 62 | 8 | — | 740 | 1,815,270 |
| Total assets | 107,715,870 | 58,444,764 | 110,337,983 | 4,957,668 | 2,118,768 | 986,607 | 4,746,172 | 289,307,832 |
| Liabilities | | | | | | | | |
| Deposits and balances from banks and other financial institutions . . | 11,924,663 | 10,171,497 | 1,436,633 | 1 | 4,905 | 38,913 | 7,431 | 23,584,043 |
| Financial liabilities at fair value through profit or loss | — | — | 4,781,296 | — | — | — | — | 4,781,296 |
| Derivative financial instruments | 92,894 | 35,624 | 178,730 | — | — | — | — | 307,248 |
| Deposits from customers | 69,954,691 | 41,007,733 | 95,409,166 | 5,556,548 | 190,227 | 828,196 | 3,122,306 | 216,068,867 |
| Other accounts and provisions (including current and deferred tax liabilities) | 9,037,170 | 1,867,531 | 1,541,888 | 734,059 | 37,893 | 2,396 | 104,041 | 13,324,978 |
| Total liabilities | 91,009,418 | 53,082,385 | 103,347,713 | 6,290,608 | 233,025 | 869,505 | 3,233,778 | 258,066,432 |
| Net on-balance sheet position | 16,706,452 | 5,362,379 | 6,990,270 | (1,332,940) | 1,885,743 | 117,102 | 1,512,394 | 31,241,400 |
| Off-balance sheet net notional position* | (8,550,462) | (3,392,903) | 14,272,235 | 1,319,536 | (1,877,128) | (128,847) | (1,500,497) | 141,934 |
| Contingent liabilities and commitments | 79,476,952 | 28,403,773 | 19,406,223 | 586,206 | 21,128 | 7,520 | 959 | 127,902,761 |

* Off-balance sheet net notional position represents the net notional amounts of foreign currency derivative financial instruments, which are principally used to reduce the NCB Group's exposure to currency movements.

(C) Interest rate risk

Interest rate risk means the risks to a bank's earnings and economic value arising from adverse movements in interest rate and term structures of the bank's asset and liability positions. The NCB Group's interest rate risk exposures are mainly structural. The major types of interest rate risk from structural positions are:

- Repricing risk: mismatches in the maturity or repricing periods of assets and liabilities that may affect net interest income;
- Basis risk: different pricing basis for different transactions resulting that the yield on assets and cost of liabilities may change by different amounts within the same repricing period;
- Yield curve risk: non-parallel shifts in the yield curve that may have an adverse impact on net interest income or economic value;
- Option risk: exercise of the options embedded in assets, liabilities or off-balance sheet items that can cause a change in the cash flows of assets and liabilities.

The NCB Group's risk management framework also applies to interest rate risk management. The Asset and Liability Management Committee exercises its oversight of interest rate risk in accordance with "Banking Book Interest Rate Risk Management Policy" approved by Risk Management Committee. Financial Management Division is responsible for interest rate risk management. With the cooperation of the Treasury Division, Financial Management Division assists the Asset and Liability Management Committee to perform day-to-day interest rate risk management. Its roles include, but are not limited to, the formulation of management policies, selection of methodologies, setting of risk indicators and limits, assessment of target balance sheet, monitoring of the compliance with policies and limits, and submission of interest rate risk management reports to the Management and Risk Management Committee, etc.

The NCB Group sets out interest rate risk indicators and limits to identify, measure, monitor and control interest rate risk. The indicators and limits include, but are not limited to, repricing gap limits, basis risk, duration, price value of a basis point ("PVBP"), net interest income sensitivity ratio ("NII"), economic value sensitivity ratio ("EV"), etc. The indicators and limits are classified into three levels, which are approved by the Risk Management Committee, Asset and Liability Management Committee and Deputy General Manager of Middle-office respectively. Risk-taking business units are required to conduct their business within the boundary of the interest rate risk limits. Before launching a new product or business in the banking book, the relevant departments are required to go through a risk assessment process, which includes the assessment of underlying interest rate risk and consideration of the adequacy of current risk monitoring mechanism. Any material impact on interest rate risk noted during the risk assessment process will be submitted to Risk Management Committee for approval.

NII and EV assess the impact of interest rate movement on the NCB Group's net interest income and capital base. They are the NCB Group's key interest rate risk indicators. The former assesses the impact of interest rate movement on net interest income as a percentage to the projected net interest income for the year. The latter assesses the impact of interest rate movement on economic value (i.e. the net present value of cash flows of assets, liabilities and off-balance sheet items discounted using market interest rate) as a percentage to the latest capital base. Limits are set by the Risk Management Committee on these two indicators to monitor and control the NCB Group's banking book interest rate risk.

The NCB Group uses scenario analysis and stress tests to assess the banking book interest rate risk that the NCB Group would face under adverse circumstances. Scenario analyses and stress tests are also devised to assess the impact on net interest income and economic value arising from the optionality of demand and savings deposits and the prepayment of mortgage loans.

The NCB Group is principally exposed to HKD, USD and RMB in terms of interest rate risk. As at 30 September 2015, if HKD, USD and RMB market interest rates had been 100 basis point higher with other variables held constant, the sensitivities on net interest income over the next twelve months and on reserves for the NCB Group would have been as follows:

| | Impact on net interest income over the next twelve months | | | | Impact on reserves | | | |
|-------------------|--|----------|--------------------|----------|--------------------|-----------|--------------------|-----------|
| | At 31 December | | At 30 September | | At 31 December | | At 30 September | |
| | 2012 | 2013 | 2014 | 2015 | 2012 | 2013 | 2014 | 2015 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| HK Dollar | 210,914 | 232,271 | 256,299 | 275,029 | (55,265) | (53,388) | (46,786) | (78,290) |
| US Dollar | (23,706) | (30,024) | (32,688) | (50,414) | (170,405) | (100,832) | (60,416) | (81,903) |
| Renminbi | (225) | (12,059) | (13,535) | (90,854) | (238,843) | (263,101) | (324,817) | (440,898) |

The overall positive impact on NCB Group's net interest income of the above currencies has decreased when compared with 2014 and is mainly because of the widened short term negative gaps in USD and RMB. Reserves would have been reduced because of the expected reduction in valuation of available-for-sale portfolio due to a parallel shift up of 100 basis point in the yield curve (simulated scenario). The reduction of reserves is increased compared with 2014 because the size of Renminbi available-for-sale portfolio is increased.

The sensitivities above are for illustration only and are based on several assumptions, including (but not limited to) the change in the correlation between interest rates of relevant currencies, parallel movement of interest rates, the absence of actions that would be taken to mitigate the impact of interest rate risk, the effectiveness of hedging accounting, all positions being assumed to run to maturity, behavioural assumptions of products in which actual repricing date differs from contractual repricing date or products without contractual maturity. The above exposures form only a part of the NCB Group's overall interest rate risk exposures.

The tables below summarise the NCB Group's on-balance sheet exposure to interest rate risk. Included in the tables are the assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

| At 31 December 2012 | | | | | | | |
|---|--------------------|-------------------|-------------------|-------------------|------------------|-----------------------------|--------------------|
| | Up to 1 month | 1 to 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Non- interest bearing | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Assets | | | | | | | |
| Cash and balances with banks and other financial institutions | 39,612,508 | — | — | — | — | 1,175,812 | 40,788,320 |
| Placements with banks and other financial institutions maturing between one and twelve months | — | 7,994,913 | 9,314,031 | — | — | — | 17,308,944 |
| Financial assets at fair value through profit or loss | 299,495 | 1,853,803 | 2,460,306 | 511,556 | — | — | 5,125,160 |
| Derivative financial instruments | — | — | — | — | — | 764,577 | 764,577 |
| Advances and other accounts | 86,735,570 | 22,603,759 | 26,508,400 | 2,169,049 | 15,907 | — | 138,032,685 |
| Investment in securities | | | | | | | |
| —Available-for-sale securities | 3,710,026 | 9,752,899 | 9,738,231 | 12,168,070 | 2,935,489 | 56,146 | 38,360,861 |
| —Held-to-maturity securities | 593,661 | 312,381 | — | 565,484 | — | — | 1,471,526 |
| —Loans and receivables | — | 292,075 | 865,187 | — | — | — | 1,157,262 |
| Investment properties | — | — | — | — | — | 192,450 | 192,450 |
| Properties, plant and equipment | — | — | — | — | — | 1,048,745 | 1,048,745 |
| Other assets (including deferred tax assets) | — | — | — | — | — | 1,547,790 | 1,547,790 |
| Total assets | <u>130,951,260</u> | <u>42,809,830</u> | <u>48,886,155</u> | <u>15,414,159</u> | <u>2,951,396</u> | <u>4,785,520</u> | <u>245,798,320</u> |
| Liabilities | | | | | | | |
| Deposits and balances from banks and other financial institutions | 6,943,862 | 4,961,018 | 7,014,546 | — | — | 1,342,645 | 20,262,071 |
| Financial liabilities at fair value through profit or loss | 1,419,971 | 2,092,893 | 1,462,209 | — | — | — | 4,975,073 |
| Derivative financial instruments | — | — | — | — | — | 459,607 | 459,607 |
| Deposits from customers | 106,761,023 | 30,258,216 | 34,853,172 | 5,637,173 | 37,894 | 7,986,239 | 185,533,717 |
| Other accounts and provisions (including current and deferred tax liabilities) | 1,913,225 | 1,710,360 | 3,349,599 | 24,653 | 1 | 3,083,531 | 10,081,369 |
| Total liabilities | <u>117,038,081</u> | <u>39,022,487</u> | <u>46,679,526</u> | <u>5,661,826</u> | <u>37,895</u> | <u>12,872,022</u> | <u>221,311,837</u> |
| Interest sensitivity gap | <u>13,913,179</u> | <u>3,787,343</u> | <u>2,206,629</u> | <u>9,752,333</u> | <u>2,913,501</u> | <u>(8,086,502)</u> | <u>24,486,483</u> |

APPENDIX II

ACCOUNTANTS' REPORT OF NANYANG BANK

At 31 December 2013

| | Up to 1 month | 1 to 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Non- interest bearing | Total |
|---|--------------------|-------------------|-------------------|-------------------|------------------|-----------------------------|--------------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Assets | | | | | | | |
| Cash and balances with banks and other financial institutions | 43,239,550 | — | — | — | — | 1,499,769 | 44,739,319 |
| Placements with banks and other financial institutions maturing between one and twelve months | — | 10,324,490 | 11,019,510 | — | — | — | 21,344,000 |
| Financial assets at fair value through profit or loss | 296,487 | 704,859 | 2,901,993 | 261,354 | — | — | 4,164,693 |
| Derivative financial instruments | — | — | — | — | — | 508,453 | 508,453 |
| Advances and other accounts | 95,905,202 | 24,502,236 | 29,683,287 | 5,037,156 | 183,445 | 5,425 | 155,316,751 |
| Investment in securities —Available-for- sale securities | 4,121,084 | 7,615,224 | 10,198,263 | 16,543,097 | 1,461,004 | 63,965 | 40,002,637 |
| —Held-to-maturity securities | 298 | — | 585,144 | — | — | — | 585,442 |
| —Loans and receivables | 105,185 | 661,988 | 916,891 | — | — | — | 1,684,064 |
| Investment properties | — | — | — | — | — | 184,261 | 184,261 |
| Properties, plant and equipment | — | — | — | — | — | 1,053,960 | 1,053,960 |
| Other assets (including deferred tax assets) | 770 | — | — | — | — | 4,036,430 | 4,037,200 |
| Total assets | <u>143,668,576</u> | <u>43,808,797</u> | <u>55,305,088</u> | <u>21,841,607</u> | <u>1,644,449</u> | <u>7,352,263</u> | <u>273,620,780</u> |
| Liabilities | | | | | | | |
| Deposits and balances from banks and other financial institutions | 15,176,539 | 3,306,414 | 8,778,777 | — | — | 1,584,299 | 28,846,029 |
| Financial liabilities at fair value through profit or loss | 701,490 | 1,727,292 | 2,004,954 | — | — | — | 4,433,736 |
| Derivative financial instruments | — | — | — | — | — | 343,156 | 343,156 |
| Deposits from customers | 111,858,553 | 29,530,001 | 38,410,496 | 9,873,053 | 39,057 | 8,449,257 | 198,160,417 |
| Other accounts and provisions (including current and deferred tax liabilities) | 2,966,037 | 2,588,722 | 4,105,753 | 397,216 | — | 5,377,360 | 15,435,088 |
| Total liabilities | <u>130,702,619</u> | <u>37,152,429</u> | <u>53,299,980</u> | <u>10,270,269</u> | <u>39,057</u> | <u>15,754,072</u> | <u>247,218,426</u> |
| Interest sensitivity gap | <u>12,965,957</u> | <u>6,656,368</u> | <u>2,005,108</u> | <u>11,571,338</u> | <u>1,605,392</u> | <u>(8,401,809)</u> | <u>26,402,354</u> |

At 31 December 2014

| | Up to 1 month | 1 to 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Non- interest bearing | Total |
|---|--------------------|-------------------|-------------------|-------------------|------------------|-----------------------------|--------------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Assets | | | | | | | |
| Cash and balances with banks and other financial institutions | 54,183,243 | — | — | — | — | 4,099,557 | 58,282,800 |
| Placements with banks and other financial institutions maturing between one and twelve months | — | 9,477,006 | 8,703,756 | — | — | — | 18,180,762 |
| Financial assets at fair value through profit or loss | 470,000 | 2,671,893 | 2,757,401 | 255,919 | — | — | 6,155,213 |
| Derivative financial instruments | — | — | — | — | — | 439,072 | 439,072 |
| Advances and other accounts | 108,282,638 | 31,356,774 | 20,553,491 | 3,451,440 | 259,356 | — | 163,903,699 |
| Investment in securities | | | | | | | |
| —Available-for- sale securities | 2,375,913 | 10,487,111 | 12,504,107 | 16,466,480 | 565,963 | 75,766 | 42,475,340 |
| —Held-to-maturity securities | — | — | — | 1,998,756 | 619,634 | — | 2,618,390 |
| —Loans and receivables | — | 620,262 | 1,454,332 | — | — | — | 2,074,594 |
| Investment properties | — | — | — | — | — | 172,712 | 172,712 |
| Properties, plant and equipment | — | — | — | — | — | 1,000,646 | 1,000,646 |
| Other assets (including deferred tax assets) | 2,208 | — | — | — | — | 1,254,700 | 1,256,908 |
| Total assets | <u>165,314,002</u> | <u>54,613,046</u> | <u>45,973,087</u> | <u>22,172,595</u> | <u>1,444,953</u> | <u>7,042,453</u> | <u>296,560,136</u> |
| Liabilities | | | | | | | |
| Deposits and balances from banks and other financial institutions | 18,391,118 | 9,332,830 | 8,050,874 | — | — | 1,960,789 | 37,735,611 |
| Financial liabilities at fair value through profit or loss | 1,978,491 | 873,945 | 2,118,257 | — | — | — | 4,970,693 |
| Derivative financial instruments | — | — | — | — | — | 278,506 | 278,506 |
| Deposits from customers | 122,791,320 | 36,089,981 | 32,061,913 | 9,455,287 | — | 9,235,434 | 209,633,935 |
| Other accounts and provisions (including current and deferred tax liabilities) | 5,111,293 | 2,685,535 | 4,055,058 | 194,043 | 736 | 3,357,526 | 15,404,191 |
| Total liabilities | <u>148,272,222</u> | <u>48,982,291</u> | <u>46,286,102</u> | <u>9,649,330</u> | <u>736</u> | <u>14,832,255</u> | <u>268,022,936</u> |
| Interest sensitivity gap | <u>17,041,780</u> | <u>5,630,755</u> | <u>(313,015)</u> | <u>12,523,265</u> | <u>1,444,217</u> | <u>(7,789,802)</u> | <u>28,537,200</u> |

APPENDIX II

ACCOUNTANTS' REPORT OF NANYANG BANK

At 30 September 2015

| | Up to 1 month | 1 to 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Non- interest bearing | Total |
|---|--------------------|--------------------|-------------------|-------------------|----------------|-----------------------------|--------------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Assets | | | | | | | |
| Cash and balances with banks and other financial institutions | 43,507,332 | — | — | — | — | 3,944,791 | 47,452,123 |
| Placements with banks and other financial institutions maturing between one and twelve months | — | 5,969,914 | 4,426,620 | — | — | — | 10,396,534 |
| Financial assets at fair value through profit or loss | 7,500 | 2,104,548 | 1,675,420 | 255,513 | — | — | 4,042,981 |
| Derivative financial instruments | — | — | — | — | — | 577,394 | 577,394 |
| Advances and other accounts | 97,540,719 | 31,792,268 | 36,595,262 | 4,799,023 | 180,099 | — | 170,907,371 |
| Investment in securities —Available-for- sale securities | 4,731,466 | 6,454,826 | 14,518,263 | 23,846,013 | 124,270 | 3,407 | 49,678,245 |
| —Held-to-maturity securities | — | — | 305,905 | 2,203,235 | — | — | 2,509,140 |
| —Loans and receivables | — | 238,244 | 715,329 | — | — | — | 953,573 |
| Investment properties | — | — | — | — | — | 35,439 | 35,439 |
| Properties, plant and equipment | — | — | — | — | — | 939,762 | 939,762 |
| Other assets (including current and deferred tax assets) | 47 | — | — | — | — | 1,815,223 | 1,815,270 |
| Total assets | <u>145,787,064</u> | <u>46,559,800</u> | <u>58,236,799</u> | <u>31,103,784</u> | <u>304,369</u> | <u>7,316,016</u> | <u>289,307,832</u> |
| Liabilities | | | | | | | |
| Deposits and balances from banks and other financial institutions | 8,027,968 | 8,378,602 | 6,114,317 | — | — | 1,063,156 | 23,584,043 |
| Financial liabilities at fair value through profit or loss | 1,243,516 | 1,289,027 | 2,248,753 | — | — | — | 4,781,296 |
| Derivative financial instruments | — | — | — | — | — | 307,248 | 307,248 |
| Deposits from customers | 124,868,095 | 36,909,112 | 36,309,000 | 6,938,887 | — | 11,043,773 | 216,068,867 |
| Other accounts and provisions (including current and deferred tax liabilities) | 2,055,226 | 2,464,866 | 4,926,497 | 463,593 | 5,115 | 3,409,681 | 13,324,978 |
| Total liabilities | <u>136,194,805</u> | <u>49,041,607</u> | <u>49,598,567</u> | <u>7,402,480</u> | <u>5,115</u> | <u>15,823,858</u> | <u>258,066,432</u> |
| Interest sensitivity gap | <u>9,592,259</u> | <u>(2,481,807)</u> | <u>8,638,232</u> | <u>23,701,304</u> | <u>299,254</u> | <u>(8,507,842)</u> | <u>31,241,400</u> |

40.3 Liquidity Risk

Liquidity risk is the risk that banks fail to provide sufficient funds to grow assets or pay due obligations, and need to bear an unacceptable loss. The NCB Group follows sound liquidity risk appetite, to provide stable, reliable and adequate sources of cash to meet liquidity needs under normal circumstances or stressed scenarios; and to survive with net positive cumulative cash flow in extreme scenarios, without requesting HKMA to act as the lender of last resort.

The NCB Group's liquidity risk management objective is to effectively manage the liquidity of on- and off-balance sheet items with reasonable cost based on the liquidity risk appetite to achieve sound operation and sustainable profitability. Customer deposits are the NCB Group's primary source of funds. To ensure stable and sufficient source of funds are in place, the NCB Group actively attracts new deposits, keeps the core deposit and obtains supplementary funding from the interbank market. According to different term maturities and the results of funding needs estimated from stressed scenarios, the NCB Group adjusts its asset structure (including loans, bonds investment, interbank placement, etc.) to maintain sufficient liquid assets which provides adequate funds in support of normal business needs and ensure its ability to raise funds at a reasonable cost to serve external claims in case of emergency. The NCB Group is committed to diversify the source of funds and the use of funds to avoid excessive concentration of assets and liabilities and prevent triggering liquidity risk due to the break of funding strand when problem occurred in one concentrated funding source. The NCB Group has established intragroup liquidity risk management guideline to manage the liquidity funding among different entities within the NCB Group, and to restrict their reliance of funding on each other. The NCB Group also pays attention to manage liquidity risk created by off-balance sheet activities, such as loan commitments and derivatives. The NCB Group has overall liquidity risk management strategy to cover the liquidity management of foreign currency assets and liabilities, collaterals, intra-day liquidity, intra-group liquidity, the liquidity risk arising from other risks, etc., and has formulated corresponding contingency plan.

Risk Management Committee is the decision-making authority of liquidity risk management, and assumes the ultimate responsibility of liquidity risk management. As authorised by Risk Management Committee, Asset and Liability Management Committee exercises its oversight of liquidity risk and ensures the daily operations of the NCB Group are in accordance with risk appetite and policies as set by Risk Management Committee. Financial Management Division is responsible for overseeing the NCB Group's liquidity risk. It cooperates with the Treasury Division to assist the Asset and Liability Management Committee to perform liquidity management functions according to their specific responsibilities.

The NCB Group established liquidity risk management indicators and limits to identify measure, monitor and control liquidity risk on daily basis. Such indicators and limits include, but are not limited to liquidity ratio, loan-to-deposit ratio, Maximum Cumulative Cash Outflow ("MCO") and liquidity buffer asset portfolio. The NCB Group applies cash flow analysis to assess the NCB Group's liquidity condition under normal conditions and also performs liquidity stress test (including institution specific crisis, general market crisis and combined crisis) at least on monthly basis to assess the NCB Group's capability to withstand various severe liquidity crises. Also, Assets and Liabilities Management System is developed to provide data and generate regular management reports facilitating the liquidity risk management duties.

In accordance with the requirements of Supervisory Policy Manual LM-2 "Sound Systems and Controls for Liquidity Risk Management" issued by the HKMA in 2011, the NCB Group has

implemented in 2013 the refinements on the behaviour model and assumptions of cash flow analysis and stress test to enhance the NCB Group's cash flow analysis under both normal and stressed conditions. In cash flow analysis under normal circumstances, refinements have been made to assumptions relating to on-balance sheet items (such as customer deposits) and off-balance sheet items (such as loan commitments). According to various characteristics of the assets, liabilities and off-balance sheet items, the NCB Group forecasts the future cash flow based on contractual maturity date and the assumptions of customer behaviour and balance sheet changes. The NCB Group establishes MCO indicator which predicts the future 30 days maximum cumulative net cash outflow in normal situations based on the above assumptions, to assess if the NCB Group has sufficient financing capacity to meet the cash flow gap in order to achieve the objective of continuing operation. As at 30 September 2015, before taking the cash inflow through the sale of outstanding marketable securities into consideration, Nanyang Bank's 30 day cumulative cash flow was a net cash inflow, amounting to HK\$16,183,618,000 (31 December 2014: HK\$4,424,474,000; 31 December 2013: HK\$4,658,471,000), and was in compliant with the internal limit requirements.

In liquidity stress test, a new combined scenario which is a combination of institution specific and general market crisis has been used since 2013 to assess the NCB Group's capability to withstand a more severe liquidity crisis, with a more stringent set of assumptions being adopted. Stress test assumptions include the run-off rate of retail, wholesale and interbank deposits; drawdown rate of loan commitments and trade-related contingent liabilities; delinquency ratio and rollover rate of customer loan; and haircut of interbank placement and marketable securities. As at 30 September 2015, the NCB Group was able to maintain a positive cash flow under the three stressed scenarios, indicating the NCB Group has the ability to meet financing needs under stressed conditions. In addition, the NCB Group has a policy in place to maintain an asset buffer portfolio which includes high quality or comparable quality marketable securities issued or guaranteed by sovereigns, central banks, public sector entities or multilateral development banks with 0% or 20% risk weight or non-financial corporate issued or guaranteed marketable securities with a corresponding external credit rating of A- or above (adopt corresponding internal rating if external credit rating is unavailable) to ensure funding needs even under stressed scenarios, as at 30 September 2015, the liquidity cushion (before haircut) was HK\$25,741,361,000. A contingency funding plan is established which details the conditions to trigger the plan based on stress test results and early warning indicators, the action plans and relevant procedures and responsibility of various departments.

In certain derivative contracts, counterparties have the right to request the NCB Group for additional collateral if they have credit concerns on the NCB Group's creditworthiness.

The NCB Group's liquidity risk management also covers new product or business development. Before launching a new product or business, the relevant departments are required to go through a risk assessment process, which includes the assessment of underlying liquidity risk and consideration of the adequacy of the current risk management mechanism. Any material impact on liquidity risk noted during the risk assessment process will be reported to Risk Management Committee for approval.

The NCB Group has established a set of uniform liquidity risk management policies. The principal banking subsidiary develops its own liquidity management policies according to its own characteristics, assumes its own liquidity risk management responsibility, executes its daily risk management processes independently, and reports to the NCB Group's Management on a regular basis.

(A) Maturity analysis

The tables below analyse the NCB Group's assets and liabilities into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

| | At 31 December 2012 | | | | | | | Total HK\$'000 |
|--|---------------------|---------------------|--------------------|-------------------|-------------------|-------------------|------------------|--------------------|
| | On demand | Up to 1 month | 1 to 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Indefinite | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | |
| Assets | | | | | | | | |
| Cash and balances with banks and other financial institutions | 17,089,375 | 23,698,945 | — | — | — | — | — | 40,788,320 |
| Placements with banks and other financial institutions maturing between one and twelve months | — | — | 7,994,913 | 9,314,031 | — | — | — | 17,308,944 |
| Financial assets at fair value through profit or loss —held for trading —debt securities | — | 299,495 | 1,773,822 | 2,198,420 | 621 | — | — | 4,272,358 |
| —designated at fair value through profit or loss —debt securities | — | — | — | 341,867 | 510,935 | — | — | 852,802 |
| Derivative financial instruments | 501,902 | 103,271 | 56,300 | 100,792 | 2,312 | — | — | 764,577 |
| Advances and other accounts —advances to customers . . . | 6,188,032 | 5,665,625 | 11,888,615 | 35,699,386 | 45,325,555 | 24,916,629 | 279,225 | 129,963,067 |
| —trade bills | 4,749 | 1,925,544 | 4,576,361 | 1,562,964 | — | — | — | 8,069,618 |
| Investment in securities —available-for-sale —certificates of deposit | — | 400,657 | 40,564 | 4,003,596 | 1,125,146 | — | — | 5,569,963 |
| —debt securities | — | 1,595,169 | 5,577,764 | 7,310,513 | 15,315,817 | 2,935,489 | — | 32,734,752 |
| —held-to-maturity —certificates of deposit | — | 464,743 | — | — | — | — | — | 464,743 |
| —debt securities | — | 127,773 | 312,631 | — | 566,379 | — | — | 1,006,783 |
| —loans and receivables —debt securities | — | — | 292,075 | 865,187 | — | — | — | 1,157,262 |
| —equity securities | — | — | — | — | — | — | 56,146 | 56,146 |
| Investment properties | — | — | — | — | — | — | 192,450 | 192,450 |
| Properties, plant and equipment | — | — | — | — | — | — | 1,048,745 | 1,048,745 |
| Other assets (including deferred tax assets) | 379,851 | 1,043,080 | 10,792 | (24,324) | 135,761 | — | 2,630 | 1,547,790 |
| Total assets | <u>24,163,909</u> | <u>35,324,302</u> | <u>32,523,837</u> | <u>61,372,432</u> | <u>62,982,526</u> | <u>27,852,118</u> | <u>1,579,196</u> | <u>245,798,320</u> |
| Liabilities | | | | | | | | |
| Deposits and balances from banks and other financial institutions | 1,801,973 | 6,484,534 | 4,961,018 | 7,014,546 | — | — | — | 20,262,071 |
| Financial liabilities at fair value through profit or loss | — | 1,419,971 | 2,092,893 | 1,462,209 | — | — | — | 4,975,073 |
| Derivative financial instruments | 205,008 | 12,057 | 33,996 | 100,712 | 107,834 | — | — | 459,607 |
| Deposits from customers . . . | 67,183,813 | 45,339,114 | 30,153,082 | 35,241,829 | 7,577,978 | 37,901 | — | 185,533,717 |
| Other accounts and provisions (including current tax liabilities) | 2,703,673 | 1,903,000 | 1,890,679 | 3,544,566 | 33,300 | 6,151 | — | 10,081,369 |
| Total liabilities | <u>71,894,467</u> | <u>55,158,676</u> | <u>39,131,668</u> | <u>47,363,862</u> | <u>7,719,112</u> | <u>44,052</u> | <u>—</u> | <u>221,311,837</u> |
| Net liquidity gap | <u>(47,730,558)</u> | <u>(19,834,374)</u> | <u>(6,607,831)</u> | <u>14,008,570</u> | <u>55,263,414</u> | <u>27,808,066</u> | <u>1,579,196</u> | <u>24,486,483</u> |

APPENDIX II

ACCOUNTANTS' REPORT OF NANYANG BANK

| | At 31 December 2013 | | | | | | | Total HK\$'000 |
|--|---------------------|---------------------|--------------------|-------------------|-------------------|-------------------|-------------------|--------------------|
| | On demand | Up to 1 month | 1 to 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Indefinite | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | |
| Assets | | | | | | | | |
| Cash and balances with banks and other financial institutions | 19,625,303 | 12,929,170 | — | — | — | — | 12,184,846 | 44,739,319 |
| Placements with banks and other financial institutions maturing between one and twelve months | — | — | 10,324,490 | 11,019,510 | — | — | — | 21,344,000 |
| Financial assets at fair value through profit or loss | | | | | | | | |
| —held for trading | | | | | | | | |
| —debt securities | — | 296,487 | 704,859 | 2,664,066 | 624 | — | — | 3,666,036 |
| —designated at fair value through profit or loss | | | | | | | | |
| —debt securities | — | — | — | 240,097 | 258,560 | — | — | 498,657 |
| Derivative financial instruments | 345,025 | 55,479 | 16,455 | 90,390 | 1,104 | — | — | 508,453 |
| Advances and other accounts | | | | | | | | |
| —advances to customers . . . | 5,317,238 | 8,893,638 | 12,414,991 | 39,468,912 | 46,982,868 | 28,731,200 | 265,268 | 142,074,115 |
| —trade bills | 1,078 | 2,482,327 | 4,693,586 | 6,065,645 | — | — | — | 13,242,636 |
| Investment in securities | | | | | | | | |
| —available-for-sale | | | | | | | | |
| —certificates of deposit | — | 6,064 | 899,663 | 6,044,492 | 726,666 | — | — | 7,676,885 |
| —debt securities | — | 2,482,919 | 2,569,203 | 5,167,277 | 20,598,317 | 1,444,071 | — | 32,261,787 |
| —held-to-maturity | | | | | | | | |
| —debt securities | — | — | — | 585,144 | 298 | — | — | 585,442 |
| —loans and receivables | | | | | | | | |
| —debt securities | — | 105,185 | 661,988 | 916,891 | — | — | — | 1,684,064 |
| —equity securities | — | — | — | — | — | — | 63,965 | 63,965 |
| Investment properties | — | — | — | — | — | — | 184,261 | 184,261 |
| Properties, plant and equipment | — | — | — | — | — | — | 1,053,960 | 1,053,960 |
| Other assets (including deferred tax assets) | 152,748 | 3,519,657 | 13,437 | 123,618 | 186,117 | 380 | 41,243 | 4,037,200 |
| Total assets | 25,441,392 | 30,770,926 | 32,298,672 | 72,386,042 | 68,754,554 | 30,175,651 | 13,793,543 | 273,620,780 |
| Liabilities | | | | | | | | |
| Deposits and balances from banks and other financial institutions | 2,303,726 | 14,457,112 | 3,306,414 | 8,778,777 | — | — | — | 28,846,029 |
| Financial liabilities at fair value through profit or loss | — | 701,490 | 1,727,292 | 2,004,954 | — | — | — | 4,433,736 |
| Derivative financial instruments | 94,553 | 85,890 | 34,974 | 70,803 | 56,936 | — | — | 343,156 |
| Deposits from customers . . . | 72,261,365 | 45,965,432 | 29,462,615 | 38,560,815 | 11,871,133 | 39,057 | — | 198,160,417 |
| Other accounts and provisions (including current tax liabilities) | 2,755,008 | 4,962,292 | 2,901,823 | 4,393,932 | 411,167 | 10,866 | — | 15,435,088 |
| Total liabilities | 77,414,652 | 66,172,216 | 37,433,118 | 53,809,281 | 12,339,236 | 49,923 | — | 247,218,426 |
| Net liquidity gap | (51,973,260) | (35,401,290) | (5,134,446) | 18,576,761 | 56,415,318 | 30,125,728 | 13,793,543 | 26,402,354 |

APPENDIX II

ACCOUNTANTS' REPORT OF NANYANG BANK

| | At 31 December 2014 | | | | | | | Total HK\$'000 |
|--|---------------------|---------------------|--------------------|-------------------|-------------------|-------------------|-------------------|--------------------|
| | On demand | Up to 1 month | 1 to 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Indefinite | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | |
| Assets | | | | | | | | |
| Cash and balances with banks and other financial institutions | 25,068,696 | 21,881,782 | — | — | — | — | 11,332,322 | 58,282,800 |
| Placements with banks and other financial institutions maturing between one and twelve months | — | — | 9,477,006 | 8,703,756 | — | — | — | 18,180,762 |
| Financial assets at fair value through profit or loss —held for trading —debt securities | — | 470,000 | 2,671,893 | 2,757,401 | — | — | — | 5,899,294 |
| —designated at fair value through profit or loss —debt securities | — | — | — | 2,170 | 253,749 | — | — | 255,919 |
| Derivative financial instruments | 352,831 | 18,163 | 18,247 | 46,452 | 3,379 | — | — | 439,072 |
| Advances and other accounts —advances to customers . . . | 5,600,078 | 9,742,952 | 16,597,492 | 36,208,391 | 52,393,120 | 26,179,173 | 810,930 | 147,532,136 |
| —trade bills | 32,219 | 4,961,240 | 7,500,572 | 3,877,532 | — | — | — | 16,371,563 |
| Investment in securities —available-for-sale —certificates of deposit | — | 71,704 | 1,121,059 | 5,071,150 | 1,633,772 | — | — | 7,897,685 |
| —debt securities | — | 1,282,624 | 6,181,988 | 8,984,351 | 17,486,963 | 565,963 | — | 34,501,889 |
| —held-to-maturity —debt securities | — | — | 1,415 | 644 | 1,996,697 | 619,634 | — | 2,618,390 |
| —loans and receivables —debt securities | — | — | 620,262 | 1,454,332 | — | — | — | 2,074,594 |
| —equity securities | — | — | — | — | — | — | 75,766 | 75,766 |
| Investment properties | — | — | — | — | — | — | 172,712 | 172,712 |
| Properties, plant and equipment | — | — | — | — | — | — | 1,000,646 | 1,000,646 |
| Other assets (including deferred tax assets) | 185,402 | 779,942 | 3,202 | 37,931 | 239,850 | 46 | 10,535 | 1,256,908 |
| Total assets | 31,239,226 | 39,208,407 | 44,193,136 | 67,144,110 | 74,007,530 | 27,364,816 | 13,402,911 | 296,560,136 |
| Liabilities | | | | | | | | |
| Deposits and balances from banks and other financial institutions | 2,649,041 | 17,702,866 | 9,332,830 | 8,050,874 | — | — | — | 37,735,611 |
| Financial liabilities at fair value through profit or loss | — | 1,978,491 | 873,945 | 2,118,257 | — | — | — | 4,970,693 |
| Derivative financial instruments | 98,057 | 86,204 | 30,223 | 32,269 | 31,753 | — | — | 278,506 |
| Deposits from customers . . . | 75,443,820 | 54,407,895 | 35,397,115 | 34,231,783 | 10,153,322 | — | — | 209,633,935 |
| Other accounts and provisions (including current tax liabilities) | 4,834,848 | 3,156,033 | 2,893,494 | 4,324,110 | 194,912 | 794 | — | 15,404,191 |
| Total liabilities | 83,025,766 | 77,331,489 | 48,527,607 | 48,757,293 | 10,379,987 | 794 | — | 268,022,936 |
| Net liquidity gap | (51,786,540) | (38,123,082) | (4,334,471) | 18,386,817 | 63,627,543 | 27,364,022 | 13,402,911 | 28,537,200 |

APPENDIX II

ACCOUNTANTS' REPORT OF NANYANG BANK

| | At 30 September 2015 | | | | | | | Total HK\$'000 |
|---|----------------------|---------------------|---------------------|-------------------|-------------------|-------------------|-------------------|--------------------|
| | On demand | Up to 1 month | 1 to 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Indefinite | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | |
| Assets | | | | | | | | |
| Cash and balances with banks and other financial institutions | 8,610,574 | 29,154,328 | — | — | — | — | 9,687,221 | 47,452,123 |
| Placements with banks and other financial institutions maturing between one and twelve months | — | — | 5,945,433 | 4,451,101 | — | — | — | 10,396,534 |
| Financial assets at fair value through profit or loss | | | | | | | | |
| —held for trading | | | | | | | | |
| —debt securities | — | 7,500 | 2,104,548 | 1,675,420 | — | — | — | 3,787,468 |
| —designated at fair value through profit or loss | | | | | | | | |
| —debt securities | — | — | 5,717 | — | 249,796 | — | — | 255,513 |
| Derivative financial instruments | 344,337 | 47,975 | 54,748 | 126,014 | 4,320 | — | — | 577,394 |
| Advances and other accounts | | | | | | | | |
| —advances to customers . . . | 5,814,803 | 8,116,849 | 17,103,556 | 37,850,702 | 61,187,580 | 28,469,597 | 957,325 | 159,500,412 |
| —trade bills | 179,836 | 1,552,426 | 5,046,964 | 4,627,733 | — | — | — | 11,406,959 |
| Investment in securities | | | | | | | | |
| —available-for-sale | | | | | | | | |
| —certificates of deposit | — | 928,079 | 338,755 | 5,117,244 | 3,033,820 | — | — | 9,417,898 |
| —debt securities | — | 3,248,196 | 3,739,267 | 10,136,236 | 23,008,971 | 124,270 | — | 40,256,940 |
| —held-to-maturity | | | | | | | | |
| —debt securities | — | — | 3,308 | 306,709 | 2,199,123 | — | — | 2,509,140 |
| —loans and receivables | | | | | | | | |
| —debt securities | — | — | 238,244 | 715,329 | — | — | — | 953,573 |
| —equity securities | — | — | — | — | — | — | 3,407 | 3,407 |
| Investment properties | — | — | — | — | — | — | 35,439 | 35,439 |
| Properties, plant and equipment | — | — | — | — | — | — | 939,762 | 939,762 |
| Other assets (including current and deferred tax assets) | 131,788 | 1,331,936 | 27,158 | 29,981 | 173,401 | 507 | 120,499 | 1,815,270 |
| Total assets | 15,081,338 | 44,387,289 | 34,607,698 | 65,036,469 | 89,857,011 | 28,594,374 | 11,743,653 | 289,307,832 |
| Liabilities | | | | | | | | |
| Deposits and balances from banks and other financial institutions | 1,850,247 | 7,240,877 | 8,378,602 | 6,114,317 | — | — | — | 23,584,043 |
| Financial liabilities at fair value through profit or loss | — | 1,243,516 | 1,289,027 | 2,248,753 | — | — | — | 4,781,296 |
| Derivative financial instruments | 105,777 | 40,184 | 33,641 | 99,317 | 28,329 | — | — | 307,248 |
| Deposits from customers . . . | 80,968,921 | 51,387,945 | 38,730,201 | 37,725,586 | 7,256,214 | — | — | 216,068,867 |
| Other accounts and provisions (including current tax liabilities) | 2,291,006 | 1,745,704 | 2,962,223 | 5,835,617 | 482,246 | 8,182 | — | 13,324,978 |
| Total liabilities | 85,215,951 | 61,658,226 | 51,393,694 | 52,023,590 | 7,766,789 | 8,182 | — | 258,066,432 |
| Net liquidity gap | (70,134,613) | (17,270,937) | (16,785,996) | 13,012,879 | 82,090,222 | 28,586,192 | 11,743,653 | 31,241,400 |

The above maturity classifications have been prepared in accordance with relevant provisions under the Banking (Disclosure) Rules. The NCB Group has reported assets such as advances and debt securities which have been overdue for not more than one month as "On demand". In the case of an asset that is repayable by different payments or instalments, only that portion of the asset that is actually overdue is reported as overdue. Any part of the asset that is not due is reported according to the residual maturity unless the repayment of the asset is in doubt in which case the amount is reported as "Indefinite". The above assets are stated after deduction of provisions, if any.

The analysis of debt securities by remaining period to maturity is disclosed in order to comply with relevant provisions under the Banking (Disclosure) Rules. The disclosure does not imply that the securities will be held to maturity.

(B) Analysis of undiscounted cash flows by contractual maturities

(a) Non-derivative cash flows

The tables below summarise the cash flows of the NCB Group for non-derivative financial liabilities by remaining contractual maturities.

| | At 31 December 2012 | | | | | |
|---|---------------------|-------------------|-------------------|------------------|---------------|--------------------|
| | Up to 1 month | 1 to 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Financial liabilities | | | | | | |
| Deposits and balances from banks and other financial institutions | 8,294,893 | 4,992,085 | 7,086,541 | — | — | 20,373,519 |
| Financial liabilities at fair value through profit or loss | 1,420,000 | 2,093,000 | 1,462,500 | — | — | 4,975,500 |
| Deposits from customers | 112,549,463 | 30,259,278 | 35,805,901 | 8,603,246 | 52,637 | 187,270,525 |
| Other financial liabilities | 4,517,866 | 1,809,154 | 3,377,424 | 33,300 | 6,150 | 9,743,894 |
| Total financial liabilities | 126,782,222 | 39,153,517 | 47,732,366 | 8,636,546 | 58,787 | 222,363,438 |

| | At 31 December 2013 | | | | | |
|---|---------------------|-------------------|-------------------|-------------------|---------------|--------------------|
| | Up to 1 month | 1 to 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Financial liabilities | | | | | | |
| Deposits and balances from banks and other financial institutions | 16,778,992 | 3,341,129 | 8,942,010 | — | — | 29,062,131 |
| Financial liabilities at fair value through profit or loss | 701,500 | 1,727,500 | 2,006,500 | — | — | 4,435,500 |
| Deposits from customers | 118,257,428 | 29,568,037 | 39,248,181 | 13,029,817 | 51,735 | 200,155,198 |
| Other financial liabilities | 7,599,320 | 2,657,072 | 4,241,374 | 411,167 | 10,867 | 14,919,800 |
| Total financial liabilities | 143,337,240 | 37,293,738 | 54,438,065 | 13,440,984 | 62,602 | 248,572,629 |

| At 31 December 2014 | | | | | | |
|---|--------------------|-------------------|-------------------|-------------------|--------------|--------------------|
| | Up to 1 month | 1 to 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Financial liabilities | | | | | | |
| Deposits and balances from banks and other financial institutions | 20,388,137 | 9,396,895 | 8,182,134 | — | — | 37,967,166 |
| Financial liabilities at fair value through profit or loss | 1,978,500 | 874,000 | 2,119,000 | — | — | 4,971,500 |
| Deposits from customers | 129,885,722 | 35,519,941 | 34,833,788 | 11,008,039 | — | 211,247,490 |
| Other financial liabilities | 7,636,441 | 2,688,501 | 4,078,030 | 194,912 | 794 | 14,598,678 |
| Total financial liabilities | 159,888,800 | 48,479,337 | 49,212,952 | 11,202,951 | 794 | 268,784,834 |

| At 30 September 2015 | | | | | | |
|---|--------------------|-------------------|-------------------|------------------|--------------|--------------------|
| | Up to 1 month | 1 to 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Financial liabilities | | | | | | |
| Deposits and balances from banks and other financial institutions | 9,115,206 | 8,418,085 | 6,160,104 | — | — | 23,693,395 |
| Financial liabilities at fair value through profit or loss | 1,243,500 | 1,289,000 | 2,249,000 | — | — | 4,781,500 |
| Deposits from customers | 132,390,830 | 38,835,623 | 38,253,065 | 7,751,531 | — | 217,231,049 |
| Other financial liabilities | 3,870,183 | 2,660,904 | 5,659,817 | 482,246 | 8,182 | 12,681,332 |
| Total financial liabilities | 146,619,719 | 51,203,612 | 52,321,986 | 8,233,777 | 8,182 | 258,387,276 |

(b) Derivative cash flows

The tables below summarise the cash flows of the NCB Group by remaining contractual maturities for derivative financial liabilities that will be settled on a net basis, together with all derivative financial instruments that will be settled on a gross basis regardless of whether the contract is in an asset or liability position. The amounts disclosed in the tables are the contractual undiscounted cash flows, except for certain derivatives which are disclosed at fair value.

The NCB Group's derivative financial instruments that will be settled on a net basis mainly include interest rate swaps whereas derivative financial instruments that will be settled on a gross basis mainly include currency forwards and currency swaps.

| At 31 December 2012 | | | | | | |
|---|---------------|---------------|----------------|--------------|--------------|--------------|
| | Up to 1 month | 1 to 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Derivative financial liabilities settled on a net basis | (208,173) | (46,724) | (82,104) | (68,833) | — | (405,834) |
| Derivative financial instruments settled on a gross basis | | | | | | |
| Total inflow | 13,418,557 | 4,167,232 | 11,099,574 | — | — | 28,685,363 |
| Total outflow | (13,330,081) | (4,144,315) | (11,094,464) | — | — | (28,568,860) |

| At 31 December 2013 | | | | | | |
|---|---------------|---------------|----------------|--------------|--------------|--------------|
| | Up to 1 month | 1 to 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Derivative financial liabilities settled on a net basis | (98,868) | (15,176) | (67,761) | (30,561) | — | (212,366) |
| Derivative financial instruments settled on a gross basis | | | | | | |
| Total inflow | 23,866,437 | 4,369,915 | 9,679,171 | 180,102 | — | 38,095,625 |
| Total outflow | (23,897,683) | (4,397,226) | (9,657,460) | (179,071) | — | (38,131,440) |
| At 31 December 2014 | | | | | | |
| | Up to 1 month | 1 to 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Derivative financial liabilities settled on a net basis | (100,241) | (9,011) | (25,332) | (15,614) | — | (150,198) |
| Derivative financial instruments settled on a gross basis | | | | | | |
| Total inflow | 20,417,338 | 6,924,041 | 11,252,454 | 834,845 | — | 39,428,678 |
| Total outflow | (20,719,023) | (6,952,942) | (11,370,225) | (834,202) | — | (39,876,392) |
| At 30 September 2015 | | | | | | |
| | Up to 1 month | 1 to 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Derivative financial liabilities settled on a net basis | 238,806 | (5,861) | (7,119) | (13,918) | — | 211,908 |
| Derivative financial instruments settled on a gross basis | | | | | | |
| Total inflow | 15,457,184 | 8,973,398 | 17,787,020 | 610,733 | — | 42,828,335 |
| Total outflow | (15,448,195) | (8,953,829) | (17,878,917) | (610,330) | — | (42,891,271) |

(c) Off-balance sheet items*Loan commitments*

The contractual amounts of the NCB Group's off-balance sheet financial instruments as at 30 September 2015 that the NCB Group commit to extend credit to customers and other facilities amounted to HK\$77,299,349,000 (31 December 2014: HK\$74,498,453,000; 31 December 2013: HK\$76,884,033,000; 31 December 2012: HK\$64,207,586,000). Those loan commitments can be drawn within one year.

Financial guarantees and other financial facilities

Financial guarantees and other financial facilities of the NCB Group as at 30 September 2015 amounting to HK\$50,603,412,000 (31 December 2014: HK\$38,415,882,000; 31 December 2013: HK\$33,262,083,000; 31 December 2012: HK\$23,861,509,000) are maturing no later than one year.

41. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

All assets and liabilities for which fair value is measured or disclosed in the Financial Information are categorised within the fair value hierarchy as defined in HKFRS 13, "Fair value measurement". The categorisation are determined with reference to the observability and significance of the inputs used in the valuation methods and 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. This category includes debt securities issued by certain governments and certain exchange-traded derivative contracts.

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. This category includes majority of the over-the-counter ("OTC") derivative contracts, debt securities and certificates of deposit with quote from pricing services vendors. It also includes precious metals and properties with insignificant adjustments made to observable market inputs.

Level 3: based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable. This category includes equity investment and debt securities with significant unobservable components. It also includes properties with significant adjustments made to observable market inputs.

For assets and liabilities that are recognised in the Financial Information on a recurring basis, the NCB 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.

41.1 Financial instruments measured at fair value

The NCB Group has an established governance structure and controls framework to ensure that fair values are either determined or validated by control units independent of the front offices. Control units have overall responsibility for independent verification of valuation results from front line businesses and all other significant fair value measurements. Specific controls include verification of observable pricing inputs. Significant valuation issues are reported to the Management.

The NCB Group uses valuation techniques or broker/dealer quotations to determine the fair value of financial instruments when unable to obtain the open market quotation in active markets.

The main parameters used in valuation techniques for financial instruments held by the NCB Group include bond prices, interest rates, foreign exchange rates, equity and stock prices, volatilities, counterparty credit spreads and others, which are mostly observable and obtainable from open market.

The technique used to calculate the fair value of the following financial instruments is as below:

Debt securities and certificates of deposit

The fair value of these instruments is determined by obtaining quoted market prices from exchange, dealer or independent pricing service vendors or using discounted cash flow technique. Discounted cash flow model is a valuation technique that measures present value using estimated expected future cash flows from the instruments and then discounts these flows using a discount rate or discount margin that reflects the credit spreads required by the market for instruments with similar risk. These inputs are observable or can be corroborated by observable or unobservable market data.

Derivatives

OTC derivative contracts include forward, swap and option contracts on foreign exchange, interest rate, equity or commodity. The fair values of these contracts are mainly measured using valuation techniques such as discounted cash flow models and option pricing models. The inputs can be observable or unobservable market data. Observable inputs include interest rate, foreign exchange rates, equity and stock prices, commodity prices and volatilities.

Credit valuation adjustments (“CVA”) and debit valuation adjustments (“DVA”) are applied to the NCB Group’s OTC derivatives. These adjustments reflect interest rates, expectations of counterparty creditworthiness and the NCB Group’s own credit spread respectively. They are determined for each counterparty and are dependent on expected future values of exposures, default probabilities and recovery rates.

(A) Fair value hierarchy

| | At 31 December 2012 | | | |
|---|---------------------|---------------------|---------------------|-------------------|
| | Level 1 HK\$'000 | Level 2 HK\$'000 | Level 3 HK\$'000 | Total HK\$'000 |
| Financial assets | | | | |
| Financial assets at fair value through profit or loss (Note 18) | | | | |
| —Trading securities | | | | |
| —Debt securities | — | 4,272,358 | — | 4,272,358 |
| —Financial assets designated at fair value through profit or loss | | | | |
| —Debt securities | — | 852,802 | — | 852,802 |
| Derivative financial instruments (Note 19) | 501,902 | 262,675 | — | 764,577 |
| Available-for-sale securities (Note 22) | | | | |
| —Debt securities | 1,468,168 | 31,266,584 | — | 32,734,752 |
| —Certificates of deposit | — | 5,569,963 | — | 5,569,963 |
| —Equity securities | — | — | 56,146 | 56,146 |
| Financial liabilities | | | | |
| Financial liabilities at fair value through profit or loss (Note 26) | | | | |
| —Trading liabilities | — | 4,975,073 | — | 4,975,073 |
| Derivative financial instruments (Note 19) | 205,008 | 254,599 | — | 459,607 |

| | At 31 December 2013 | | | |
|---|---------------------|------------|-----------|------------|
| | Level 1 | Level 2 | Level 3 | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Financial assets | | | | |
| Financial assets at fair value through profit or loss | | | | |
| (Note 18) | | | | |
| —Trading securities | | | | |
| —Debt securities | — | 3,666,036 | — | 3,666,036 |
| —Financial assets designated at fair value through profit or loss | | | | |
| —Debt securities | — | 498,657 | — | 498,657 |
| Derivative financial instruments (Note 19) | 345,027 | 163,426 | — | 508,453 |
| Available-for-sale securities (Note 22) | | | | |
| —Debt securities | — | 32,261,787 | — | 32,261,787 |
| —Certificates of deposit | — | 5,540,037 | 2,136,848 | 7,676,885 |
| —Equity securities | — | — | 63,965 | 63,965 |
| Financial liabilities | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| (Note 26) | | | | |
| —Trading liabilities | — | 4,433,736 | — | 4,433,736 |
| Derivative financial instruments (Note 19) | 94,553 | 248,603 | — | 343,156 |
| At 31 December 2014 | | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Financial assets | | | | |
| Financial assets at fair value through profit or loss | | | | |
| (Note 18) | | | | |
| —Trading securities | | | | |
| —Debt securities | — | 5,899,294 | — | 5,899,294 |
| —Financial assets designated at fair value through profit or loss | | | | |
| —Debt securities | — | 255,919 | — | 255,919 |
| Derivative financial instruments (Note 19) | 352,831 | 86,237 | 4 | 439,072 |
| Available-for-sale securities (Note 22) | | | | |
| —Debt securities | — | 34,501,889 | — | 34,501,889 |
| —Certificates of deposit | — | 7,897,685 | — | 7,897,685 |
| —Equity securities | — | — | 75,766 | 75,766 |
| Financial liabilities | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| (Note 26) | | | | |
| —Trading liabilities | — | 4,970,693 | — | 4,970,693 |
| Derivative financial instruments (Note 19) | 98,057 | 180,421 | 28 | 278,506 |

| | At 30 September 2015 | | | |
|---|----------------------|------------|----------|------------|
| | Level 1 | Level 2 | Level 3 | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Financial assets | | | | |
| Financial assets at fair value through profit or loss (Note 18) | | | | |
| —Trading securities | | | | |
| —Debt securities | — | 3,787,468 | — | 3,787,468 |
| —Financial assets designated at fair value through profit or loss | | | | |
| —Debt securities | — | 255,513 | — | 255,513 |
| Derivative financial instruments (Note 19) | 344,337 | 233,057 | — | 577,394 |
| Available-for-sale securities (Note 22) | | | | |
| —Debt securities | 2,042,915 | 38,205,808 | 8,218 | 40,256,941 |
| —Certificates of deposit | — | 9,417,898 | — | 9,417,898 |
| —Equity securities | — | — | 3,407 | 3,407 |
| Financial liabilities | | | | |
| Financial liabilities at fair value through profit or loss (Note 26) | | | | |
| —Trading liabilities | — | 4,781,296 | — | 4,781,296 |
| Derivative financial instruments (Note 19) | 105,777 | 201,471 | — | 307,248 |

There were no financial asset and liability transfers between level 1 and level 2 for the NCB Group during the period (31 December 2014: Nil; 31 December 2013: Nil; 31 December 2012: Nil).

(B) Reconciliation of Level 3 items

| | At 31 December 2013 | | | |
|--|---|-------------------------------|----------------------|--|
| | Derivative financial instruments (net) | Financial assets | | |
| | | Available-for-sale securities | | |
| | | Certificates of deposit | Equity securities | |
| HK\$'000 | HK\$'000 | HK\$'000 | | |
| At 1 January 2013 | — | — | 56,146 | |
| Gains | | | | |
| —Other comprehensive income | — | — | 7,819 | |
| Sales | — | 1,976,386 | — | |
| Transfers out of level 3 | — | 160,462 | — | |
| At 31 December 2013 | — | 2,136,848 | 63,965 | |
| | At 31 December 2014 | | | |
| | Derivative financial instruments (net) | Financial assets | | |
| | | Available-for-sale securities | | |
| | | Certificates of deposit | Equity securities | |
| HK\$'000 | HK\$'000 | HK\$'000 | | |
| At 1 January 2014 | — | 2,136,848 | 63,965 | |
| Gains | | | | |
| —Income statements | 4 | — | — | |
| —Other comprehensive income | — | 660 | 11,801 | |
| Sales | — | (2,057,390) | — | |
| Transfers out of level 3 | — | (80,118) | — | |
| At 31 December 2014 | 4 | — | 75,766 | |
| Total unrealised gain for the year included in income statements for financial assets held as at 31 December 2014 | 4 | — | — | |

| | At 30 September 2015 | | |
|-----------------------------------|---|-------------------------------|----------------------|
| | Derivative financial instruments (net) | Financial assets | |
| | | Available-for-sale securities | |
| | | Debt securities | Equity securities |
| HK\$'000 | HK\$'000 | HK\$'000 | |
| At 1 January 2015 | 4 | — | 75,766 |
| Gains | | | |
| —Other comprehensive income | — | — | 10,473 |
| Sales | — | — | (82,832) |
| Purchases | — | 8,218 | — |
| Transfers out of level 3 | (4) | — | — |
| At 30 September 2015 | — | 8,218 | 3,407 |

As at 30 September 2015 and 31 December 2014, financial instruments categorised as level 3 are mainly comprised of debt securities, certificates of deposit and unlisted equity shares.

Certificates of deposit were transferred out of level 3 during the period/year due to change of valuation observability. For certain illiquid debt securities, the NCB Group obtains valuation quotations from counterparties which may be based on unobservable inputs with significant impact on the valuation. Therefore, these instruments have been classified by the NCB Group as level 3. The NCB Group has established internal control procedures to control the NCB Group's exposure to such financial instruments.

The fair values of unlisted available-for-sale equity shares are determined with reference to multiples of comparable listed companies, such as average of the price/earning ratios of comparables or net asset value, if appropriate comparables are not available. The fair value is positively correlated to the price/earning ratios of appropriate comparables or net asset values. Had the net asset value of the underlying equity investments increased/decreased by 5%, the NCB Group's other comprehensive income would have increased/decreased by HK\$170,000 (31 December 2014: HK\$3,788,000; 31 December 2013: HK\$3,198,000).

41.2 Financial instruments not measured at fair value

Fair value estimates are made at a specific point in time based on relevant market information and information about various financial instruments. The following methods and assumptions have been used to estimate the fair value of each class of financial instrument as far as practicable.

Balances with/from banks and other financial institutions and trade bills

Substantially all the financial assets and liabilities mature within one year from the balance sheet date and their carrying value approximates fair value.

Advances to customers

Substantially all the advances to customers are on floating rate terms, bear interest at prevailing market interest rates and their carrying value approximates fair value.

Held-to-maturity securities

The fair value of held-to-maturity securities is determined by using the same approach as those debt securities and certificates of deposit as described in Note 41.1.

Loans and receivables

The fair value of loans and receivable is determined by using the same approach as those debt securities as described in Note 41.1.

Deposits from customers

Substantially all the deposits from customers mature within one year from the balance sheet date and their carrying value approximates fair value.

The following tables set out the carrying values and fair values of the financial instruments not measured at fair value, except for the above with their carrying values being approximation of fair values.

| | Carrying value | | | | Fair value | | | |
|-----------------------------|----------------|-----------|-----------|--------------|----------------|-----------|-----------|--------------|
| | At 31 December | | | At | At 31 December | | | At |
| | 2012 | 2013 | 2014 | 30 September | 2012 | 2013 | 2014 | 30 September |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Financial assets | | | | | | | | |
| Held-to-maturity securities | | | | | | | | |
| (Note 22) | 1,006,783 | 585,442 | 2,618,390 | 2,509,140 | 1,012,465 | 583,975 | 2,668,585 | 2,588,282 |
| —Debt securities | 464,743 | — | — | — | 465,004 | — | — | — |
| Loans and receivables | | | | | | | | |
| (Note 22) | 1,157,262 | 1,684,064 | 2,074,594 | 953,573 | 1,155,860 | 1,679,326 | 2,072,809 | 956,025 |

The following tables show the fair value hierarchy for financial instruments with fair values disclosed.

| | At 31 December 2013 | | | |
|---------------------------------|---------------------|-----------|----------|-----------|
| | Level 1 | Level 2 | Level 3 | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Financial assets | | | | |
| Held-to-maturity securities | | | | |
| —Debt securities | — | 583,680 | 295 | 583,975 |
| Loans and receivables | — | 1,679,326 | — | 1,679,326 |

| | At 31 December 2014 | | | |
|---------------------------------|---------------------|-----------|----------|-----------|
| | Level 1 | Level 2 | Level 3 | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Financial assets | | | | |
| Held-to-maturity securities | | | | |
| —Debt securities | — | 2,668,585 | — | 2,668,585 |
| Loans and receivables | — | 2,072,809 | — | 2,072,809 |

| | At 30 September 2015 | | | |
|---------------------------------|----------------------|-----------|----------|-----------|
| | Level 1 | Level 2 | Level 3 | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Financial assets | | | | |
| Held-to-maturity securities | | | | |
| —Debt securities | — | 2,588,282 | — | 2,588,282 |
| Loans and receivables | — | 956,025 | — | 956,025 |

41.3 Non-financial instruments measured at fair value

The NCB Group uses valuation techniques or quoted market prices in active market to determine the fair value of non-financial instruments.

Investment properties and premises

The NCB Group's properties can be divided into investment properties and premises. All of the NCB Group's investment properties and premises were revalued as at year end. The valuations were carried out by an independent firm of chartered surveyors, Savills Valuation and Professional Services Limited, who have among their staff Fellow and Members of The Hong Kong Institute of Surveyors with recent experience in the locations and categories of properties being valued. The NCB Group's Management had discussions with the surveyors on the valuation methods, valuation assumptions and valuation results when the valuation is performed at each interim and annual reporting date. There has been no change in valuation methods during the year/period.

Valuation methods and inputs used in Level 2 fair value measurements

The fair value of properties classified as Level 2 is determined using either the market comparison approach by reference to recent sales price of comparable properties or the income capitalisation approach by reference to market rent and capitalisation rate, with appropriate adjustments to reflect the differences between the comparable properties and the subject properties. These adjustments are considered as insignificant to the entire measurement.

The NCB Group's properties are located in Hong Kong and major cities in the PRC where the property markets are considered active and transparent. Sales price, market rent and capitalisation rate of comparable properties are generally observable either directly or indirectly in these markets.

Information about Level 3 fair value measurements

The fair value of all of the NCB Group's properties classified as Level 3 is determined using either the market comparison approach or the income capitalisation approach, adjusted for a premium or a discount specific to the features of the NCB Group's properties compared to the comparable properties.

Precious metals

The fair values of precious metals are determined by obtaining quoted market prices in active market or market quote with certain adjustments.

Fair value hierarchy

| | At 31 December 2013 | | | |
|---------------------------------------|---------------------|---------------------|---------------------|-------------------|
| | Level 1 HK\$'000 | Level 2 HK\$'000 | Level 3 HK\$'000 | Total HK\$'000 |
| Non-financial assets | | | | |
| Investment properties (Note 23) | — | 27,000 | 1,147,938 | 1,174,938 |
| Properties, plant and equipment | | | | |
| —Premises | — | 1,931,868 | 4,677,510 | 6,609,378 |
| Other assets | | | | |
| —Precious metals | — | — | — | — |
| | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> |

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

1. CONCENTRATION OF ADVANCES TO CUSTOMERS

(i) Sectoral analysis of gross advances to customers

The following analysis of the gross advances to customers by industry sector is based on the categories with reference to the Completion Instructions for the HKMA return of loans and advances.

| | At 31 December 2012 | | | | | |
|--|-----------------------------|---|------------------------|----------|---|---|
| | Gross advances to customers | % Covered by collateral or other security | Classified or impaired | Overdue | Individually assessed impairment allowances | Collectively assessed impairment allowances |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Loans for use in Hong Kong | | | | | | |
| Industrial, commercial and financial | | | | | | |
| —Property development | 1,779,675 | 43.52% | — | — | — | 7,646 |
| —Property investment | 12,173,523 | 83.05% | 6,534 | 152,920 | — | 142,096 |
| —Financial concerns | 1,626,879 | 62.05% | — | — | — | 19,981 |
| —Stockbrokers | 17,427 | 13.88% | — | — | — | 274 |
| —Wholesale and retail trade | 12,832,343 | 47.65% | 48,097 | 60,639 | 19,815 | 103,771 |
| —Manufacturing | 3,735,230 | 40.35% | 20,906 | 41,113 | 8,983 | 42,651 |
| —Transport and transport equipment | 5,271,838 | 14.44% | 1,027 | 312 | 217 | 59,638 |
| —Recreational activities | 66,779 | — | — | — | — | 690 |
| —Information technology | 2,290,103 | 1.45% | 2,164 | 2,164 | 599 | 6,225 |
| —Others | 8,408,000 | 50.38% | 19,713 | 43,616 | 2,319 | 44,934 |
| Individuals | | | | | | |
| —Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme | 703,350 | 100.00% | 3,015 | 17,512 | — | 378 |
| —Loans for purchase of other residential properties | 10,623,638 | 99.97% | 1,725 | 75,344 | — | 4,263 |
| —Credit card advances | — | — | — | — | — | — |
| —Others | 3,006,246 | 70.51% | 2,526 | 9,517 | 788 | 1,572 |
| Total loans for use in Hong Kong | 62,535,031 | 60.75% | 105,707 | 403,137 | 32,721 | 434,119 |
| Trade finance | 5,992,781 | 34.60% | 61,582 | 62,454 | 42,165 | 54,299 |
| Loans for use outside Hong Kong | 62,625,297 | 35.95% | 316,370 | 443,749 | 145,707 | 481,031 |
| Gross advances to customers | 131,153,109 | 47.72% | 483,659 | 909,340 | 220,593 | 969,449 |

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (continued)

| | At 31 December 2013 | | | | | |
|--|-----------------------------|---|------------------------|------------------|---|---|
| | Gross advances to customers | % Covered by collateral or other security | Classified or impaired | Overdue | Individually assessed impairment allowances | Collectively assessed impairment allowances |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Loans for use in Hong Kong | | | | | | |
| Industrial, commercial and financial | | | | | | |
| —Property development | 2,216,959 | 49.42% | — | — | — | 9,953 |
| —Property investment . . . | 12,296,487 | 86.23% | 15,573 | 58,529 | 1,150 | 124,766 |
| —Financial concerns | 2,819,772 | 13.24% | — | — | — | 8,427 |
| —Stockbrokers | 266,540 | 0.53% | — | — | — | 643 |
| —Wholesale and retail trade | 10,133,696 | 32.83% | 67,961 | 109,124 | 19,731 | 79,617 |
| —Manufacturing | 4,580,945 | 37.58% | 39,580 | 43,157 | 24,498 | 43,219 |
| —Transport and transport equipment | 3,944,329 | 13.50% | 713 | 2,855 | 167 | 34,125 |
| —Recreational activities | 61,579 | — | — | — | — | 159 |
| —Information technology | 2,051,533 | 1.76% | 2,298 | 2,298 | 649 | 5,388 |
| —Others | 10,931,760 | 48.71% | 19,871 | 26,902 | 8,016 | 70,296 |
| Individuals | | | | | | |
| —Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme | 565,821 | 100.00% | 3,178 | 14,067 | — | 302 |
| —Loans for purchase of other residential properties | 9,902,944 | 99.91% | 1,153 | 103,688 | — | 3,820 |
| —Credit card advances | — | — | — | — | — | — |
| —Others | 4,807,678 | 47.61% | 3,886 | 45,691 | 771 | 4,769 |
| Total loans for use in Hong Kong | 64,580,043 | 55.38% | 154,213 | 406,311 | 54,982 | 385,484 |
| Trade finance | 8,345,348 | 26.31% | 54,710 | 64,592 | 34,580 | 60,959 |
| Loans for use outside Hong Kong | 70,616,652 | 41.43% | 276,888 | 654,409 | 191,351 | 740,572 |
| Gross advances to customers | <u>143,542,043</u> | <u>46.83%</u> | <u>485,811</u> | <u>1,125,312</u> | <u>280,913</u> | <u>1,187,015</u> |

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (continued)

| | At 31 December 2014 | | | | | |
|--|-----------------------------|---|------------------------|-----------|---|---|
| | Gross advances to customers | % Covered by collateral or other security | Classified or impaired | Overdue | Individually assessed impairment allowances | Collectively assessed impairment allowances |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Loans for use in Hong Kong | | | | | | |
| Industrial, commercial and financial | | | | | | |
| —Property development | 3,109,845 | 30.32% | — | — | — | 10,877 |
| —Property investment | 12,223,689 | 86.15% | 9,397 | 35,519 | 1,322 | 119,117 |
| —Financial concerns | 2,001,248 | 21.71% | — | — | — | 5,040 |
| —Stockbrokers | 101,383 | 1.35% | — | — | — | 236 |
| —Wholesale and retail trade | 11,956,256 | 26.82% | 92,507 | 308,788 | 26,800 | 84,717 |
| —Manufacturing | 6,307,305 | 23.80% | 38,178 | 41,590 | 26,344 | 33,372 |
| —Transport and transport equipment | 4,056,145 | 10.50% | 30,386 | 6,486 | 12,159 | 14,822 |
| —Recreational activities | 56,908 | 1.97% | — | — | — | 133 |
| —Information technology | 1,728,779 | 1.80% | 2,479 | 4,875 | 919 | 4,273 |
| —Others | 13,754,281 | 44.32% | 9,630 | 15,346 | 6,830 | 81,038 |
| Individuals | | | | | | |
| —Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme | 455,145 | 99.99% | 2,006 | 12,250 | — | 226 |
| —Loans for purchase of other residential properties | 10,333,678 | 99.51% | 5,903 | 64,808 | — | 3,240 |
| —Credit card advances | 20,012 | — | 609 | — | — | 290 |
| —Others | 6,759,164 | 41.17% | 5,411 | 38,361 | 782 | 5,835 |
| Total loans for use in Hong Kong | 72,863,838 | 50.36% | 196,506 | 528,023 | 75,156 | 363,216 |
| Trade finance | 7,642,319 | 27.90% | 102,867 | 110,355 | 73,200 | 59,473 |
| Loans for use outside Hong Kong | 68,996,099 | 41.47% | 955,263 | 1,249,484 | 583,242 | 815,833 |
| Gross advances to customers | 149,502,256 | 45.11% | 1,254,636 | 1,887,862 | 731,598 | 1,238,522 |

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (continued)

| | At 30 September 2015 | | | | | |
|--|-----------------------------|---|------------------------|------------------|---|---|
| | Gross advances to customers | % Covered by collateral or other security | Classified or impaired | Overdue | Individually assessed impairment allowances | Collectively assessed impairment allowances |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Loans for use in Hong Kong | | | | | | |
| Industrial, commercial and financial | | | | | | |
| —Property development | 4,748,416 | 14.60% | — | — | — | 19,344 |
| —Property investment | 11,441,419 | 93.46% | 35,603 | 240,647 | 1,802 | 107,308 |
| —Financial concerns | 3,704,954 | 11.93% | — | — | — | 11,352 |
| —Stockbrokers | 948 | 100.00% | — | — | — | 3 |
| —Wholesale and retail trade | 10,294,989 | 30.66% | 101,436 | 108,324 | 70,792 | 69,509 |
| —Manufacturing | 8,645,650 | 23.25% | 28,133 | 33,340 | 17,738 | 36,445 |
| —Transport and transport equipment | 4,427,884 | 8.14% | — | 1,770 | — | 13,778 |
| —Recreational activities | 55,365 | 1.96% | — | — | — | 117 |
| —Information technology | 815,235 | 2.47% | 2,611 | 7,702 | 1,286 | 2,138 |
| —Others | 11,310,884 | 50.15% | 20,565 | 25,486 | 17,104 | 60,601 |
| Individuals | | | | | | |
| —Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme | 386,518 | 100.00% | 1,629 | 11,096 | — | 251 |
| —Loans for purchase of other residential properties | 11,825,508 | 99.80% | 707 | 53,847 | — | 4,514 |
| —Others | 7,229,264 | 52.98% | 3,052 | 78,916 | 1,198 | 5,016 |
| Total loans for use in Hong Kong | 74,887,034 | 52.17% | 193,736 | 561,128 | 109,920 | 330,376 |
| Trade finance | 6,807,042 | 29.88% | 115,845 | 126,163 | 83,224 | 46,682 |
| Loans for use outside Hong Kong | 79,497,081 | 36.32% | 741,032 | 1,037,672 | 520,498 | 600,045 |
| Gross advances to customers | <u>161,191,157</u> | <u>43.41%</u> | <u>1,050,613</u> | <u>1,724,963</u> | <u>713,642</u> | <u>977,103</u> |

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (continued)

The amount of new impairment allowances charged to the income statements, and classified or impaired loans written off during the year are shown below:

| | New impairment allowances | | | | | Classified or impaired loans written off | | | | |
|---|---------------------------|----------|-----------|-----------------|----------|--|----------|----------|-----------------|----------|
| | At 31 December | | | At 30 September | | At 31 December | | | At 30 September | |
| | 2012 | 2013 | 2014 | 2014 | 2015 | 2012 | 2013 | 2014 | 2014 | 2015 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Loans for use in Hong Kong | | | | | | | | | | |
| Industrial, commercial and financial | | | | | | | | | | |
| —Property investment | 29,103 | 1,954 | 2,484 | 1,098 | 590 | 99 | 738 | 3,237 | 2,049 | 1,017 |
| —Financial concerns | 11,267 | — | — | — | 1,570 | — | — | — | — | — |
| —Stockbrokers | 257 | 36 | — | — | — | — | — | — | — | — |
| —Wholesale and retail trade | 22,910 | 11,310 | 13,970 | 11,078 | 60,044 | 4,337 | 7,449 | 5,433 | 1,541 | 3,813 |
| —Manufacturing | 11,775 | 7,211 | 7,173 | 4,420 | 6,484 | 1,766 | 2,841 | 3,244 | 252 | 11,778 |
| —Transport and transport equipment | 41,032 | 210 | 11,881 | 29,761 | — | — | — | — | — | — |
| —Recreational activities | 485 | — | — | — | — | — | — | — | — | — |
| —Information technology | 3,045 | 70 | 270 | 224 | 373 | — | — | — | — | — |
| —Others | 11,112 | 8,679 | 3,283 | 3,488 | 36,578 | 605 | 2,152 | 470 | — | 25,116 |
| Individuals | | | | | | | | | | |
| —Loans for purchase of other residential properties | — | — | 2 | 4 | — | — | — | — | — | 2 |
| —Credit card advances | — | — | 32 | 78 | — | — | — | — | — | — |
| —Others | — | 9,467 | 18,262 | 14,002 | 11,846 | — | 6,747 | 17,193 | 13,720 | 12,964 |
| Total loans for use in Hong Kong | 130,986 | 38,937 | 57,357 | 64,153 | 117,485 | 6,807 | 19,927 | 29,577 | 17,562 | 54,690 |
| Trade finance | 53,548 | 11,337 | 55,594 | 20,799 | 82,083 | 2,649 | 2,556 | 4,339 | — | 60,982 |
| Loans for use outside Hong Kong | 231,122 | 383,201 | 899,775 | 745,472 | 767,629 | 378 | 137,691 | 344,936 | 40,545 | 651,657 |
| Gross advances to customers | 415,656 | 433,475 | 1,012,726 | 830,424 | 967,197 | 9,834 | 160,174 | 378,852 | 58,107 | 767,329 |

(ii) Geographical analysis of gross advances to customers

The following geographical analysis of advances to customers is based on the location of the counterparties, after taking into account the transfer of risk. For an advance to customer guaranteed by a party situated in a country different from the customer, the risk will be transferred to the country of the guarantor.

Gross advances to customers

| | At 31 December | | | At 30 September |
|-------------------|----------------|-------------|-------------|-----------------|
| | 2012 | 2013 | 2014 | 2015 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Hong Kong | 67,584,057 | 71,198,417 | 73,959,116 | 86,064,129 |
| Mainland of China | 58,393,561 | 66,923,361 | 69,650,228 | 65,666,878 |
| Others | 5,175,491 | 5,420,265 | 5,892,912 | 9,460,150 |
| | 131,153,109 | 143,542,043 | 149,502,256 | 161,191,157 |

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (continued)

Collectively assessed impairment allowances in respect of the gross advances to customers

| | At 31 December | | | At 30 September |
|-------------------------|----------------|------------------|------------------|-----------------|
| | 2012 | 2013 | 2014 | 2015 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Hong Kong | 480,016 | 463,692 | 412,140 | 399,548 |
| Mainland of China | 430,812 | 633,469 | 730,437 | 491,138 |
| Others | 58,621 | 89,854 | 95,945 | 86,417 |
| | <u>969,449</u> | <u>1,187,015</u> | <u>1,238,522</u> | <u>977,103</u> |

Overdue advances

| | At 31 December | | | At 30 September |
|-------------------------|----------------|------------------|------------------|------------------|
| | 2012 | 2013 | 2014 | 2015 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Hong Kong | 472,042 | 422,834 | 332,232 | 631,220 |
| Mainland of China | 433,690 | 659,877 | 1,546,827 | 1,011,689 |
| Others | 3,608 | 42,601 | 8,803 | 82,054 |
| | <u>909,340</u> | <u>1,125,312</u> | <u>1,887,862</u> | <u>1,724,963</u> |

Individually assessed impairment allowances in respect of the overdue advances

| | At 31 December | | | At 30 September |
|-------------------------|----------------|----------------|----------------|-----------------|
| | 2012 | 2013 | 2014 | 2015 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Hong Kong | 93,005 | 50,989 | 52,960 | 165,609 |
| Mainland of China | 123,297 | 217,507 | 546,644 | 422,503 |
| Others | — | 4,377 | 1,448 | 433 |
| | <u>216,302</u> | <u>272,873</u> | <u>601,052</u> | <u>588,545</u> |

Collectively assessed impairment allowances in respect of the overdue advances

| | At 31 December | | | At 30 September |
|-------------------------|----------------|---------------|---------------|-----------------|
| | 2012 | 2013 | 2014 | 2015 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Hong Kong | 3,916 | 8,155 | 6,660 | 8,124 |
| Mainland of China | 1,690 | 3,632 | 6,844 | 3,128 |
| Others | 11 | 238 | 20 | 251 |
| | <u>5,617</u> | <u>12,025</u> | <u>13,524</u> | <u>11,503</u> |

Classified or impaired advances

| | At 31 December | | | At 30 September |
|-------------------------|----------------|----------------|------------------|------------------|
| | 2012 | 2013 | 2014 | 2015 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Hong Kong | 180,495 | 154,186 | 151,434 | 219,430 |
| Mainland of China | 303,164 | 324,675 | 1,101,806 | 801,865 |
| Others | — | 6,950 | 1,396 | 29,318 |
| | <u>483,659</u> | <u>485,811</u> | <u>1,254,636</u> | <u>1,050,613</u> |

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (continued)

Individually assessed impairment allowances in respect of the classified or impaired advances

| | At 31 December | | | At 30 September |
|-------------------------|----------------|----------------|----------------|-----------------|
| | 2012 | 2013 | 2014 | 2015 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Hong Kong | 95,512 | 57,768 | 55,235 | 115,105 |
| Mainland of China | 125,081 | 218,768 | 674,915 | 577,471 |
| Others | — | 4,377 | 1,448 | 21,066 |
| | <u>220,593</u> | <u>280,913</u> | <u>731,598</u> | <u>713,642</u> |

Collectively assessed impairment allowances in respect of the classified or impaired advances

| | At 31 December | | | At 30 September |
|-------------------------|----------------|--------------|--------------|-----------------|
| | 2012 | 2013 | 2014 | 2015 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Hong Kong | 193 | 2,298 | 3,524 | 1,842 |
| Mainland of China | 392 | 39 | 1,609 | 1,001 |
| Others | — | — | — | 41 |
| | <u>585</u> | <u>2,337</u> | <u>5,133</u> | <u>2,884</u> |

2. LIQUIDITY COVERAGE RATIO/LIQUIDITY RATIO

| | Quarter ended 31 March 2015 | Quarter ended 30 June 2015 | Quarter ended 30 September 2015 |
|---|--------------------------------|-------------------------------|------------------------------------|
| Average value of liquidity coverage ratio | <u>123.70%</u> | <u>163.68%</u> | <u>114.10%</u> |

The average value of liquidity coverage ratio is calculated based on the arithmetic mean of the liquidity coverage ratio as at the end of each working day in the quarter and the calculation methodology and instructions set out in the HKMA return of liquidity position.

The liquidity coverage ratio is computed on the consolidated basis which comprises the positions of Nanyang Bank and certain subsidiaries specified by the HKMA in accordance with the Banking (Liquidity) Rules.

| | Year ended 31 December 2012 | Year ended 31 December 2013 | Year ended 31 December 2014 | Period ended 30 September 2014 |
|-------------------------------|--------------------------------|--------------------------------|--------------------------------|-----------------------------------|
| Average liquidity ratio | <u>44.46%</u> | <u>47.80%</u> | <u>51.99%</u> | <u>52.15%</u> |

The average liquidity ratio is calculated as the arithmetical mean of each calendar month's average liquidity ratio of Nanyang Bank for the year/period.

The liquidity ratio is computed on the solo basis (the Hong Kong offices only) and is in accordance with the predecessor Fourth Schedule to the Banking Ordinance.

The NCB Group has established intra-group liquidity risk management guideline to manage the liquidity funding among different entities within the NCB Group, and to restrict their reliance of funding on each other.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (continued)**3. CAPITAL MANAGEMENT**

The major objective of the NCB Group's capital management is to maximise total shareholders' return while maintaining a capital adequacy position in relation to the NCB Group's overall risk profile. The Assets and Liability Management Committee periodically reviews the NCB Group's capital structure and adjusts the capital mix where appropriate to maintain an optimal balance among risk, return and capital adequacy.

The NCB Group has developed and maintained a sound framework of policies and controls on capital management to support the development of the NCB Group's business and to meet the statutory capital adequacy ratio. The Assets and Liability Management Committee monitors the NCB Group's capital adequacy. The NCB Group has complied with all the statutory capital requirements of the HKMA for the reported periods in respect of banking operation as further elaborated below.

The NCB Group has adopted the foundation internal ratings-based ("FIRB") approach to calculate the credit risk capital charge for the majority of its non-securitisation exposures. A small residual credit exposures are remained under the standardised (credit risk) ("STC") approach. The NCB Group has adopted standardised credit valuation adjustment ("CVA") method to calculate the capital charge for the CVA risk of the counterparty.

NCB Group continues to adopt the internal models ("IMM") approach to calculate the general market risk capital charge for foreign exchange and interest rate exposures and, with the approvals of HKMA, exclude its structural FX positions arising from overseas branches and NCB China in the calculation of the market risk capital charge. The NCB Group continues to adopt the standardised (market risk) ("STM") approach to calculate the market risk capital charge for remaining exposures.

The NCB Group continues to adopt standardised (operational risk) ("STO") approach to calculate the capital charge for operational risk.

The NCB Group has continued to adopt an internal capital adequacy assessment process ("ICAAP") to comply with the HKMA's requirements in the Supervisory Policy Manual "Supervisory Review Process" in 2015. Based on the HKMA's guidelines on Pillar II, ICAAP has been initiated to assess the extra capital needed to cover the material risks not captured or not adequately captured under Pillar I, and therefore minimum Common Equity Tier 1 capital ratio, minimum Tier 1 capital ratio and the minimum Total capital ratio are determined. Meanwhile, operating ranges for the aforementioned capital ratios have also been established which enable the flexibility for future business growth and efficiency of capital utilisation. The NCB Group considers this ICAAP process as an on-going process for capital management and periodically reviews and adjusts its capital structure where appropriate in relation to the overall risk profile.

In addition, the capital plan of the NCB Group is drawn up annually and then submitted to the Board for approval after endorsement of the Assets and Liability Management Committee. The plan is built up by assessing the implications of various factors upon capital adequacy such as the business strategies, return on equity, risk appetite, credit rating, as well as regulatory requirements. Hence, the future capital requirement is determined and capital sources are identified also. The plan is to ensure the NCB Group maintains adequate capital and appropriate capital structure which align with our business development needs thereby achieving an optimal balance among risk, return and capital adequacy.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (continued)

(i) Basis of regulatory consolidation

The consolidation basis for regulatory purposes comprises the positions of Nanyang Bank and certain subsidiaries specified by the HKMA in accordance with the Banking (Capital) Rules. For accounting purposes, subsidiaries are consolidated in accordance with HKFRSs.

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

| | At 31 December | | | | At 30 September | |
|---|----------------|--------------|--------------|--------------|-----------------|--------------|
| | 2013 | 2013 | 2014 | 2014 | 2015 | 2015 |
| | Total assets | Total equity | Total assets | Total equity | Total assets | Total equity |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Nanyang Commercial Bank Trustee Limited | 16,869 | 16,510 | 16,295 | 16,186 | 16,343 | 16,233 |
| Kwong Li Nam Investment Agency Limited | 4,168 | 4,029 | 4,481 | 4,027 | 4,263 | 4,026 |
| Nanyang Commercial Bank (Nominees) Limited . . | 1,483 | 1,483 | 1,477 | 1,477 | 1,472 | 1,472 |

There are no subsidiaries which are included within the regulatory scope of consolidation but not included within the accounting scope of consolidation as at 30 September 2015 (31 December 2014: Nil; 31 December 2013: Nil).

There are also no subsidiaries which are included within both the accounting scope of consolidation and the regulatory scope of consolidation but the methods of consolidation differ as at 30 September 2015 (31 December 2014: Nil; 31 December 2013: Nil).

The principal activities of the above subsidiaries are set out in note 1 of Section II.

(ii) Capital ratio

| | At 31 December | | At 30 September |
|----------------------------------|----------------|--------|---------------------|
| | 2013 | 2014 | 2015 |
| CET1 capital ratio | 13.53% | 14.17% | 15.06% |
| Tier 1 capital ratio | 13.53% | 14.17% | 15.06% |
| Total capital ratio | 15.80% | 16.53% | 17.14% |
| | | | At 31 December 2012 |
| Capital adequacy ratio | | | 15.89% |
| Core capital ratio | | | 15.08% |

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (continued)

4. CURRENCY CONCENTRATIONS

The following is a summary of the NCB Group's major foreign currency exposures arising from trading, non-trading and structural positions and is prepared with reference to the Completion Instructions for the prudential return "Foreign Currency Position of an Authorised Institution" issued by the HKMA.

| | At 31 December 2012 | | | |
|-------------------------|----------------------|---------------|--------------------------|--------------------------|
| | US Dollars | Renminbi | Other foreign currencies | Total foreign currencies |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Spot assets | 44,970,705 | 92,007,219 | 11,863,812 | 148,841,736 |
| Spot liabilities | (40,978,415) | (86,860,201) | (10,193,513) | (138,032,129) |
| Forward purchases | 19,309,220 | 13,322,971 | 5,522,921 | 38,155,112 |
| Forward sales | (21,527,013) | (18,970,467) | (7,093,398) | (47,590,878) |
| Net long position | 1,774,497 | (500,478) | 99,822 | 1,373,841 |
| Net structural position | 321,028 | 7,885,528 | — | 8,206,556 |
| | At 31 December 2013 | | | |
| | US Dollars | Renminbi | Other foreign currencies | Total foreign currencies |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Spot assets | 51,589,784 | 121,853,558 | 9,384,830 | 182,828,172 |
| Spot liabilities | (44,518,523) | (111,464,523) | (9,925,494) | (165,908,540) |
| Forward purchases | 24,399,649 | 10,648,881 | 4,468,976 | 39,517,506 |
| Forward sales | (29,771,697) | (21,621,410) | (3,875,909) | (55,269,016) |
| Net long position | 1,699,213 | (583,494) | 52,403 | 1,168,122 |
| Net structural position | 333,141 | 8,263,668 | — | 8,596,809 |
| | At 31 December 2014 | | | |
| | US Dollars | Renminbi | Other foreign currencies | Total foreign currencies |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Spot assets | 50,714,856 | 129,625,777 | 10,170,515 | 190,511,148 |
| Spot liabilities | (49,057,989) | (113,019,787) | (9,087,139) | (171,164,915) |
| Forward purchases | 23,258,343 | 8,581,087 | 2,839,602 | 34,679,032 |
| Forward sales | (24,806,626) | (25,023,970) | (3,877,531) | (53,708,127) |
| Net long position | 108,584 | 163,107 | 45,447 | 317,138 |
| Net structural position | 277,715 | 8,414,836 | — | 8,692,551 |
| | At 30 September 2015 | | | |
| | US Dollars | Renminbi | Other foreign currencies | Total foreign currencies |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Spot assets | 60,867,434 | 102,377,601 | 12,873,305 | 176,118,340 |
| Spot liabilities | (56,718,614) | (92,819,211) | (10,691,004) | (160,228,829) |
| Forward purchases | 26,815,412 | 11,018,077 | 6,242,855 | 44,076,344 |
| Forward sales | (29,270,780) | (20,527,892) | (8,429,792) | (58,228,464) |
| Net long position | 1,693,452 | 48,575 | (4,636) | 1,737,391 |
| Net structural position | 293,058 | 8,617,872 | — | 8,910,930 |

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (continued)

5. INTERNATIONAL CLAIMS

The below analysis is prepared with reference to the completion instructions for the HKMA return of international banking statistics. International claims are exposures to counterparties other than local claims in local currency on which the ultimate risk lies, and are derived according to the location of the counterparties after taking into account the transfer of risk. For a claim guaranteed by a party situated in a country different from the counterparty, the risk will be transferred to the country of the guarantor. For a claim on an overseas branch of a bank whose head office is located in another country, the risk will be transferred to the country where its head office is located. Claims on individual countries or areas, after risk transfer, amounting to 10% or more of the aggregate international claims of the NCB Group are shown as follows:

| | At 31 December 2014 | | | | |
|-----------------------------|---------------------|------------------|---------------------------------|------------------------------|-------------------|
| | Banks | Official sector | Non-bank private sector | | Total |
| | | | Non-bank financial institutions | Non-financial private sector | |
| | | | HK\$'000 | HK\$'000 | |
| Mainland of China | 36,252,631 | 942,469 | 660,677 | 34,282,844 | 72,138,621 |
| Hong Kong | 253,134 | 2,305,880 | 588,883 | 24,251,030 | 27,398,927 |
| Total | <u>36,505,765</u> | <u>3,248,349</u> | <u>1,249,560</u> | <u>58,533,874</u> | <u>99,537,548</u> |

| | At 30 September 2015 | | | | |
|-----------------------------|----------------------|------------------|---------------------------------|------------------------------|--------------------|
| | Banks | Official sector | Non-bank private sector | | Total |
| | | | Non-bank financial institutions | Non-financial private sector | |
| | | | HK\$'000 | HK\$'000 | |
| Mainland of China | 38,617,080 | 859,240 | 617,706 | 33,571,624 | 73,665,650 |
| Hong Kong | 3,129,288 | 785,050 | 1,147,542 | 30,314,468 | 35,376,348 |
| Total | <u>41,746,368</u> | <u>1,644,290</u> | <u>1,765,248</u> | <u>63,886,092</u> | <u>109,041,998</u> |

6. Cross-border claims for the year

| | 2012 | | | |
|-----------------------------|-------------------|-------------------------|-------------------|-------------------|
| | Banks | Public sector entities* | Others | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Asia, other than Hong Kong | | | | |
| Mainland of China | 26,367,246 | 559,646 | 29,262,032 | 56,188,924 |
| Others | 11,466,066 | 1,468,168 | 1,307,642 | 14,241,876 |
| Total | <u>37,833,312</u> | <u>2,027,814</u> | <u>30,569,674</u> | <u>70,430,800</u> |

| | 2013 | | | |
|-----------------------------|-------------------|-------------------------|-------------------|-------------------|
| | Banks | Public sector entities* | Others | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Asia, other than Hong Kong | | | | |
| Mainland of China | 35,085,897 | 647,145 | 34,557,836 | 70,290,878 |
| Others | 6,522,598 | 851 | 1,259,319 | 7,782,768 |
| Total | <u>41,608,495</u> | <u>647,996</u> | <u>35,817,155</u> | <u>78,073,646</u> |

* None of cross-border claims on Asia, other than Hong Kong is eligible to be classified as public sector entities under the Banking (Capital) Rules (2012: Nil).

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (continued)

7. NON-BANK MAINLAND EXPOSURES

The analysis of non-bank Mainland exposures is based on the categories of non-bank counterparties and the type of direct exposures with reference to the Completion Instructions for the HKMA return of non-bank Mainland exposures, which includes the Mainland exposures extended by Nanyang Bank and its banking subsidiary.

| | At 31 December 2012 | | | |
|--|---------------------------|----------------------------|-------------------|---|
| | On-balance sheet exposure | Off-balance sheet exposure | Total exposure | Individually assessed impairment allowances |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Mainland entities | 28,859,693 | 1,393,186 | 30,252,879 | — |
| Companies and individuals outside Mainland where the credit is granted for use in Mainland | 4,022,501 | 2,238,762 | 6,261,263 | 486 |
| Other non-bank Mainland exposures | 7,054,825 | 153,127 | 7,207,952 | 22,108 |
| | <u>39,937,019</u> | <u>3,785,075</u> | <u>43,722,094</u> | <u>22,594</u> |
| Exposures incurred by the Bank's Mainland subsidiary . . . | <u>52,903,227</u> | <u>21,938,024</u> | <u>74,841,251</u> | <u>162,149</u> |

| | At 31 December 2013 | | | |
|---|----------------------|---------------------------|----------------------------|--------------------|
| | Items in HKMA return | On-balance sheet exposure | Off-balance sheet exposure | Total exposure |
| | | HK\$'000 | HK\$'000 | HK\$'000 |
| Central government, central government-owned entities and their subsidiaries and joint ventures | 1 | 24,381,250 | 835,223 | 25,216,473 |
| Local governments, local government-owned entities and their subsidiaries and joint ventures | 2 | 10,589,130 | 1,800,550 | 12,389,680 |
| PRC nationals residing in Mainland or other entities incorporated in Mainland and their subsidiaries and joint ventures | 3 | 52,761,011 | 28,348,407 | 81,109,418 |
| Other entities of central government not reported in item 1 above | 4 | — | — | — |
| Other entities of local governments not reported in item 2 above | 5 | — | — | — |
| PRC nationals residing outside Mainland or entities incorporated outside Mainland where the credit is granted for use in Mainland | 6 | 5,630,650 | 1,876,581 | 7,507,231 |
| Other counterparties where the exposures are considered to be non-bank Mainland exposures | 7 | 4,593,476 | 42,298 | 4,635,774 |
| Total | 8 | <u>97,955,517</u> | <u>32,903,059</u> | <u>130,858,576</u> |
| Total assets after provision | 9 | <u>288,685,809</u> | | |
| On-balance sheet exposures as percentage of total assets . . | 10 | <u>33.93%</u> | | |

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (continued)

| At 31 December 2014 | | | | |
|---|------------------------------|-------------------------------|-------------------|--------------------|
| Items in HKMA return | On-balance sheet exposure | Off-balance sheet exposure | Total exposure | |
| | HK\$'000 | HK\$'000 | HK\$'000 | |
| Central government, central government-owned entities and their subsidiaries and joint ventures | 1 | 29,451,874 | 1,151,441 | 30,603,315 |
| Local governments, local government-owned entities and their subsidiaries and joint ventures | 2 | 11,599,566 | 1,810,301 | 13,409,867 |
| PRC nationals residing in Mainland or other entities incorporated in Mainland and their subsidiaries and joint ventures | 3 | 50,180,366 | 29,896,773 | 80,077,139 |
| Other entities of central government not reported in item 1 above | 4 | 318,005 | — | 318,005 |
| Other entities of local governments not reported in item 2 above | 5 | — | — | — |
| PRC nationals residing outside Mainland or entities incorporated outside Mainland where the credit is granted for use in Mainland | 6 | 6,980,121 | 1,183,797 | 8,163,918 |
| Other counterparties where the exposures are considered to be non-bank Mainland exposures | 7 | 5,177,267 | — | 5,177,267 |
| Total | 8 | <u>103,707,199</u> | <u>34,042,312</u> | <u>137,749,511</u> |
| Total assets after provision | 9 | <u>310,553,707</u> | | |
| On-balance sheet exposures as percentage of total assets . . | 10 | <u>33.39%</u> | | |

| At 30 September 2015 | | | | |
|---|------------------------------|-------------------------------|-------------------|--------------------|
| Items in HKMA return | On-balance sheet exposure | Off-balance sheet exposure | Total exposure | |
| | HK\$'000 | HK\$'000 | HK\$'000 | |
| Central government, central government-owned entities and their subsidiaries and joint ventures | 1 | 31,547,867 | 1,159,467 | 32,707,334 |
| Local governments, local government-owned entities and their subsidiaries and joint ventures | 2 | 14,567,022 | 2,797,444 | 17,364,466 |
| PRC nationals residing in Mainland or other entities incorporated in Mainland and their subsidiaries and joint ventures | 3 | 53,643,384 | 30,377,112 | 84,020,496 |
| Other entities of central government not reported in item 1 above | 4 | 876,421 | — | 876,421 |
| Other entities of local governments not reported in item 2 above | 5 | — | — | — |
| PRC nationals residing outside Mainland or entities incorporated outside Mainland where the credit is granted for use in Mainland | 6 | 8,272,936 | 845,965 | 9,118,901 |
| Other counterparties where the exposures are considered to be non-bank Mainland exposures | 7 | 5,514,371 | — | 5,514,371 |
| Total | 8 | <u>114,422,001</u> | <u>35,179,988</u> | <u>149,601,989</u> |
| Total assets after provision | 9 | <u>305,226,456</u> | | |
| On-balance sheet exposures as percentage of total assets . . | 10 | <u>37.49%</u> | | |

MANAGEMENT DISCUSSION AND ANALYSIS OF THE FINANCIAL INFORMATION OF
NANYANG BANK

In this section, the total amount may differ from the direct sum of each item and some of the percentage indicators may differ from the outcome directly calculated from the relevant values as a result of round off differences.

The following is the management discussion and analysis of the financial information of Nanyang Bank for the three years ended 31 December 2012, 2013 and 2014, and the nine months ended 30 September 2015 (the “**Relevant Period**”).

(i) Income Statement Analysis*Operating results*

| | For the nine months ended 30 September | For the year ended 31 December | | |
|--|--|--------------------------------|----------------|----------------|
| | 2015 | 2014 | 2013 | 2012 |
| | (HK\$ million) | (HK\$ million) | (HK\$ million) | (HK\$ million) |
| Operating income | 4,338 | 5,735 | 5,539 | 4,534 |
| Operating expense | (1,763) | (2,404) | (2,272) | (1,882) |
| Operating profit | 2,575 | 3,331 | 3,267 | 2,652 |
| Operating profit before taxation | 3,809 | 3,329 | 3,262 | 2,652 |
| After-tax profit | 3,379 | 2,714 | 2,735 | 2,236 |

For the nine months ended 30 September 2015, and for the years ended 31 December 2014, 2013 and 2012, Nanyang Bank recorded operating profit of HK\$2,575 million, HK\$3,331 million, HK\$3,267 million, and HK\$2,652 million, respectively. For the nine months ended 30 September 2015, and for the years ended 31 December 2014, 2013 and 2012, Nanyang Bank’s after-tax profit amounted to HK\$3,379 million, HK\$2,714 million, HK\$2,735 million, and HK\$2,236 million, respectively.

For the first nine months of 2015, Nanyang Bank focused on executing its strategies of expanding operations and tapping new growth market, strengthening marketing and customer development efforts as well as transforming its business and earning structure. Operating profit increased by 5.1% for the nine months ended 30 September 2015 compared to the corresponding period of 2014 primarily as a result of increase in net fee and commission income, and decrease in net charge on impairment allowances, partially offset by decrease in net interest income. Additionally, Nanyang Bank disposed of a number of investment properties, properties, plant and equipment and recorded net gain from disposal of investment properties of HK\$850 million and net gain from disposal of properties, plant and equipment of HK\$383 million. As a result, after-tax profit increased by 70.6% for the nine months ended 30 September 2015 compared to the corresponding period of 2014.

In the year of 2014, Nanyang Bank continued to consolidate and expand its customer base and optimize asset and structure, actively explored potential new areas of business growth and strengthened risk management, hence achieving a steady and healthy growth in all businesses. Operating profit increased by 2.0% from HK\$3,267 million for the year of 2013 to HK\$3,331 million for the year of 2014 as a result of increase in net interest income and net fee and commission income, partially offset by an increase in the net charge of impairment allowances. After-tax profit decreased slightly by 0.8% from HK\$2,735 million for the year of 2013 to HK\$2,714 million for the year of 2014, primarily due to higher PRC taxation accrued in 2014.

During the year of 2013, Nanyang Bank's businesses maintained sound growth with strong operating results. Operating profit increased by 23.2% from HK\$2,652 million for the year of 2012 to HK\$3,267 million for the year of 2013 as a result of growth in net interest income and net fee and commission income, while after-tax profit increased by 22.3% from HK\$2,236 million for the year of 2012 to HK\$2,735 million for the year of 2013.

Operating income

The following table sets out the breakdown of Nanyang Bank's operating income for the Relevant Period:

| | For the nine months ended 30 September | For the year ended 31 December | | |
|---|--|--------------------------------|----------------|----------------|
| | 2015 | 2014 | 2013 | 2012 |
| | (HK\$ million) | (HK\$ million) | (HK\$ million) | (HK\$ million) |
| Net interest income | 3,582 | 5,190 | 4,691 | 3,933 |
| Net fee and commission income | 1,057 | 1,255 | 1,009 | 755 |
| Other net operating income/(expenses) | (301) | (710) | (161) | (154) |
| Net operating income | 4,338 | 5,735 | 5,539 | 4,534 |

Net interest income has traditionally been the largest contributor and accounted for 82.6%, 90.5%, 84.7% and 86.7% of Nanyang Bank's net operating income for the nine months ended 30 September 2015, and for the years ended 31 December 2014, 2013 and 2012, respectively. For the nine months ended 30 September 2015, and for the years ended 31 December 2014, 2013 and 2012, net interest income was HK\$3,582 million, HK\$5,190 million, HK\$4,691 million, and HK\$3,933 million, respectively. The increase in net interest income was mainly attributable to the growth of interest income from advances to customers as well as interest income due from banks and other financial institutions, primarily driven by the growth of average balance of interest-earning assets. For the nine months ended 30 September 2015, and for the years ended 31 December 2014, 2013 and 2012, net interest margin were 1.66%, 1.83%, 1.83% and 1.63%, respectively.

For the nine months ended 30 September 2015, and for the years ended 31 December 2014, 2013 and 2012, net fee and commission income was HK\$1,057 million, HK\$1,255 million, HK\$1,009 million, and HK\$755 million, respectively. The net fee and commission income achieved year-on-year growth of 24.4% and 33.6% in 2014 and 2013, respectively. The strong growth in net fee and commission income during these years were mainly due to Nanyang Bank's dedicated focus on developing "capital light", fee-and-commission based businesses, and its efforts to improve contribution from wealth management related fee and commission income.

Operating expenses

The following table sets out the breakdown of Nanyang Bank's operating expenses for the Relevant Period:

| | For the nine months ended 30 September | For the year ended 31 December | | |
|---|--|--------------------------------|----------------|----------------|
| | 2015 | 2014 | 2013 | 2012 |
| | (HK\$ million) | (HK\$ million) | (HK\$ million) | (HK\$ million) |
| Staff costs | (944) | (1,235) | (1,192) | (1,014) |
| Premises and equipment expenses (excluding depreciation) | (361) | (479) | (453) | (370) |
| Depreciation | (87) | (131) | (127) | (103) |
| Others | (372) | (558) | (501) | (395) |
| Total operating expenses | (1,763) | (2,404) | (2,272) | (1,882) |
| <i>Cost-to-income ratio</i> | 40.6% | 41.9% | 41.0% | 41.5% |

For the nine months ended 30 September 2015, and for the years ended 31 December 2014, 2013 and 2012, Nanyang Bank's total operating expenses was HK\$1,763 million, HK\$2,404 million, HK\$2,272 million and HK\$1,882 million, respectively. Nanyang Bank has continued to focus on cost control and maintained a stable cost-to-income ratio during the Relevant Period.

Net charge of impairment allowances

The following table sets out the breakdown of Nanyang Bank's net charge of impairment allowances for the Relevant Period:

| | For the nine months ended 30 September | For the year ended 31 December | | |
|--|--|--------------------------------|----------------|----------------|
| | 2015 | 2014 | 2013 | 2012 |
| | (HK\$ million) | (HK\$ million) | (HK\$ million) | (HK\$ million) |
| Net charge of individually assessed loan impairment allowances | (666) | (819) | (159) | (137) |
| Net reversal/(charge) of collectively assessed loan impairment allowances | 162 | (85) | (211) | (260) |
| Net charge of impairment allowances | (504) | (904) | (370) | (397) |

For the nine months ended 30 September 2015, and for the years ended 31 December 2014, 2013 and 2012, net charge of impairment allowances was HK\$504 million, HK\$904 million, HK\$370 million and HK\$397 million, respectively. In the year of 2014, the net charge of impairment allowances increased compared to the years of 2012 and 2013, mainly as a result of the increase in new individually assessed loan impairment allowances due to the deteriorating asset quality situation of certain mainland China borrowers.

(ii) Balance Sheet Analysis**(1) Assets**

As at 30 September 2015, 31 December 2014, 2013 and 2012, Nanyang Bank's total assets was HK\$289,308 million, HK\$296,560 million, HK\$273,621 million and HK\$245,798 million,

respectively. The total assets recorded a decline of 2.4% as of 30 September 2015 in comparison to as of 31 December 2014, and year-on-year growth of 8.4% and 11.3% as of 31 December 2014 and 31 December 2013, respectively.

The following table sets out the breakdown of total assets for the Relevant Period:

| Assets | 30 September 2015 | | 31 December 2014 | | 31 December 2013 | | 31 December 2012 | |
|---|-------------------|----------------------|------------------|----------------------|------------------|----------------------|------------------|----------------------|
| | Amount | As % of total assets | Amount | As % of total assets | Amount | As % of total assets | Amount | As % of total assets |
| | (HK\$ million) | % | (HK\$ million) | % | (HK\$ million) | % | (HK\$ million) | % |
| Cash and balances with banks and other financial institutions | 47,452 | 16.40 | 58,283 | 19.65 | 44,739 | 16.35 | 40,788 | 16.59 |
| Placements with banks and other financial institutions maturing between one and twelve months | 10,397 | 3.59 | 18,181 | 6.13 | 21,344 | 7.80 | 17,309 | 7.04 |
| Advances and other accounts | 170,907 | 59.07 | 163,904 | 55.27 | 155,317 | 56.76 | 138,033 | 56.16 |
| Investments ⁽¹⁾ | 57,761 | 19.97 | 53,763 | 18.13 | 46,945 | 17.16 | 46,879 | 19.07 |
| Others ⁽²⁾ | 2,790 | 0.96 | 2,430 | 0.82 | 5,275 | 1.93 | 2,789 | 1.13 |
| Total assets | 289,308 | 100.00 | 296,560 | 100.00 | 273,621 | 100.00 | 245,798 | 100.00 |

Notes:

- Including financial assets at fair value through profit or loss, investment in securities and derivative financial assets.
- Including investment properties, property, plant and equipment, current tax assets, deferred tax assets and other assets.

Advances and other accounts

Nanyang Bank offers diversified loan products to the customers through its branch network. As at 30 September 2015, 31 December 2014, 2013 and 2012, advances and other accounts, which consists of personal loans and advances, corporate loans and advances and trade bills after deducting loan impairment allowances was HK\$170,907 million, HK\$163,904 million, HK\$155,317 million and HK\$138,033 million, respectively, accounting for 59.1%, 55.3%, 56.8% and 56.2% of the total assets.

The following table sets out the breakdown of Nanyang Bank's advances and other accounts by product type for the Relevant Period:

| Assets | 30 September 2015 | | 31 December 2014 | | 31 December 2013 | | 31 December 2012 | |
|--|-------------------|---|------------------|---|------------------|---|------------------|---|
| | Amount | As % of total advances and other accounts | Amount | As % of total advances and other accounts | Amount | As % of total advances and other accounts | Amount | As % of total advances and other accounts |
| | (HK\$ million) | % | (HK\$ million) | % | (HK\$ million) | % | (HK\$ million) | % |
| Personal loans and advances | 34,190 | 19.81 | 31,456 | 18.96 | 26,728 | 17.05 | 22,002 | 15.80 |
| Corporate loans and advances | 127,002 | 73.58 | 118,046 | 71.17 | 116,814 | 74.51 | 109,151 | 78.40 |
| Advances to customers .. | 161,191 | 93.39 | 149,502 | 90.13 | 143,542 | 91.55 | 131,153 | 94.20 |
| Trade bills | 11,407 | 6.61 | 16,372 | 9.87 | 13,243 | 8.45 | 8,070 | 5.80 |
| Total advances and other accounts | 172,598 | 100.00 | 165,874 | 100.00 | 156,785 | 100.00 | 139,223 | 100.00 |

Corporate loans and advances constitute the most significant part of Nanyang Bank's loan portfolio during the Relevant Period. As at 30 September 2015, 31 December 2014, 2013 and 2012, corporate loans accounted for 73.6%, 71.2%, 74.5% and 78.4% of total advances and other accounts, respectively. As at 30 September 2015, corporate loans and advances of Nanyang Bank was HK\$127,002 million, representing an increase of 7.6% in comparison to HK\$118,046 million as of 31 December 2014. As at 31 December 2014, 2013 and 2012, corporate loans and advances of Nanyang Bank was HK\$118,046 million, HK\$116,814 million and HK\$109,151 million, respectively, representing a year-on-year growth of 1.1% and 7.0%. The growth in corporate loans and advances is primarily driven by the continuous expansion of customer base in Hong Kong and mainland China, and growth in the cross-border financing needs of corporate customers.

Personal loans and advances also showed steady growth during the Relevant Period. As at 30 September 2015, personal loans and advances of Nanyang Bank was HK\$34,190 million, representing an increase of 8.7% in comparison to HK\$31,456 million as of 31 December 2014. As at 31 December 2014, 2013 and 2012, personal loans and advances of Nanyang Bank was HK\$31,456 million, HK\$26,728 million and HK\$22,002 million, respectively, representing a year-on-year growth of 17.7% and 21.5%. The growth in personal loans and advances is primarily driven by the continuous expansion of customer base in Hong Kong and mainland China, and the launch of personal loans business in 2013, and introduction of innovative loan products.

Asset quality of total advances and other accounts

The following table sets out the breakdown of Nanyang Bank's gross advances and other accounts for the Relevant Period:

| | 30 September 2015 | | 31 December 2014 | | 31 December 2013 | | 31 December 2012 | |
|---|-------------------|---|------------------|---|------------------|---|------------------|---|
| | Amount | As % of total advances and other accounts | Amount | As % of total advances and other accounts | Amount | As % of total advances and other accounts | Amount | As % of total advances and other accounts |
| Assets | (HK\$ million) | % | (HK\$ million) | % | (HK\$ million) | % | (HK\$ million) | % |
| Neither overdue nor impaired | 170,729 | 98.92 | 163,835 | 98.77 | 155,638 | 99.27 | 138,293 | 99.33 |
| Overdue but not impaired | 879 | 0.51 | 900 | 0.54 | 712 | 0.45 | 465 | 0.33 |
| Impaired | 990 | 0.57 | 1,139 | 0.69 | 435 | 0.28 | 464 | 0.33 |
| Total advances and other accounts | 172,598 | 100.00 | 165,874 | 100.00 | 156,785 | 100.00 | 139,223 | 100.00 |
| | Amount | As % of total advances to customers | Amount | As % of total advances to customers | Amount | As % of total advances to customers | Amount | As % of total advances to customers |
| | (HK\$ million) | % | (HK\$ million) | % | (HK\$ million) | % | (HK\$ million) | % |
| Gross classified or impaired advances to customers ⁽¹⁾ | 1,051 | 0.65 | 1,255 | 0.84 | 486 | 0.34 | 484 | 0.37 |

Note:

- Classified or impaired advances to customers represent advances which are either classified as "sub-standard", "doubtful" or "loss" under Nanyang Bank's classification of loan quality, or individually assessed to be impaired.

As at 30 September 2015, 31 December 2014, 2013 and 2012, Nanyang Bank's gross classified or impaired advances to customers amounted to HK\$1,051 million, HK\$1,255 million, HK\$486 million and HK\$484 million, respectively. As at 30 September 2015, 31 December 2014, 2013 and 2012, Nanyang Bank's gross classified or impaired advances to customers as a percentage to total advances to customers was 0.65%, 0.84%, 0.34% and 0.37%, respectively. The increase in gross classified or impaired advances to customers and its ratio to total advances to customers in 2014 was primarily due to the increase in delinquent borrowers in mainland China as a result of the deteriorating macroeconomic conditions. In response to the volatile market environment, Nanyang Bank vigorously strengthened its risk management capabilities and asset quality monitoring efforts which resulted in the improvement in asset quality as at 30 September 2015.

Investments

Nanyang Bank's investments comprise financial assets at fair value through profit or loss, derivative financial assets and investment in securities. Investment in securities primarily include debt securities, certificates of deposit and equity securities classified as available-for-sale securities and held-to-maturity securities, and certain loans and receivables.

The following table sets out the breakdown of Nanyang Bank's investment portfolio for the Relevant Period:

| Assets | 30 September 2015 | | 31 December 2014 | | 31 December 2013 | | 31 December 2012 | |
|---|-------------------|---------------|------------------|---------------|------------------|---------------|------------------|---------------|
| | Amount | As % of total | Amount | As % of total | Amount | As % of total | Amount | As % of total |
| | (HK\$ million) | investments | (HK\$ million) | investments | (HK\$ million) | investments | (HK\$ million) | investments |
| | | % | | % | | % | | % |
| Financial assets at fair value through profit or loss | 4,043 | 7.00 | 6,155 | 11.45 | 4,165 | 8.87 | 5,125 | 10.93 |
| Derivative financial assets | 577 | 1.00 | 439 | 0.82 | 508 | 1.08 | 765 | 1.63 |
| Investment in securities | 53,141 | 92.00 | 47,168 | 87.73 | 42,272 | 90.05 | 40,990 | 87.44 |
| Total | 57,761 | 100.00 | 53,763 | 100.00 | 46,945 | 100.00 | 46,879 | 100.00 |

As at 30 September 2015, Nanyang Bank's investments was HK\$57,761 million, representing an increase of 7.4 % in comparison to HK\$53,763 million as of 31 December 2014. As at 31 December 2014, 2013 and 2012, Nanyang Bank's investments was HK\$53,763 million, HK\$46,945 million and HK\$46,879 million, respectively, representing a year-on-year growth of 14.5% and 0.1%. The growth is primarily driven by the increase in the available-for-sale securities such as debt securities and certificates of deposits in the investment portfolio, as part of Nanyang Bank's effort to optimise its investment portfolio.

Other assets

Other assets include cash and balances with banks and other financial institutions, placements with banks and other financial institutions and other assets, which include investment properties, property, plant and equipment, current tax assets, deferred tax assets and other assets. Since 2012, other assets have remained relatively stable as a percentage of total assets.

As at 30 September 2015, 31 December 2014, 2013 and 2012, Nanyang Bank's cash and balances with banks and other financial institutions was HK\$47,452 million, HK\$58,283 million, HK\$44,739 million and HK\$40,788 million, respectively, accounting for 16.4%, 19.7%, 16.4% and 16.6% of total assets.

As at 30 September 2015, 31 December 2014, 2013 and 2012, Nanyang Bank's placements with banks and other financial institutions was HK\$10,397 million, HK\$18,181 million, HK\$21,344 million and HK\$17,309 million, respectively, accounting for 3.4%, 6.1%, 7.8% and 7.0% of total assets.

As at 30 September 2015, 31 December 2014, 2013 and 2012, Nanyang Bank's other assets was HK\$2,790 million, HK\$2,430 million, HK\$5,275 million and HK\$2,789 million, respectively, accounting for 1.0%, 0.8%, 1.9% and 1.1% of total assets.

(2) *Liabilities*

As at 30 September 2015, Nanyang Bank's total liabilities was HK\$258,066 million, representing a decrease of 3.7% in comparison to HK\$268,023 million as of 31 December 2014. As at 31 December 2014, 2013 and 2012, Nanyang Bank's total liabilities was HK\$268,023 million, HK\$247,218 million and HK\$221,312 million, respectively, representing a year-on-year increase of 8.4% and 11.7%.

The following table sets out the breakdown of total liabilities for the Relevant Period:

| <i>Liabilities</i> | 30 September 2015 | | 31 December 2014 | | 31 December 2013 | | 31 December 2012 | |
|---|---------------------------|--|---------------------------|--|---------------------------|--|---------------------------|--|
| | Amount | As % of total liabilities | Amount | As % of total liabilities | Amount | As % of total liabilities | Amount | As % of total liabilities |
| | (HK\$ million) | % | (HK\$ million) | % | (HK\$ million) | % | (HK\$ million) | % |
| Customer deposits | 216,069 | 83.73 | 209,634 | 78.21 | 198,160 | 80.16 | 185,534 | 83.83 |
| Deposits and balances from banks and other financial institutions | 23,584 | 9.14 | 37,736 | 14.08 | 28,846 | 11.67 | 20,262 | 9.16 |
| Other liabilities ⁽¹⁾ | 18,413 | 7.14 | 20,653 | 7.71 | 20,212 | 8.17 | 15,516 | 7.01 |
| Total liabilities | 258,066 | 100.00 | 268,023 | 100.00 | 247,218 | 100.00 | 221,312 | 100.00 |

Note:

- Other liabilities include financial liabilities at fair value through profit or loss, derivative financial instruments classified as liabilities, other accounts and provisions and current tax liabilities.

Customer deposits

As at 30 September 2015, 31 December 2014, 2013 and 2012, Nanyang Bank's customer deposits was HK\$216,069 million, HK\$209,634 million, HK\$198,160 million and HK\$185,534 million, respectively, accounting for 83.7%, 78.2%, 80.2% and 83.8% of total liabilities. Customer deposits achieved a growth of 3.1% as at 30 September 2015 in comparison to as at 31 December 2014, and year-on-year growth of 5.8% and 6.8% as at 31 December 2014 and 31 December 2013, respectively. During the Relevant Period, Nanyang Bank's customer deposits remained generally stable in composition and maintained a steady growth in amount, mainly driven by sufficient market liquidity and Nanyang Bank's active and flexible deposit strategy to expand deposit business and funding sources by introducing new deposit products to attract corporate and retail customers, while exercising cost control over funds according to the market condition.

Deposits and balances from banks and other financial institutions

As at 30 September 2015, 31 December 2014, 2013 and 2012, Nanyang Bank's deposits and balances from banks and other financial institutions was HK\$23,584 million, HK\$37,736 million, HK\$28,846 million and HK\$20,262 million, respectively, accounting for 9.1%, 14.1%, 11.7% and 9.2% of total liabilities. During the Relevant Period, changes in deposits and balances from banks and other financial institutions mainly reflected Nanyang Bank's efforts to absorb deposits from other financial institutions, driven by the needs of business growth and liquidity management requirement.

Other liabilities

Other liabilities include financial liabilities at fair value through profit or loss, derivative financial instruments classified as liabilities, other accounts and provisions and current tax liabilities. As at 30 September 2015, 31 December 2014, 2013 and 2012, Nanyang Bank's other liabilities was HK\$18,413 million, HK\$20,653 million, HK\$20,212 million and HK\$15,516 million, respectively.

(iii) Capital Resources**(1) Shareholders' equity**

Shareholders' equity of Nanyang Bank increased from HK\$24,486 million as at 31 December 2012 to HK\$26,402 million as at 31 December 2013, and from HK\$28,537 million as at 31 December 2014 to HK\$31,241 million as at 30 September 2015, as a result of increases in retained earnings during the Relevant Period.

(2) Capital adequacy ratio

Nanyang Bank calculates the total capital ratio, Tier 1 capital ratio and CET1 capital ratio in accordance with applicable requirements set out in Banking (Capital) Rules. Nanyang Bank's capital adequacy ratio as at 30 September 2015, 31 December 2014, 2013 and 2012 stood at 17.14%, 16.53%, 15.80% and 15.89%, respectively. Nanyang Bank's Tier 1 capital ratio as at 30 September 2015, 31 December 2014, and 2013 stood at 15.06%, 14.17%, 13.53%, respectively; and CET1 capital ratio at the same periods stood at 15.06%, 14.17% and 13.53%, respectively. Please refer to the sub-section headed "(xii) Working Capital" on page 16 of this circular for detailed capital adequacy calculation and description.

(3) Leverage ratio

Nanyang Bank calculates its leverage ratio in accordance with applicable requirements set out in the Banking (Liquidity) Rules. As at 30 September 2015, Nanyang Bank has Basel III leverage ratio of 8.28%. The calculation is set forth in the following table.

| | At 30 September 2015 (HK\$ million) |
|-------------------------------|--|
| Tier 1 Capital | 28,274 |
| Leverage ratio exposure | 341,517 |
| Leverage ratio | 8.28% |

(4) Gearing ratio

Nanyang Bank's gearing ratio (calculated by dividing total assets by total shareholders' equity) as at 30 September 2015, 31 December 2014, 2013 and 2012 was at 9.26, 10.39, 10.36 and 10.04 times, respectively.

(iv) Operating Segment Information

For management purposes, Nanyang Bank is organized into operating segments based on the internal organization structure, management requirements and internal reporting, specifically personal banking, corporate banking, treasury, investment and others. Please refer to the Notes to the Accountants' Report prepared under the HKFRS set out in Appendix II to this circular for detailed operating segment information.

(v) Liquidity

Liquidity risk is the risk that Nanyang Bank will be unable to meet its payment obligations when they fall due. The risk is attributable to any differences in the amounts and terms between assets and liabilities. To limit this risk, management has arranged diversified funding sources, and monitors loans and deposit balances on a daily basis. Nanyang Bank also maintains a portfolio of highly marketable assets that can be easily liquidated in the event of an unforeseen interruption of cash flows. Furthermore, Nanyang Bank performs stress testing regularly to assess and identify the actions that can meet the payment obligations under different critical scenarios. The following table sets out relevant indices of Nanyang Bank for the quarters ended 31 March 2015, 30 June 2015 and 30 September 2015:

| | <u>Index standard</u> | <u>Quarter ended 31 March 2015</u> | <u>Quarter ended 30 June 2015</u> | <u>Quarter ended 30 September 2015</u> |
|---|-----------------------|--|---------------------------------------|--|
| Average value of liquidity coverage ratio | >=60% ⁽¹⁾ | 123.70% | 163.68% | 114.10% |

Note:

- Under the Banking (Liquidity) Rules which became effective on 1 January 2015, during the year of 2015 a category 1 institution must at all times maintain a Liquidity Coverage Ratio of not less than 60% rising to 100% on or after 1 January 2019.

The average value of liquidity coverage ratio is calculated based on the arithmetic mean of the liquidity coverage ratio as at the end of each working day in the quarter and the calculation methodology and instructions set out in the HKMA return of liquidity position. The liquidity coverage ratio is computed on the consolidated basis which comprises the positions of Nanyang Bank and certain subsidiaries specified by the HKMA in accordance with the Banking (Liquidity) Rules.

| | <u>Index standard</u> | <u>31 December 2014</u> | <u>31 December 2013</u> | <u>31 December 2012</u> |
|-------------------------------|-----------------------|-------------------------|-------------------------|-------------------------|
| Average liquidity ratio | >= 25.0% | 51.99% | 47.80% | 44.46% |

The average liquidity ratio is calculated as the arithmetical mean of each calendar month's average liquidity ratio of the Bank for the relevant year. The liquidity ratio is computed on the standalone basis (for Nanyang Bank's Hong Kong offices only) and is in accordance with the predecessor Fourth Schedule to the Banking Ordinance.

(vi) Interest Rate Risk and Exchange Rate Risk

The principal market risk Nanyang Bank faces comes from risks in interest rate and exchange rate. Nanyang Bank adopts a moderate market risk appetite to achieve a balance between risk and return. Nanyang Bank's objective in managing market risk is to secure healthy growth of the treasury business, by effective management of potential market risk in Nanyang Bank's business, according to its overall risk appetite and strategy of treasury business on the basis of a well-established risk management regime and related management measures.

Nanyang Bank uses the Value at Risk ("VAR") to measure and report general market risks to its Risk Management Committee and senior management on a periodic basis. Nanyang Bank adopts a uniformed VAR calculation model, using a historical simulation approach and two years of historical market data, to calculate the VAR over 1-day holding period with a 99% confidence level, and sets up the VAR limit.

The following table sets out the VAR for all general market risk exposure of Nanyang Bank.

| | <u>Year</u> | <u>At 31 December</u> (HK\$'000) | <u>Minimum for the year</u> (HK\$'000) | <u>Maximum for the year</u> (HK\$'000) | <u>Average for the year</u> (HK\$'000) |
|-------------------------------------|-------------|---|---|---|---|
| VAR for all market risk | 2014 | 635 | 635 | 1,901 | 1,181 |
| | 2013 | 1,294 | 1,294 | 2,982 | 2,196 |
| | 2012 | 2,095 | 1,188 | 2,814 | 2,232 |
| VAR for foreign exchange risk | 2014 | 544 | 544 | 1,975 | 1,145 |
| | 2013 | 1,191 | 1,191 | 3,047 | 2,196 |
| | 2012 | 2,007 | 1,150 | 2,774 | 2,171 |
| VAR for interest rate risk | 2014 | 274 | 225 | 883 | 644 |
| | 2013 | 502 | 117 | 635 | 268 |
| | 2012 | 256 | 148 | 534 | 251 |

| | <u>Year</u> | <u>At 30 September</u> (HK\$'000) | <u>Minimum for the period</u> (HK\$'000) | <u>Maximum for the period</u> (HK\$'000) | <u>Average for the period</u> (HK\$'000) |
|-------------------------------------|-------------|--|---|---|---|
| VAR for all market risk | 2015 | 747 | 559 | 1,387 | 868 |
| | 2014 | 1,515 | 866 | 1,606 | 1,150 |
| VAR for foreign exchange risk | 2015 | 716 | 463 | 1,398 | 833 |
| | 2014 | 1,533 | 684 | 1,675 | 1,108 |
| VAR for interest rate risk | 2015 | 78 | 78 | 301 | 186 |
| | 2014 | 544 | 499 | 883 | 747 |

(1) Interest rate risk

Nanyang Bank's interest rate risk mainly arises from the mismatch of contractual maturity or re-pricing dates between interest-earning assets and interest-bearing liabilities. Nanyang Bank uses scenario analysis and stress tests to assess the banking book interest rate risk that it would face under adverse circumstances. Scenario analyses and stress tests are also devised to assess the impact on net interest income and economic value arising from the optionality of demand and savings deposits and the prepayment of mortgage loans.

Nanyang Bank is principally exposed to Hong Kong dollar, US dollar and Renminbi in terms of interest rate risk. As at 30 September 2015, if Hong Kong dollar, US dollar and Renminbi market interest rates had been 100 basis point higher with other variables held constant, the sensitivities on net interest income over the next 12 months and on reserves for Nanyang Bank would have been as follows:

| | Impact on net interest income over the next 12 months | | | | Impact on reserves | | | |
|-------------------|--|------------|--------------------|------------|--------------------|------------|--------------------|------------|
| | At 31 December | | At 30 September | | At 31 December | | At 30 September | |
| | 2012 | 2013 | 2014 | 2015 | 2012 | 2013 | 2014 | 2015 |
| | (HK\$'000) | (HK\$'000) | (HK\$'000) | (HK\$'000) | (HK\$'000) | (HK\$'000) | (HK\$'000) | (HK\$'000) |
| HK Dollar | 210,914 | 232,271 | 256,299 | 275,029 | (55,265) | (53,388) | (46,786) | (78,290) |
| US Dollar | (23,706) | (30,024) | (32,688) | (50,414) | (170,405) | (100,832) | (60,416) | (81,903) |
| Renminbi | (225) | (12,059) | (13,535) | (90,854) | (238,843) | (263,101) | (324,817) | (440,898) |

(2) Exchange rate risk

Exchange rate risk mainly includes risk of loss due to negative exchange rate changes from foreign exchange exposure caused by currency structure imbalance between foreign currency assets and liabilities, as well as foreign exchange exposure caused by foreign exchange derivatives trading.

Nanyang Bank's assets and liabilities are denominated in major currencies, particularly Hong Kong dollar, US dollar and Renminbi. To ensure the currency risk exposure of Nanyang Bank is kept to an acceptable level, risk limits (e.g. Position and VAR limit) are used to serve as a monitoring tool. Moreover, Nanyang Bank seeks to minimise the gap between assets and liabilities in the same currency. Foreign exchange contracts (e.g. FX swaps) are usually used to manage exchange rate risk associated with foreign currency-denominated assets and liabilities.

The tables below summarise Nanyang Bank's exposure to foreign currency exchange rate risk. Included in the tables are the assets and liabilities at carrying amounts in Hong Kong dollar equivalent, categorised by the original currency.

| | At 30 September 2015 | | | | | At 31 December 2014 | | | | |
|---|----------------------|-------------------|-------------------|-------------------|-------------------|---------------------|-------------------|-------------------|-------------------|-------------------|
| | RMB | USD | HK\$ | Others | Total | RMB | USD | HK\$ | Others | Total |
| | (HK\$ million) | (HK\$ million) | (HK\$ million) | (HK\$ million) | (HK\$ million) | (HK\$ million) | (HK\$ million) | (HK\$ million) | (HK\$ million) | (HK\$ million) |
| Total assets | 107,716 | 58,445 | 110,338 | 12,809 | 289,308 | 130,306 | 55,242 | 100,936 | 10,077 | 296,560 |
| Total liabilities | 91,009 | 53,082 | 103,348 | 10,627 | 258,066 | 111,272 | 48,015 | 99,743 | 8,993 | 268,023 |
| Net on-balance sheet position | 16,706 | 5,362 | 6,990 | 2,182 | 31,241 | 19,034 | 7,227 | 1,193 | 1,083 | 28,537 |
| Off-balance sheet net notional position | (8,550) | (3,393) | 14,272 | (2,187) | 142 | (11,131) | (6,862) | 19,220 | (1,038) | 189 |
| Contingent liabilities and commitments | 79,477 | 28,404 | 19,406 | 616 | 127,903 | 63,551 | 29,571 | 19,308 | 485 | 112,914 |

| | At 31 December 2013 | | | | | At 31 December 2012 | | | | |
|---|---------------------|-------------------|-------------------|-------------------|-------------------|---------------------|-------------------|-------------------|-------------------|-------------------|
| | RMB | USD | HK\$ | Others | Total | RMB | USD | HK\$ | Others | Total |
| | (HK\$ million) | (HK\$ million) | (HK\$ million) | (HK\$ million) | (HK\$ million) | (HK\$ million) | (HK\$ million) | (HK\$ million) | (HK\$ million) | (HK\$ million) |
| Total assets | 121,931 | 55,608 | 86,744 | 9,338 | 273,621 | 97,888 | 44,704 | 91,377 | 11,829 | 245,798 |
| Total liabilities | 110,432 | 41,519 | 85,389 | 9,878 | 247,218 | 86,280 | 39,394 | 85,478 | 10,159 | 221,312 |
| Net on-balance sheet position | 11,499 | 14,089 | 1,355 | (541) | 26,402 | 11,607 | 5,310 | 5,899 | 1,670 | 24,486 |
| Off-balance sheet net notional position | (4,138) | (12,082) | 15,842 | 593 | 215 | (4,490) | (3,249) | 9,702 | (1,570) | 393 |
| Contingent liabilities and commitments | 58,872 | 30,614 | 20,016 | 645 | 110,146 | 36,718 | 25,801 | 24,774 | 776 | 88,069 |

(vii) External Investment

As of 30 September 2015, the details of Nanyang Bank's external long-term equity investments are as follows:

| <u>Name of Investee</u> | <u>Shareholding Percentage (%)</u> | <u>Source of Shares</u> |
|--|------------------------------------|-------------------------|
| EPS Company (Hong Kong) Limited | 1.449% | Historical investment |
| Joint Electronic Teller Services Limited | 0.001% | Historical investment |

(viii) Major Asset Restructuring

Since the beginning of 2012 until the Latest Practicable Date, Nanyang Bank has not been involved in any consolidation, sub-division and debt restructuring, any material acquisition and disposal of assets, except for the disposal of some investment properties and premises to Bank of China (Hong Kong) Limited in 2015.

(ix) Employees and Staff Remuneration

As at 30 September 2015, Nanyang Bank had 2,901 employees in total.

Salaries, bonus, housing allowances, cost of medical insurance plan and other short term employee benefits are accrued in the period in which services are rendered by the employees of Nanyang Bank.

Retirement benefit costs

Defined contribution schemes for Nanyang Bank's employees are Occupational Retirement Schemes Ordinance ("ORSO") schemes exempted under the MPF Schemes Ordinance and the BOC-Prudential Easy Choice MPF Scheme (the "MPF Scheme"). Under the ORSO schemes, employees make monthly contributions to the ORSO schemes equal to 5% of their basic salaries, while the employer makes monthly contributions equal to 5% to 15% of the employees' monthly basic salaries, depending on years of service. The employees are entitled to receive 100% of the employer's contributions upon retirement, early retirement or termination of employment after completing 10 years of service. Employees with three to nine years of service are entitled to receive the employer's contributions at a scale ranging from 30% to 90% upon termination of employment for other reasons other than summary dismissal. All employer's contributions received by employee are subject to the MPF Schemes Ordinance.

With the implementation of the MPF Schemes Ordinance on 1 December 2000, Nanyang Bank also participates in the MPF Scheme, of which the trustee is BOCI-Prudential Trustee Limited and the investment manager is BOCI-Prudential Asset Management Limited, which are related parties of Nanyang Bank.

Nanyang Bank's total contributions made to the ORSO schemes for the nine months ended 30 September 2015 amounted to approximately HK\$29,746,000 (corresponding period in 2014: approximately HK\$28,550,000), after a deduction of forfeited contributions of approximately HK\$744,000 (corresponding period in 2014: approximately HK\$405,000). For the MPF Scheme, Nanyang Bank contributed approximately HK\$5,958,000 (corresponding period in 2014: approximately HK\$5,084,000) for the nine months period ended 30 September 2015.

(x) Future Plans for Material Investments or Capital Assets

In the coming year since 30 September 2015, Nanyang Bank does not have any plan for any material investments or for any material acquisition of any capital assets.

(xi) Contingent Liabilities

The following table sets forth contractual amounts of each significant class of contingent liability and commitment.

| | 30 September 2015 | 31 December 2014 | 31 December 2013 | 31 December 2012 |
|--|-------------------|------------------|------------------|------------------|
| | (HK\$ million) | (HK\$ million) | (HK\$ million) | (HK\$ million) |
| Direct credit substitutes | 22,773 | 23,145 | 15,907 | 12,759 |
| Transaction-related contingencies | 1,977 | 2,572 | 5,484 | 2,615 |
| Trade-related contingencies | 8,901 | 7,957 | 11,871 | 8,488 |
| Asset sales with recourse | 16,953 | 4,741 | — | — |
| Commitments that are unconditionally cancellable without prior notice | 69,660 | 68,667 | 71,071 | 57,033 |
| Other commitments | 7,640 | 5,832 | 5,813 | 7,175 |
| Total | <u>127,903</u> | <u>112,914</u> | <u>110,146</u> | <u>88,069</u> |

(xii) Charges on Assets

As at 30 September 2015, 31 December 2014, 2013 and 2012, liabilities of Nanyang Bank amounting to HK\$5,299 million, HK\$6,533 million, HK\$4,149 million and HK\$4,235 million, respectively, were secured by assets deposited with central depositories to facilitate Nanyang Bank's settlement operations. In addition, as at 30 September 2015, 31 December 2014, 2013 and 2012, liabilities of Nanyang Bank amounting to HK\$7 million, HK\$2,091 million, HK\$1,269 million and HK\$349 million, respectively, were secured by debt securities and bills related to sale and repurchase arrangements. As at 30 September 2015, 31 December 2014, 2013 and 2012, the amount of assets pledged by Nanyang Bank to secure these liabilities was HK\$5,313 million, HK\$8,677 million, HK\$5,455 million and HK\$4,644 million, respectively.

(xiii) Future Prospects

Going forward, Nanyang Bank expects to continue to expand its operations and to tap into new growth markets by developing quality customers and by introducing deposit products that attract individual and corporate customers. Nanyang Bank intends to expand its deposit base through a wide marketing campaign via newspapers, posters, public transports, internet and other media. In addition, Nanyang Bank will continue to focus on optimising structure in the course of business development, actively developing "capital-light" operations to promote business transformation.

Nanyang Bank aims to keep pace with the market in actively seizing opportunities arising from national strategies such as the gradual opening up of the domestic Renminbi market, the "One Belt One Road" initiative and the construction of mainland free-trade zones. Leveraging Nanyang Bank's position as one of the first batch of banks to participate in cross-border Renminbi loans business in the Qianhai Shenzhen-Hong Kong Modern Service Industries Cooperation Zone in 2013, and its position as a leader in the cross-border business sector, Nanyang Bank will strengthen its business cooperation and integration with the Group following completion of the Acquisition, and achieve positive progress

in terms of product innovation and customer referral. Nanyang Bank will also continue to innovate exclusive cross-border financial services as according to market needs to enrich its cross-border service offerings. In addition, Nanyang Bank will continue to develop its electronic distribution channels and launch new applications to enhance customer experience.

Further, Nanyang Bank expects to continue to strengthen management control in achieving an overall stability in assets quality. In response to continued instability in the market environment and potential rise in loan delinquencies, Nanyang Bank endeavors to intensify efforts on risk management and control, including optimizing risk policies and systems and conducting credit risk analysis and evaluation in a prudent manner to strengthen its assets quality monitoring mechanisms.

(A) UNAUDITED PRO FORMA FINANCIAL INFORMATION**(i) Basis of preparation of the unaudited pro forma statement of assets and liabilities of the Enlarged Group**

To provide additional financial information, the unaudited pro forma statement of assets and liabilities (the “**Unaudited Pro Forma Financial Information**”) of the Enlarged Group (being the Group together with Nanyang Bank) has been prepared based on:

- (a) the unaudited consolidated statement of financial position of the Group as at 30 June 2015 which has been extracted from the interim report of the Company for the six months ended 30 June 2015;
- (b) the audited statement of financial position of Nanyang Bank as at 30 September 2015 which has been calculated based on the financial information extracted from Appendix II to this circular and the exchange rate as at 30 June 2015; and
- (c) after taking into account of the unaudited pro forma adjustments as described in the notes thereto, to demonstrate how the proposed acquisition of the 100% equity interests in Nanyang Bank might have affected the historical financial information in respect of the Group as if the acquisition had taken place on 30 June 2015.

The Unaudited Pro Forma Financial Information of the Enlarged Group should be read in conjunction with the financial information contained in this circular and the Accountants’ Report on Nanyang Bank set out in Appendix II to this circular.

The Unaudited Pro Forma Financial Information of the Enlarged Group is for illustrative purposes only, and because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group had the Acquisition been completed as at 30 June 2015 or at any future date.

(ii) Unaudited Pro Forma Statement of Assets and Liabilities of the Enlarged Group

| | The Group as at 30 June 2015 | Nanyang Bank as at 30 September 2015 | Unaudited pro forma adjustments in connection with the Acquisition | | | Unaudited pro forma Enlarged Group |
|--|------------------------------|--------------------------------------|--|--------------|-----------------|------------------------------------|
| | | | (1) | (2) | (3) | |
| | | | (In RMB million) | | | |
| Assets | | | | | | |
| Cash and bank balances | 76,969 | 37,421 | (23,067) | — | — | 91,323 |
| Clearing settlement funds | 5,144 | — | — | — | — | 5,144 |
| Deposits with exchanges and financial institutions | 1,574 | — | — | — | — | 1,574 |
| Placements with banks and financial institutions | 1,500 | 8,199 | — | — | — | 9,699 |
| Financial assets at fair value through profit or loss | 82,833 | 3,188 | — | — | — | 86,021 |
| Derivative financial instruments | — | 455 | — | — | — | 455 |
| Financial assets held under resale agreements | 31,647 | — | — | — | — | 31,647 |
| Available-for-sale financial assets | 101,163 | 39,177 | — | — | — | 140,340 |
| Financial assets classified as receivables | 172,210 | 752 | — | — | — | 172,962 |
| Loans and advances to customers | 108,537 | 134,779 | — | — | — | 243,316 |
| Accounts receivable | 5,957 | — | — | — | — | 5,957 |
| Held-to-maturity investments | 6,575 | 1,979 | — | — | — | 8,554 |
| Properties held for sale | 31,134 | — | — | — | — | 31,134 |
| Investment properties | 1,603 | 28 | — | 287 | — | 1,918 |
| Investment in subsidiaries | — | — | 53,625 | — | (53,625) | — |
| Interests in associates | 8,691 | — | — | — | — | 8,691 |
| Property and equipment | 3,630 | 741 | — | 4,819 | — | 9,190 |
| Goodwill | 324 | — | — | — | 24,708 | 25,032 |
| Other intangible assets | 212 | — | — | — | — | 212 |
| Deferred tax assets | 3,651 | 114 | — | (68) | — | 3,697 |
| Other assets | 14,603 | 1,318 | — | — | — | 15,921 |
| Total assets | 657,957 | 228,151 | 30,558 | 5,038 | (28,917) | 892,787 |
| Liabilities | | | | | | |
| Borrowings from the central bank | 986 | — | — | — | — | 986 |
| Accounts payable to brokerage clients | 29,401 | — | — | — | — | 29,401 |
| Financial liabilities at fair value through profit or loss | 35 | 3,771 | — | — | — | 3,806 |
| Derivative financial instruments | — | 242 | — | — | — | 242 |
| Deposits from customers | — | 170,394 | — | — | — | 170,394 |
| Financial assets sold under repurchase agreements | 14,668 | — | — | — | — | 14,668 |
| Placements from banks and financial institutions | 3,336 | 18,599 | — | — | — | 21,935 |
| Borrowings | 272,505 | — | 30,558 | — | — | 303,063 |
| Accounts payable | 11,068 | — | — | — | — | 11,068 |
| Investment contract liabilities for policyholders | 12,664 | — | — | — | — | 12,664 |
| Tax payable | 958 | 321 | — | — | — | 1,279 |
| Insurance contract liabilities | 26,690 | — | — | — | — | 26,690 |
| Bonds issued | 92,129 | — | — | — | — | 92,129 |
| Deferred tax liabilities | 1,213 | — | — | 758 | — | 1,971 |
| Other liabilities | 81,749 | 10,187 | — | — | — | 91,936 |
| Total liabilities | 547,402 | 203,514 | 30,558 | 758 | — | 782,232 |
| Equity | | | | | | |
| Share capital | 36,257 | 2,480 | — | — | (2,480) | 36,257 |
| Capital reserve | 17,431 | — | — | — | — | 17,431 |
| Investment revaluation reserve | 6,748 | 212 | — | 4,524 | (4,736) | 6,748 |
| Surplus reserve | 3,394 | — | — | — | — | 3,394 |
| General reserve | 6,297 | 1,781 | — | — | — | 8,078 |
| Retained earnings | 30,783 | 19,753 | — | (245) | (21,289) | 29,002 |
| Foreign currency translation reserve | (377) | 411 | — | 1 | (412) | (377) |
| Equity attributable to equity holders of the Company | 100,533 | 24,637 | — | 4,280 | (28,917) | 100,533 |
| Non-controlling interests | 10,022 | — | — | — | — | 10,022 |
| Total equity | 110,555 | 24,637 | — | 4,280 | (28,917) | 110,555 |
| Total equity and liabilities | 657,957 | 228,151 | 30,558 | 5,038 | (28,917) | 892,787 |

(iii) Notes to the Unaudited Pro Forma Financial Information

- (a) We refer to the announcements published by the Company on 18 December 2015, 15 September 2015 and 27 August 2015 in relation to the Acquisition. The Board is pleased to announce that on 18 December 2015, Cinda Financial, an indirectly wholly-owned subsidiary of the Company, entered into a legally binding agreement with BOCHK and Cinda HK pursuant to which Cinda Financial has agreed to acquire all the issued shares of Nanyang Bank for a total consideration of HK\$68,000,000,000 payable in cash on the Completion Date.

The total amount of consideration payable by Cinda Financial for the Acquisition is HK\$68,000,000,000 (the “**Consideration**”). Pursuant to the terms of the SPA, Cinda Financial is required to pay BOCHK the total amount of Consideration on the Completion Date in immediately available funds by electronic transfer.

Upon Completion, Nanyang Bank will become an indirect wholly-owned subsidiary of the Company, and the financial results of Nanyang Bank will be consolidated into the consolidated financial statements of the Group.

The Acquisition is assumed to have been completed on 30 June 2015. For an unaudited pro forma net asset statement or balance sheet, the exchange rate applied would usually be the rate ruling at the date of the Group’s unadjusted balance sheet. Therefore we adopt the exchange rate as at 30 June 2015.

- (b) The pro forma adjustments represent:

- (1) Adjustment to account for the payment of the cash consideration of HK\$68,000,000,000 (RMB53,625,480,000) by the Group to acquire 100% equity interest in Nanyang Bank. It is assumed that the payment of cash consideration is financed by syndicated loan facilities extended to Cinda HK in aggregate of up to HK\$38,750,000,000 (RMB30,558,637,500) and the remaining balance of HK\$29,250,000,000 (RMB23,066,842,500) is sourced from the Group’s internal cash resources.
- (2) Adjustment to re-measure the fair value of Nanyang Bank’s identifiable net assets. The differences between fair values and carrying amount of Nanyang Bank’s identifiable net assets as at 30 September 2015 are analysed as follows:

| | <u>Fair value</u> | <u>Carrying amount</u> |
|---|-------------------|------------------------|
| | RMB Million | RMB Million |
| Investment properties | 315 | 28 |
| Property and equipment — Premises | 5,369 | 550 |

Related adjustments concerning deferred tax assets and deferred tax liabilities are as follows:

| | <u>RMB Million</u> |
|------------------------------------|--------------------|
| Deferred tax assets | (68) |
| Deferred tax liabilities | 758 |

(iii) Notes to the Unaudited Pro Forma Financial Information (continued)

As the acquisition-date fair value of the identifiable net assets of Nanyang Bank may be substantially different from the amount applied in the Unaudited Pro Forma Financial Information, the actual amount arising from re-measuring identifiable net assets at acquisition-date fair value may be different from the amount calculated as shown above.

- (3) Adjustment to account for the Acquisition and to eliminate the Group's entire equity interest in Nanyang Bank excluding general reserve upon completion of the Acquisition which is assumed to be as of 30 June 2015.

- (c) The calculation of the goodwill arising from the Acquisition is as follows:

| | <u>RMB Million</u> |
|---|------------------------|
| Cash consideration | 53,625 |
| Fair value of identifiable net assets of Nanyang Bank as of 30 September 2015 | 28,917 |
| Goodwill | 24,708 |

The goodwill is calculated on the assumptions that the acquisition-date fair value of the identifiable net assets, excluding investment properties and property and equipment, of Nanyang Bank approximates their carrying amounts as of 30 September 2015 since the Acquisition is assumed to have been completed by 30 June 2015.

The Group has ensured that the steps taken on the assessment of impairment of goodwill has been properly performed in accordance with International Accounting Standard 36 "Impairment of Assets" which is consistent with the accounting policies of the Company. On that basis, the Company concluded that no impairment in the valuation of goodwill is considered necessary. The Group will adopt consistent accounting policies for impairment tests in the future. The Group's auditor will review the Group's assessment on impairment of goodwill in accordance with Hong Kong Standards on Auditing at the end of each reporting period for the purposes of its audit in the future.

As the acquisition-date fair value of the identifiable net assets of Nanyang Bank may be substantially different from the amount applied in the Unaudited Pro Forma Financial Information, the actual goodwill arising from the Acquisition may be different from the goodwill calculated as shown above.

- (d) The reorganization expenses attributable to the Acquisition have not been accounted for in the preparation of the Unaudited Pro Forma Financial Information as such expenses cannot be reliably estimated at this stage.

**(B) INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**

The Board of Directors
China Cinda Asset Management Co., Ltd.
No.1 Building, 9 Naoshikou Street, Xicheng District
Beijing, the PRC

Dear Sirs,

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of China Cinda Asset Management Co., Ltd. (the “**Company**”) and its subsidiaries (hereinafter collectively referred to as the “**Group**”) and Nanyang Commercial Bank, Limited (“**Nanyang Bank**”, together with the Group hereinafter collectively referred to as the “**Enlarged Group**”) by the directors of the Company (the “**Directors**”) for illustrative purpose only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 30 June 2015 and related notes as set out on pages IV-1 to IV-4 of the circular of the Company dated 30 January 2016 (the “**Circular**”)(the “**Unaudited Pro Forma Financial Information**”). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described in Section (A) of Appendix IV to the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the proposed acquisition of the 100% equity interests in Nanyang Bank (the “**Acquisition**”) on the Group’s consolidated statement of financial position as at 30 June 2015 as if the transaction had taken place at 30 June 2015. As part of this process, the Group’s consolidated statement of financial position has been extracted by the Directors from the Group’s financial statements for the 6 months ended 30 June 2015, on which a review report has been published.

Directors’ responsibility for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and with reference to Accounting Guideline 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* (“**AG 7**”) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”).

Our independence and quality control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus* issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information, in accordance with paragraph 4.29 of the Listing Rules and with reference to AG7 issued by HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of the Unaudited Pro Forma Financial Information included in the Circular is solely to illustrate the impact of the Acquisition on unadjusted financial information of the Group as if the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the transaction would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the Acquisition, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the Acquisition in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

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

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong

30 January 2016

I. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to our Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

II. DISCLOSURE OF INTERESTS**(i) Directors', Supervisors' and Chief Executive's Interests and Short Positions in the Securities of our Company and its Associated Corporations**

As at the Latest Practicable Date, none of the Directors, Supervisors or the chief executive of our Company had, or was deemed to have, any interests or short positions in the Shares, underlying Shares or debentures of our Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would fall to be required: (i) to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO); (ii) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, to be notified to our Company and the Stock Exchange.

(ii) Directors' and Supervisors' Positions in Substantial Shareholder(s)

As at the Latest Practicable Date, none of the Directors or Supervisors was a director or employee of a company which had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to our Company under the provision of Divisions 2 and 3 of Part XV of the SFO.

III. DISCLOSURE OF OTHER INTERESTS OF THE DIRECTORS AND SUPERVISORS**(i) Competing Interests**

As at the Latest Practicable Date, none of the Directors, Supervisors or their respective associates was considered to have an interest in any business which competes or is likely to compete or have any other conflict of interest, either directly or indirectly, with the business of the Group.

(ii) Interests in Contracts or Arrangements

As at the Latest Practicable Date, none of the Directors or Supervisors was materially interested, directly or indirectly, in any subsisting contract or arrangement which was significant in relation to the business of the Group.

(iii) Interests in Assets

As at the Latest Practicable Date, none of the Directors or Supervisors had any direct or indirect interest in any assets which had been acquired or disposed of by, or leased to, or which were proposed

to be acquired or disposed of by, or leased to, any member of the Group since 31 December 2014, being the date to which the latest published audited consolidated financial statements of the Group were made up.

(iv) Service Contracts

As at the Latest Practicable Date, none of the Directors or Supervisors had any existing or proposed service contract with any member of the Group which does not expire or is not terminable by such member of the Group within one year without payment of compensation (other than statutory compensation).

IV. MATERIAL CONTRACT

Except for the SPA, members of the Group had not entered into any contract within the two years immediately preceding the date of this circular which were or might be material, other than contracts entered into in the ordinary course of business.

V. MATERIAL ADVERSE CHANGE

The Directors were not aware of, as at the Latest Practicable Date, any material adverse change in the financial and trading position of the Group since 31 December 2014, being the date to which the latest published audited financial statements of our Company were made up.

VI. MATERIAL LITIGATION

So far as the Directors are aware, as at the Latest Practicable Date, no member of the Group was involved in any litigation or claim of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against any member of the Group.

VII. QUALIFICATIONS, CONSENT AND INTEREST OF EXPERT

The following are the qualifications of the expert who has given advice or opinion for incorporation and as contained in this circular:

| Name | Qualification |
|---------------|---|
| Ernst & Young | Certified Public Accountants, Hong Kong |

As at the Latest Practicable Date, the expert identified above had no shareholding, direct or indirect, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, the expert identified above had no direct or indirect interest in any assets which have been, since 31 December 2014 (the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

The expert identified above has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its report and references to its name in the form and context in which they are included.

The expert made this statement on the Latest Practicable Date for incorporation in this circular.

VIII. GENERAL

- (i) The registered office of our Company is at No. 1 Building, 9 Naoshikou Street, Xicheng District, Beijing, the PRC.
- (ii) The principal place of business of our Company in Hong Kong is at 12/F, AIA Central, 1 Connaught Road Central, Central, Hong Kong.
- (iii) The share registrar and transfer office of our Company in Hong Kong is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (iv) The joint company secretaries of our Company are Mr. Zhang Weidong and Mr. Ngai Wai Fung. Mr. Zhang holds the title of senior economist. Mr. Ngai is the past vice president (2002-2013) and president (2014-2015) of The Hong Kong Institute of Chartered Secretaries. Mr. Ngai is a fellow member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom, a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants in the United Kingdom.
- (v) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text to the extent of such inconsistency.

IX. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours from 9:00 a.m. to 5:00 p.m. at the principal place of business of our Company in Hong Kong at 12/F, AIA Central, 1 Connaught Road Central, Central, Hong Kong from the date of this circular up to and including 13 February 2016:

- (i) the articles of association of our Company;
- (ii) the annual reports of our Company for the years ended 31 December 2013 and 2014;
- (iii) the SPA;
- (iv) the Accountants' Report on Nanyang Bank, the text of which is set out in Appendix II to this circular and the related statements of adjustments;
- (v) the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix IV to this circular;
- (vi) the written consent referred to in the paragraph headed "VII. Qualifications, Consent and Interest of Expert" of this Appendix; and
- (vii) this circular.