



Habib Bank Zurich (Hong Kong) Limited

Annual Report 2016



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# Habib Bank Zurich (Hong Kong) Limited

## *Corporate information*

### **Board of Directors**

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Mohamedali R. Habib	Chairman
Paul Jeremy Brough	Independent Non-Executive Director
Rajat Garg	Director
Ikram Quraishi	Executive Director

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### **Management**

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Ikram Quraishi	Chief Executive
Jagrup Singh Dhillon	SEVP
Masud Abid	EVP
Meheryar Mavalvala	CFO

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### **Auditors**

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KPMG, <i>Certified Public Accountants</i>
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### **Parent company**

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Habib Bank AG Zurich, <i>Incorporated in Switzerland</i>
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## ***Report of the directors***

The directors submit their annual report together with the audited financial statements for the year ended 31 December 2016.

### **Principal place of business and principal activities**

Habib Bank Zurich (Hong Kong) Limited (“the Bank”) is a restricted licence bank incorporated and domiciled in Hong Kong and has its registered office and principal place of business at 17/F, Wing On House, 71 Des Voeux Road, Central, Hong Kong.

The Bank is registered as a Restricted Licence Bank under the Hong Kong Banking Ordinance. The principal activities of the Bank are the taking of deposits and financing of import/export and local trade.

### **Operating results**

Hong Kong’s GDP grew moderately in 2016 by 1.9%, down from 2.4% in 2015. This was mainly due to the global economy which grew at its slowest pace since the global financial crisis. Exports and imports of goods recorded increases of 1.7% and 1% respectively. Amid the visible decline in tourist arrivals, retail sales dropped by 7.1%. The labour market remained largely stable with the unemployment rate staying low throughout the year at an average of 3.4%. Inflation eased for the fifth consecutive year in a row averaging 2.3%.

As at 31 December 2016, the Bank’s capital adequacy ratio stood at 35% while maintaining a capital base above HK\$500 million. The Bank’s customer deposit base, including imprest accounts and margin deposits on letters of credit and trade bills stood at HK\$1.66 billion (2015: HK\$1.63 billion). Based on the balance sheet strength, the Bank prudently managed its lending portfolio. As at the year end, total advances to customers including trade bills were HK\$0.98 billion (2015: HK\$1.12 billion).

Liquidity was managed on a prudent basis. A portion of surplus liquidity was invested in short and medium term debt securities. During the year, average liquidity was maintained at 129% (2015: 144%).

During the year, export bills totalling HK\$5.90 billion (2015: HK\$6.07 billion) and import bills of HK\$2 billion (2015: HK\$2.22 billion) were processed. Import letters of credit for HK\$1.80 billion (2015: HK\$1.76 billion) were opened. Profit after tax was HK\$13.96 million (2015: HK\$16.02 million).

## *Report of the directors (continued)*

### **Operating results (continued)**

In 2017, Hong Kong's exports of goods is expected to perform better on the basis of recent growth trends witnessed in advanced economies. Domestic demand is expected to remain resilient on the back of positive consumer sentiments and low unemployment. However, the environment is still clouded with uncertainties including roll out of a number of trade protection measures by US and normalisation of US interest rates. China's economy, driven by domestic demand and the service sector, is moving towards a pattern of sustainable development. With stable and appreciable economic growth, China's economy should be able to maintain a medium-high pace of growth, supporting global economic growth.

### **Risk management**

The Bank has established policies and procedures to identify and analyse key risks facing the Bank, to set appropriate risk limits and to devise controls, and to monitor such risks and limits continually by means of reliable and up-to-date management and information systems. The Bank continually modifies and enhances its risk management policies and systems to reflect changes in markets, products and best practice risk management processes.

#### **(i) Board level committees**

The Board of Directors has established two board level committees, namely the Board Risk and Compliance Committee and the Board Audit Committee.

The Board Risk and Compliance Committee is responsible for, among other things, the Bank's risk profile, risk appetite and tolerance, effectiveness of the risk management framework and systems of internal control and compliance. The Committee comprises of one independent non-executive director, one non-executive director and one executive director.

The main purpose of the Board Audit Committee is to represent and assist the Board of Directors in providing independent review and monitoring of financial reporting process, internal control system, the internal and external audit process and compliance with regulatory requirements. The Committee comprises of one independent non-executive director and one non-executive director.

## *Report of the directors (continued)*

### **Risk management (continued)**

#### **(ii) *Specialized management committees***

The Board of Directors has also established several specialised management committees, namely the Risk and Compliance Management Committee, Credit Committee, Asset and Liability Committee, IT Steering Committee and Human Resources Committee.

The Risk and Compliance Management Committee is entrusted with the task of putting in place systems and procedures that address the prevention of risks emerging or likely to emerge. The Committee identifies all quantifiable and material risk factors and evaluates the adequacy of organisational policies and procedures to manage the risks effectively. The Committee is also responsible for monitoring and reviewing regulatory compliance within the institution. The Committee comprises the Chief Executive, Alternate Chief Executives, Chief Risk Officer, Chief Financial Officer, Chief Compliance Officer and two executives.

The Credit Committee is responsible for building and maintaining an infrastructure that promotes growth of a quality loan portfolio and minimises losses within the constraints of established policies and relevant regulations. The Committee approves credit limits up to a defined threshold. It also determines and maintains adequate loan loss allowances. The Committee comprises the Chief Executive, Alternate Chief Executives, Chief Risk Officer, Credit Risk Manager and two executives.

The Asset and Liability Committee's principal responsibility is to maintain an effective risk control framework relating to balance sheet structure, liquidity and capital management and market risks while achieving an optimal return. The Committee recommends policy directives to the Board of Directors and provides analytical services relating to funding and investment strategies. The Committee comprises the Chief Executive, Alternate Chief Executives, Chief Risk Officer, Chief Financial Officer and two executives.

The IT Steering Committee is responsible for authorisation of system changes, review of computer hardware/software security and performance, overview of data integrity of transactions and information. The committee comprises the Chief Executive, Alternate Chief Executive, Head of IT, Chief Risk Officer, Chief Financial Officer and Chief Compliance Officer and one executive.

The Human Resources Committee is responsible for overseeing various staff management issues like capacity planning practices, succession planning, reviewing compensation and reward policies, performance management schemes, framework for staff promotion and grading, and staff training and development plan. The committee comprises the Chief Executive, Alternate Chief Executives, Chief Financial Officer, Head of Human Resources and two executives.

## *Report of the directors (continued)*

### **Risk management (continued)**

#### **(a) Credit risk management**

Credit risk arises from the possibility that the counterparty in a transaction may default. It arises from lending, trade finance, derivatives and other activities.

The Bank has policies and procedures in place to ensure that credit risk is properly addressed and managed at the transaction and portfolio levels. The Board of Directors formulates and updates the credit policies. The Bank's credit policies define credit extension criteria, credit sanctions, review and monitoring mechanisms, and the loan classification and provisioning policy.

To avoid large financial risk, the exposure to a single borrower or group of related borrowers is limited to a percentage of the capital base. Country risk concentration is managed by setting up country exposure limits and emphasising wide geographical spread of export markets.

The Bank holds collateral against advances to customers in the form of mortgages over property and cash deposits. Collateral held as security for financial assets other than advances to customers is determined by the nature of the instrument.

To mitigate credit risk, the Bank enters into netting arrangements with counterparties. Netting arrangements provide that, if an event of default occurs, all outstanding transactions with the counterparty will be terminated and all amounts outstanding will be settled on a net basis. Except for the event of default, all outstanding transactions with the counterparty are settled on a gross basis and generally do not result in offsetting the assets and liabilities in the balance sheet.

#### **(b) Market risk management**

Market risk is the risk that movements in interest rates or foreign exchange rates will result in losses in on and off balance sheet positions.

The Bank's policy is to take no proprietary trading positions. The Bank does not engage in speculative trading activities, and hence it is not exposed to market risk arising from the trading book.

#### **Currency risk management**

Currency risk is the risk to earnings or capital emanating from the movement of foreign exchange rates. Foreign exchange exposures originate mainly from the trade finance business. The risk thereof is largely eliminated by consciously devising policies that expressly prohibit speculation in currencies and mandate that trade finance related currency transactions are covered simultaneously and aggregate net open positions are managed within limits. All exposures are monitored by the finance department on a daily basis and reviewed periodically by the Asset and Liability Management Committee.

## *Report of the directors (continued)*

### **Risk management (continued)**

#### *Currency risk management (continued)*

The Bank does not trade in foreign currencies, nor takes any other exposures on account of its clients. The Bank's foreign currency transactions primarily relate to discounting of foreign currency export and import bills. The exchange positions arising from trade bills as well as customers' foreign currency deposit-related transactions are covered in the local market. From time to time the Bank enters into foreign exchange forward transactions to mitigate currency risk.

As the majority of the Bank's assets and liabilities are denominated in either Hong Kong dollars ("HK\$") or United States dollars ("US\$") and the US\$ is pegged to the HK\$, management does not consider there to be any significant currency risk associated with them.

#### *Interest rate risk management*

The Bank's interest rate risk positions arise from trade finance, lending and deposit taking activities. Interest rate risk primarily results from the timing difference in the repricing of interest-bearing assets and liabilities. It also relates to positions from non-interest bearing liabilities including shareholders' funds, as well as from certain fixed rate trade finance transactions and liabilities.

The Bank monitors interest rate movements by applying a weighting to assets and liabilities on the balance sheet. Management monitors the weighted average rates on deposits, lending, placements and investments to identify any mismatched exposures and alters the interest rate strategy accordingly. Interest bearing deposits from customers are for a fixed maturity mostly for a three month period and are generally utilised for a similar period. Surplus liquidity is placed in the interbank market and investments. A greater portion of the loans and trade advances is repricable on a per-transaction basis. Hence the risk element is contained swiftly and the magnitude of the risk posed by interest rates movement is low.

#### **(c) *Liquidity risk management***

Liquidity relates to the ability of a Bank to meet its obligations as they fall due. Liquidity and funding risk is the risk that the Bank is unable to meet its payment obligations when due, or that it is unable, on an on-going basis, to borrow funds in the market on an unsecured, or even secured, basis at an acceptable price to fund actual or proposed commitments.

The Bank manages the liquidity structure of its assets, liabilities and commitments so as to ensure that liquidity sources match funding needs and that the statutory liquidity maintenance ratio is complied with.

## *Report of the directors (continued)*

### **Risk management (continued)**

#### ***(c) Liquidity risk management (continued)***

The finance department reviews the current and prospective funding requirements for all operations through monitoring of the liquidity maintenance ratio and the maturity mismatch profile. Liquidity risk is managed by holding sufficient liquid assets (e.g. cash and short term funds) of appropriate quality to ensure that short term funding requirements are covered within prudent limits. Customer deposits form a significant part of the Bank's overall funding and they have remained relatively diversified and stable. Adequate standby facilities are maintained to provide strategic liquidity to meet unexpected and material cash outflows in the ordinary course of business. The Asset and Liability Management Committee measures the liquidity and adequacy of funds periodically and evaluates the overall risks and mitigation. The Committee also manages the funds and investments within the internal and regulatory framework.

#### ***(d) Operational risk management***

Operational risk is the risk of potential loss arising from inadequate or a failure in internal processes, people and systems or from external events. It arises from matters such as non-adherence to systems and procedures or from frauds resulting in financial or reputational loss.

The Board of Directors and senior management are responsible for approving and reviewing the overall business strategies and the policies for each major area of operations. A Risk and Compliance Management Committee is in place to manage operational risks.

The Bank recognises the importance of managing operational risk in a pro-active manner. Operational risk management tools and mechanisms adopted include operational risk incidents reporting, key risk indicators, operation manuals, accounting controls, business continuity planning, insurance policies etc.

The Bank attaches great importance to conducting its business in a safe and sound manner. Strict control is exercised at every level of operations. Additionally, an internal audit system plays an essential role in ensuring due adherence to policies, various internal and statutory limits, and regulatory requirements thus limiting operational risk.

#### ***(e) Capital management***

The Bank's primary objectives when managing capital are to safeguard the Bank's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurate with the level of risk being taken and by securing access to finance at a reasonable cost.

## ***Report of the directors (continued)***

### **Risk management (continued)**

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

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

#### ***(f) Compliance***

Compliance is an integral part of the Bank's risk management function taking care of risks associated with regulatory non-compliance and financial crime risks. The Bank places high importance on the potential risks arising out of non-compliance including loss of reputation, supervisory actions or other regulatory measures including monetary penalties.

The compliance function in the Bank has been given the responsibility of supervising and mitigating compliance risk. Its mandate includes assimilation and dissemination of regulatory requirements relating to the business of the Bank, compliance advisory for implementation of relevant regulations and guidelines to various functions and conducting periodic self-assessments and other regulatory compliance reviews on a risk based approach. It also manages the framework and governance of anti-money laundering and counter-terrorist financing activities to be prevented by the Bank.

The compliance function is tasked to regularly report compliance matters to Senior Management. It also reports significant issues through the Risk and Compliance Committee to the Board of Directors.

### **Financial statements**

The results of the Bank for the financial year ended 31 December 2016 and the state of the Bank's affairs as at that date are set out in the financial statements on pages 15 to 67.

The directors recommend the payment of a dividend of HK\$ 12.0 million (2015: HK\$12.0 million) in respect of the year ended 31 December 2016.

### **Transfer to reserves**

Profit attributable to shareholders, before dividends, of HK\$13.96 million (2015: HK\$16.02 million) has been transferred to reserves. Other movements in reserves are set out on page 17 and note 24.

## *Report of the directors (continued)*

### **Risk management (continued)**

#### *(f) Compliance (continued)*

### **Compliance with the Banking (Disclosure) Rules**

The financial statements for the financial year ended 31 December 2016 comply fully with the applicable disclosure provisions of the Banking (Disclosure) Rules.

### **Share capital**

Details of the share capital of the Bank are set out in note 23 to the financial statements.

### **Charitable donations**

Donations made by the Bank during the year amounted to HK\$155,976 (2015: HK\$155,064).

### **Directors**

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

Mr Mohamedali R. Habib	
Mr Ikram Quraishi	
Mr Paul Jeremy Brough	
Mr Rajat Garg	(appointed on 28 October 2016)
Mr Eddie Wang	(resigned on 6 May 2016)
Mr Clive Shaun O'Neill Wallis	(resigned on 1 June 2016)
Dr Hilmar R. Hoch	(resigned on 27 September 2016)

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

### **Indemnity of directors**

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

*Report of the directors (continued)*

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

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

**Auditors**

KPMG retire and, being eligible, offer themselves for reappointment. A resolution for the reappointment of KPMG as auditor of the Bank is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

Mohamedali R. Habib  
Chairman

Hong Kong,  
23 March 2017

***Independent auditor's report to the members of  
Habib Bank Zurich (Hong Kong) Limited***

*(Incorporated in Hong Kong with limited liability)*

***Opinion***

We have audited the financial statements of Habib Bank Zurich (Hong Kong) Limited (“the Bank”) set out on pages 15 to 67, which comprise the statement of financial position as at 31 December 2016, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

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

***Basis for opinion***

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

***Information other than the financial statements and auditor’s report thereon***

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the financial statements and our auditor’s report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

***Independent auditor's report to the members of  
Habib Bank Zurich (Hong Kong) Limited (continued)***

*(Incorporated in Hong Kong with limited liability)*

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

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

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

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

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

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

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

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

***Independent auditor's report to the members of  
Habib Bank Zurich (Hong Kong) Limited (continued)***

*(Incorporated in Hong Kong with limited liability)*

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

KPMG  
Certified Public Accountants

8th Floor, Prince's Building  
10 Chater Road, Central, Hong Kong  
23 March 2017

**Statement of profit or loss and other comprehensive income  
for the year ended 31 December 2016**

(Expressed in Hong Kong dollars)

	Note	2016	2015
Interest income	2(a)	65,825,095	70,990,245
Interest expense	2(b)	(23,257,959)	(22,684,338)
<b>Net interest income</b>		<b>42,567,136</b>	<b>48,305,907</b>
Fee and commission income	3	27,279,603	28,107,898
Fee and commission expense		(597,853)	(525,271)
<b>Net fee and commission income</b>		<b>26,681,750</b>	<b>27,582,627</b>
Other net income	4	22,093,474	21,253,657
<b>Operating income</b>		<b>91,342,360</b>	<b>97,142,191</b>
Operating expenses	5	(69,105,049)	(68,802,941)
		<b>22,237,311</b>	<b>28,339,250</b>
Impairment losses on trade bills and advances to customers	7	(7,700,000)	(7,603,000)
<b>Profit before taxation</b>		<b>14,537,311</b>	<b>20,736,250</b>
Income tax	8(a)	(576,172)	(4,718,252)
<b>Profit for the year</b>		<b>13,961,139</b>	<b>16,017,998</b>
<b>Other comprehensive income</b>	9		
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Available-for-sale financial assets - net movement in the available-for-sale financial assets revaluation reserve		(588,822)	(881,626)
<b>Total comprehensive income for the year</b>		<b>13,372,317</b>	<b>15,136,372</b>

The notes on pages 20 to 67 form part of these financial statements.

# Habib Bank Zurich (Hong Kong) Limited

## Statement of financial position at 31 December 2016

(Expressed in Hong Kong dollars)

	Note	2016	2015
<b>Assets</b>			
Cash and balances with banks	10	194,860,355	165,228,116
Placements with banks	11	519,856,554	453,850,877
Investments	12	411,471,463	323,157,387
Trade bills	13(a)	490,283,080	580,358,779
Advances to customers	14(a)	487,141,670	535,293,274
Tax paid in advance	20(a)	1,091,593	3,614,799
Deferred tax assets	20(b)	4,171,456	1,234,151
Fixed assets	15	108,689,971	112,916,625
Other assets	16	33,615,479	91,696,784
<b>Total assets</b>		<b>2,251,181,621</b>	<b>2,267,350,792</b>
<b>Liabilities</b>			
Deposits and balances from banks	17	5,252,100	4,161,518
Deposits from customers	18	1,390,423,359	1,434,046,960
Other liabilities	19	310,990,809	285,999,278
<b>Total liabilities</b>		<b>1,706,666,268</b>	<b>1,724,207,756</b>
<b>Equity</b>			
Share capital	23	300,000,000	300,000,000
Reserves		244,515,353	243,143,036
<b>Total equity</b>		<b>544,515,353</b>	<b>543,143,036</b>
<b>Total equity and liabilities</b>		<b>2,251,181,621</b>	<b>2,267,350,792</b>

The notes on pages 20 to 67 form part of these financial statements.

Approved and authorised for issue by the Board of Directors on 23 March 2017

Ikram Quraishi  
Chief Executive  
& Executive Director

Mohamedali R. Habib  
Chairman

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

*(Expressed in Hong Kong dollars)*

	Share capital	Property revaluation reserve	Regulatory reserve	Available-for- sale financial assets revaluation reserve	Retained profits	Total
<b>At 1 January 2016</b>	300,000,000	11,243,741	16,000,000	(950,294)	216,849,589	543,143,036
Dividend approved and paid in respect of prior year	-	-	-	-	(12,000,000)	(12,000,000)
Profit for the year	-	-	-	-	13,961,139	13,961,139
Other comprehensive income for the year	-	-	-	(588,822)	-	(588,822)
<b>At 31 December 2016</b>	<b>300,000,000</b>	<b>11,243,741</b>	<b>16,000,000</b>	<b>(1,539,116)</b>	<b>218,810,728</b>	<b>544,515,353</b>
<b>At 1 January 2015</b>	300,000,000	11,243,741	16,000,000	(68,668)	224,831,591	552,006,664
Dividend approved and paid in respect of prior year	-	-	-	-	(24,000,000)	(24,000,000)
Profit for the year	-	-	-	-	16,017,998	16,017,998
Other comprehensive income for the year	-	-	-	(881,626)	-	(881,626)
<b>At 31 December 2015</b>	<b>300,000,000</b>	<b>11,243,741</b>	<b>16,000,000</b>	<b>(950,294)</b>	<b>216,849,589</b>	<b>543,143,036</b>

The notes on pages 20 to 67 form part of these financial statements.

# Habib Bank Zurich (Hong Kong) Limited

## *Cash flow statement for the year ended 31 December 2016*

*(Expressed in Hong Kong dollars)*

	2016	2015
<b>Operating activities</b>		
Profit before taxation	14,537,311	20,736,250
<b>Adjustments for non-cash items:</b>		
Depreciation	4,652,803	5,488,056
Charge for impairment losses	7,700,000	7,728,000
Advances written off net of recoveries	(3,097,503)	(3,098,001)
(Gain)/loss on disposal of fixed assets	(269)	2,516
Loss on disposal of investment	137,511	-
Amortisation of bond premium	4,290,117	3,715,819
Exchange revaluation of bonds	(444,474)	(516,589)
	<b>27,775,496</b>	<b>34,056,051</b>
(Increase)/decrease in placements with banks with original maturity beyond 3 months	(75,577,080)	12,727,382
Decrease in trade bills	87,390,202	116,695,799
Decrease in advances to customers	46,234,604	162,199,140
Increase in deposits and placements from banks	1,944,591	435,068
Decrease in deposits from customers	(43,623,601)	(25,459,247)
Increase/(decrease) in other liabilities	24,991,531	(71,766,759)
Decrease in other assets	58,081,305	9,480,588
<b>Cash generated from operations</b>	<b>127,217,048</b>	<b>238,368,022</b>
Income tax paid		
– Hong Kong profits tax paid	(873,917)	(7,873,262)
<b>Net cash generated from operating activities</b>	<b>126,343,131</b>	<b>230,494,760</b>
<b>Investing activities</b>		
Payments for purchase of fixed assets	(429,881)	(335,731)
Proceeds from sales of fixed assets	4,000	6,000
Payments for purchase of investments	(158,008,161)	(187,402,494)
Proceeds from redemption of investments	49,492,355	31,005,500
Proceeds from sales of investments	15,513,400	-
<b>Net cash used in investing activities</b>	<b>(93,428,287)</b>	<b>(156,726,725)</b>

**Cash flow statement  
for the year ended 31 December 2016 (continued)**

*(Expressed in Hong Kong dollars)*

	2016	2015
<b>Financing activity</b>		
Dividends paid	(12,000,000)	(24,000,000)
<b>Net cash used in financing activity</b>	<b>(12,000,000)</b>	<b>(24,000,000)</b>
<b>Net increase in cash and cash equivalents</b>	<b>20,914,844</b>	<b>49,768,035</b>
Cash and cash equivalents at 1 January	606,089,319	556,321,284
<b>Cash and cash equivalents at 31 December</b>	<b>627,004,163</b>	<b>606,089,319</b>
<b>Analysis of the balances of cash and cash equivalents</b>		
Cash and balances with banks	194,860,355	165,228,116
Overdraft	(1,113,896)	(1,967,903)
Placements with banks with original maturity of three months or less	433,257,704	442,829,106
	<b>627,004,163</b>	<b>606,089,319</b>
<b>Cash flows from operating activities include:</b>		
Interest received	76,382,095	74,786,742
Interest paid	(22,695,212)	(22,431,500)

The notes on pages 20 to 67 form part of these financial statements.

## *Notes to the financial statements*

*(Expressed in Hong Kong dollars)*

### **1 Significant accounting policies**

Habib Bank Zurich (Hong Kong) Limited (the “Bank”) is a restricted licenced bank incorporated and domiciled in Hong Kong and has its registered office and principal place of business at 17/F, Wing On House, 71 Des Voeux Road, Central, Hong Kong.

#### **(a) Statement of compliance**

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. Significant accounting policies adopted by the company are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the company. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Bank for the current and prior accounting periods reflected in these financial statements.

#### **(b) Basis of preparation of the financial statements**

The measurement basis used in the preparation of the financial statements is the historical cost basis except for the revaluation of a residential apartment and certain financial instruments as explained in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 30.

## *Notes to the financial statements (continued)*

*(Expressed in Hong Kong dollars)*

### **1 Significant accounting policies (continued)**

#### **(c) Changes in accounting policies**

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Bank. None of these developments have had a material effect on how the Bank's results and financial position for the current or prior periods have been prepared or presented.

The Bank has not applied any new standard or interpretation that is not yet effective for the current accounting period.

#### **(d) Revenue recognition**

Interest income for all interest-bearing financial instruments is recognised in the statement of profit or loss and comprehensive income on an accruals basis using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the interest income over the relevant period. The effective interest rate is the rate which 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. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

For impaired loans, the accrual of interest income based on the original terms of the loan is discontinued, but any increase of the present value of impaired loans due to the passage of time is reported as interest income.

Net income from financial instruments designated at fair value through profit or loss and net trading income comprises all gains and losses from changes in fair value (net of accrued coupon) of such financial assets and financial liabilities, together with interest income and expense and dividend income attributable to those financial instruments.

Fee and commission income is recognised in profit or loss on an accruals basis in accordance with terms of the relevant agreements.

Origination or commitment fees received/paid by the Bank which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

*Notes to the financial statements (continued)*

*(Expressed in Hong Kong dollars)*

**1 Significant accounting policies (continued)**

**(e) Intangible assets**

Intangible assets comprise a club membership acquired by the Bank which is stated in the statement of financial position at cost less impairment losses (see note 1(g)).

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives.

**(f) Financial instruments**

**(i) Initial recognition**

The Bank classifies its financial instruments into different categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred. The categories used by the Bank are: loans and receivables, held-to-maturity investments, available-for-sale investments, fair value through profit or loss and other financial liabilities.

Financial instruments are measured initially at fair value, which normally equals to the transaction price plus, in case of a financial asset or financial liability not held at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset or issue of the financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately.

The Bank recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets and financial liabilities at fair value through profit and loss is recognised using trade date accounting.

**(ii) Categorisation**

*Fair value through profit or loss*

This category comprises derivatives. Derivatives are held at fair value with changes in fair value recognised through profit or loss.

*Notes to the financial statements (continued)*

*(Expressed in Hong Kong dollars)*

**1 Significant accounting policies (continued)**

**(f) Financial instruments (continued)**

**(ii) Categorisation (continued)**

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than (a) those that the Bank intends to sell immediately or in the near term, which will be classified as held for trading; (b) those that the Bank, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or (c) those where the Bank may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available for sale. Loans and receivables mainly comprise advances to customers, trade bills and placements with banks and financial institutions.

Loans and receivables are carried at amortised cost using the effective interest method, less impairment losses, if any (see note 1(g)).

*Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity for which the Bank has the positive intention and ability to hold to maturity, other than (a) those that the Bank, upon initial recognition, designates as at fair value through profit or loss or as available for sale; and (b) those that meet the definition of loans and receivables.

Held-to-maturity investments are carried at amortised cost using the effective interest method less impairment losses, if any (see note 1(g)).

*Available-for-sale investments*

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve.

Interest income from debt securities calculated using the effective interest method is recognised in profit or loss in accordance with the policy set out in note 1(d).

When the investments are derecognised or impaired (see note 1(g)), the cumulative gain or loss recognised in equity is reclassified to profit or loss.

*Notes to the financial statements (continued)*

*(Expressed in Hong Kong dollars)*

**1 Significant accounting policies (continued)**

**(f) Financial instruments (continued)**

**(ii) Categorisation (continued)**

*Other financial liabilities*

Financial liabilities are measured at amortised cost using the effective interest method.

**(iii) Fair value measurement principles**

The fair value of financial instruments is based on their quoted market prices at the end of reporting period without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current ask prices.

If there is no publicly available latest traded price nor a quoted market price on a recognised stock exchange or a price from a broker/dealer for non-exchange-traded financial instruments, or if the market for it is not active, the fair value of the instrument is estimated using valuation techniques that provide a reliable estimate of prices which could be obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the end of reporting period applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on market data at the reporting date.

**(iv) Derecognition**

A financial asset is derecognised when the contractual rights to receive the cash flows from the financial asset expire, or where the financial asset together with substantially all the risks and rewards of ownership have been transferred.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

**(v) Offsetting**

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

## *Notes to the financial statements (continued)*

*(Expressed in Hong Kong dollars)*

### **1 Significant accounting policies (continued)**

#### **(g) Impairment of assets**

The carrying amounts of the Bank's assets are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. If any such evidence exists, the carrying amount is reduced to the estimated recoverable amount by means of a charge to profit or loss.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of loans and receivables and held-to-maturity investments, which are measured at amortised cost, whose recovery is considered doubtful but not remote. In this case, the impairment losses are recorded using an allowance account. When the Bank is satisfied that recovery is remote, the amount considered irrecoverable is written off against loans and receivables or held-to-maturity investments directly and any amounts held in the allowance account relating to that borrower/investment are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

#### **(i) Loans and receivables**

Impairment losses on loans and receivables are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate (i.e. the effective interest rate computed on initial recognition of these assets). Receivables with a short duration are not discounted if the effect of discounting is immaterial.

The total allowance for credit losses consists of two components: individual impairment allowances and collective impairment allowances.

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

The individual impairment allowance is based upon management's best estimate of the present value of the cash flows which are expected to be received discounted at the original effective interest rate. In estimating these cash flows, management makes judgements about the borrower's financial situation and the net realisable value of any underlying collateral or guarantees in favour of the Bank. Each impaired asset is assessed on its own merits.

*Notes to the financial statements (continued)*

*(Expressed in Hong Kong dollars)*

**1 Significant accounting policies (continued)**

**(g) Impairment of assets (continued)**

**(i) Loans and receivables (continued)**

In assessing the need for a collective impairment allowance, management uses statistical modelling and considers historical trends of factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, the Bank makes assumptions both to define the way the Bank models inherent losses and to determine the required input parameters, based on historical experience and current economic conditions.

The accuracy of the impairment allowances the Bank makes depends on how well the Bank can estimate future cash flows for individually assessed impairment allowances and the model assumptions and parameters used in determining collective impairment allowances. While this necessarily involves judgement, the Bank believes that the impairment allowances on loans and advances to customers are reasonable and supportable.

Any subsequent changes to the amounts and timing of the expected future cash flows compared to the prior estimates that can be linked objectively to an event occurring after the write-down, will result in a change in the impairment allowances on loans and receivables and be charged or credited to the statement of comprehensive income. A reversal of impairment losses is limited to the loans and receivables' carrying amount that would have been determined had no impairment loss been recognised in prior years.

When there is no reasonable prospect of recovery, the loan and the related interest receivable are written off.

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

## *Notes to the financial statements (continued)*

*(Expressed in Hong Kong dollars)*

### **1 Significant accounting policies (continued)**

#### **(g) Impairment of assets (continued)**

##### ***(ii) Held-to-maturity investments***

Impairment on held-to-maturity investments is considered at both an individual and collective level. The individual impairment allowance is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the asset's original effective interest rate, where the effect of discounting is material.

All significant assets found not to be individually impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets with similar risk characteristics.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement. A reversal of impairment losses shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

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

For available-for-sale securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss. Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale are not reversed through profit or loss.

*Notes to the financial statements (continued)*

*(Expressed in Hong Kong dollars)*

**1 Significant accounting policies (continued)**

**(g) Impairment of assets (continued)**

**(iv) Other assets**

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired:

- Fixed assets (other than properties carried at revalued amounts); and
- Intangible assets.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal, or value in use, if determinable.

**Notes to the financial statements (continued)**

*(Expressed in Hong Kong dollars)*

**1 Significant accounting policies (continued)**

**(g) Impairment of assets (continued)**

**(iv) Other assets (continued)**

- Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

**(h) Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and placements with banks with original maturity of three months or less for the purpose of the cash flow statement.

**(i) Fixed assets**

Fixed assets are held for own use and are stated at cost or valuation less accumulated depreciation and impairment losses (note 1(g)). A property is held at a revalued amount and was last revalued in 1994. In accordance with paragraph 80A of HKAS 16, "Property, plant and equipment", no further revaluation of the property is required.

Depreciation is calculated to write off the cost or valuation of fixed assets over their estimated useful lives using the straight line method as follows:

- |  |               |
|--|---------------|
| – Residential apartment                    | 40 years      |
| – Office buildings                         | 50 years      |
| – Leasehold improvements                   | 5 to 10 years |
| – Furniture, fixtures and office equipment | 4 to 5 years  |
| – Motor vehicles                           | 5 years       |

## *Notes to the financial statements (continued)*

*(Expressed in Hong Kong dollars)*

### **1 Significant accounting policies (continued)**

#### **(j) Operating leases**

Leases which do not transfer substantially all the risks and rewards of ownership to the lessee are classified as operating leases.

Where the Bank has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

#### **(k) Repossessed assets**

In the recovery of impaired loans and advances, the Bank may take possession of assets held as collateral through court proceedings or voluntary delivery of possession by the borrowers. Where it is intended to achieve an orderly realisation of the impaired assets and the Bank is no longer seeking repayment from the borrower, repossessed assets are reported in "Other assets". The Bank does not hold the repossessed assets for its own use.

Repossessed assets are recorded at the lower of the amount of the related loans and advances and fair value less costs to sell at the date of exchange. They are not depreciated or amortised.

Impairment losses on initial classification and on subsequent remeasurement are recognised in profit or loss.

#### **(l) Income tax**

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income, in which case they are recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of reporting period, and any adjustment to tax payable in respect of previous years.

## *Notes to the financial statements (continued)*

*(Expressed in Hong Kong dollars)*

### **1 Significant accounting policies (continued)**

#### **(I) Income tax (continued)**

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

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

- in the case of current tax assets and liabilities, the Bank intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on the same taxable entity.

***Notes to the financial statements (continued)***

*(Expressed in Hong Kong dollars)*

**1 Significant accounting policies (continued)**

**(m) Provisions and contingent liabilities**

Provisions are recognised for liabilities of uncertain timing or amount when the Bank has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

**(n) Translation of foreign currencies**

Foreign currency transactions during the year are translated into Hong Kong dollars at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the foreign exchange rates ruling at the end of reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into Hong Kong dollars using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

**(o) Related parties**

- (1) A person, or a close member of that person's family, is related to the Bank if that person:
  - (i) has control or joint control over the Bank;
  - (ii) has significant influence over the Bank; or
  - (iii) is a member of the key management personnel of the Bank or the Bank's parent.

***Notes to the financial statements (continued)***

*(Expressed in Hong Kong dollars)*

**1 Significant accounting policies (continued)**

**(o) Related parties (continued)**

(2) An entity is related to the Bank if any of the following conditions applies:

- (i) The entity and the Bank are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of the Bank of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Bank or an entity related to the Bank.
- (vi) The entity is controlled or jointly-controlled by a person identified in (1).
- (vii) A person identified in (1)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Bank or to the Bank's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

***Notes to the financial statements (continued)***

*(Expressed in Hong Kong dollars)*

**1 Significant accounting policies (continued)**

**(p) Employee benefits**

- (i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Bank of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Bank. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- (ii) The Bank operates a defined contribution scheme. Contributions to a provident fund under the Occupational Retirement Scheme Ordinance are recognised as an expense in profit or loss as incurred.
- (iii) Termination benefits are recognised when, and only when, the Bank demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

**(q) Changes in accounting estimates**

In 2016, the Bank recognised for the first time a deferred tax asset in respect of the temporary tax difference arising from individual impairment allowances for bad and doubtful debts as such impairment allowances are not deductible for tax purposes until recovery is remote. The revision has been accounted prospectively as a change in accounting estimate and, as a result, an additional deferred tax asset of HK\$3,193,410 has been recognised in the current financial reporting period. The deferred tax impact on future periods is not disclosed as the estimation is impracticable.

*Notes to the financial statements (continued)*

*(Expressed in Hong Kong dollars)*

**2 Interest income and interest expense**

	2016	2015
<b>(a) Interest income arising from</b>		
Trade bills and advances to customers	52,731,289	62,004,441
Placements with banks	2,930,443	2,660,632
Investments	10,163,363	6,325,172
	<b>65,825,095</b>	<b>70,990,245</b>
<b>(b) Interest expense arising from</b>		
Deposits from customers	23,234,368	22,449,900
Deposits and balances from banks	23,591	234,438
	<b>23,257,959</b>	<b>22,684,338</b>

**3 Fee and commission income**

	2016	2015
Fee and commission income	27,279,603	28,107,898

Fee and commission income in 2016 and 2015 mainly comprised fee and commission income from L/C bills and export bills.

**4 Other net income**

	2016	2015
Net gains from dealing in foreign currencies	12,092,615	11,044,024
Others	10,000,859	10,209,633
	<b>22,093,474</b>	<b>21,253,657</b>

*Notes to the financial statements (continued)*

*(Expressed in Hong Kong dollars)*

**5 Operating expenses**

	2016	2015
<b>(a) Staff costs</b>		
Salaries and other benefits	46,899,736	46,113,251
Contribution to defined contribution scheme	1,319,103	2,894,521
	<b>48,218,839</b>	<b>49,007,772</b>
<b>(b) Depreciation</b>	<b>4,652,804</b>	<b>5,488,056</b>
<b>(c) Other operating expenses</b>		
Premises and equipment expenses, excluding depreciation		
– rent and rates	1,324,126	1,294,536
– repairs and maintenance	484,701	407,855
Auditor’s remuneration		
– audit services	1,045,700	1,086,870
– tax services	54,000	55,000
– other services	69,800	725,600
Others	13,255,079	10,737,252
	<b>16,233,406</b>	<b>14,307,113</b>
	<b>69,105,049</b>	<b>68,802,941</b>

**6 Directors’ emoluments**

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

	2016	2015
Directors’ fees	318,547	311,907
Salaries, allowances and benefits in kind	2,636,520	2,585,232
Discretionary bonuses	270,848	262,958
Retirement scheme contributions	162,509	157,775
	<b>3,388,424</b>	<b>3,317,872</b>

Note: The benefits in kind are in the form of provision of the Bank’s residential apartment to a director.

*Notes to the financial statements (continued)*

*(Expressed in Hong Kong dollars)*

**7 Impairment charges on trade bills and advances to customers**

	2016	2015
Impairment losses charged on trade bills and advances to customers (note 14(c))	7,700,000	7,728,000
Loan loss recovery	-	(125,000)
	<b>7,700,000</b>	<b>7,603,000</b>

**8 Income tax in the statement of profit or loss and other comprehensive income**

(a) Taxation charged to profit of loss:

	2016	2015
<b>Current tax - Hong Kong profits tax</b>		
Provision for the year	3,490,949	4,656,368
Over-provision in respect of prior years	(93,826)	(10,330)
	<b>3,397,123</b>	<b>4,646,038</b>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	(2,820,951)	72,214
	<b>576,172</b>	<b>4,718,252</b>

The provision for Hong Kong Profits Tax for 2016 is calculated at 16.5% (2015: 16.5%) of the estimated assessable profits for the year, taking into account a reduction granted by the Hong Kong SAR Government of 75% of the tax payable for the year of assessment 2015-16 subject to a maximum reduction of \$20,000 for each business (2015: a maximum reduction of \$20,000 was granted for the year of assessment 2014-15 and was taken into account in calculating the provision for 2015).

(b) Reconciliation between tax expense charged to profit or loss and accounting profit at applicable tax rates:

	2016	2015
Profit before tax	<b>14,537,311</b>	<b>20,736,250</b>
Notional tax on profit before taxation, calculated at 16.5%	2,398,656	3,421,481
Tax effect of non-deductible expenses	(1,728,658)	1,307,101
(Over)/under-provision in respect of prior years	(93,826)	(10,330)
Actual tax expense charged to profit or loss	<b>576,172</b>	<b>4,718,252</b>

*Notes to the financial statements (continued)*

*(Expressed in Hong Kong dollars)*

**9 Other comprehensive income**

Tax effects relating to each component of other comprehensive income:

	2016			2015		
	Before-tax amount	Tax (charge)/ credit (note 20(b))	Net-of-tax amount	Before-tax amount	Tax (charge)/ credit (note 20(b))	Net-of-tax amount
Available-for-sale financial assets: net movement in available-for-sale financial assets revaluation reserve	(705,176)	116,354	(588,822)	(1,055,840)	174,214	(881,626)

**10 Cash and balances with banks**

	2016	2015
Cash in hand	88,701	135,266
Balances with banks	194,771,654	165,092,850
	<b>194,860,355</b>	<b>165,228,116</b>

**11 Placements with banks**

	2016	2015
Placements with banks	<b>519,856,554</b>	<b>453,850,877</b>
Remaining maturity		
– within one month	192,195,730	202,110,308
– between one month and three months	327,660,824	247,829,107
– between three months and one year	-	3,911,462
	<b>519,856,554</b>	<b>453,850,877</b>

*Notes to the financial statements (continued)*

*(Expressed in Hong Kong dollars)*

**12 Investments**

	2016	2015
Held-to-maturity debt securities		
– Listed outside Hong Kong	188,128,485	133,868,213
– Listed in Hong Kong	108,560,888	85,000,406
– Unlisted	29,017,044	23,780,270
	<b>325,706,417</b>	<b>242,648,889</b>
Available-for-sale debt securities - at fair value		
– Listed outside Hong Kong	29,128,278	29,087,765
– Listed in Hong Kong	42,784,800	43,440,223
– Unlisted	13,851,968	7,980,510
Market value of listed debt securities	<b>85,765,046</b>	<b>80,508,498</b>
	<b>411,471,463</b>	<b>323,157,387</b>

**13 Trade bills**

(a) Trade bills less impairment:

	2016	2015
Gross trade bills	506,839,785	594,229,987
Less: Impairment allowances		
– individually assessed (note 14(c))	(11,157,000)	(7,875,000)
– collectively assessed (note 14(c))	(5,399,705)	(5,996,208)
	<b>490,283,080</b>	<b>580,358,779</b>

(b) Impaired trade bills:

	2016	2015
Gross impaired trade bills	23,196,402	38,110,938
Impairment allowance - individually assessed	(11,157,000)	(7,875,000)
	<b>12,039,402</b>	<b>30,235,938</b>

Impaired trade bills are individually assessed trade bills with objective evidence of impairment.

Individually assessed impairment allowances are made after taking into account the value of collateral in respect of such trade bills. For individually assessed impaired trade bills, the value of collateral is \$6,688,089 (2015: \$24,524,602).

The percentage of impaired trade bills to gross trade bills is 4.58% (2015: 6.41%).

*Notes to the financial statements (continued)*

*(Expressed in Hong Kong dollars)*

**14 Advances to customers**

(a) Advances to customers less impairment:

	2016	2015
Gross advances to customers	504,504,670	550,739,274
Less: Impairment allowances		
– individually assessed (note 14(c))	(12,066,000)	(9,885,000)
– collectively assessed (note 14(c))	(5,297,000)	(5,561,000)
	<b>487,141,670</b>	<b>535,293,274</b>

(b) Impaired advances to customers:

	2016	2015
Gross impaired advances to customers	31,596,561	36,623,493
Impairment allowance - individually assessed	(12,066,000)	(9,885,000)
	<b>19,530,561</b>	<b>26,738,493</b>

Impaired advances are individually assessed advances with objective evidence of impairment.

Individually assessed impairment allowances are made after taking into account the value of collateral in respect of such advances to customers. For individually assessed impaired advances to customers, the value of collateral is \$12,697,669 (2015: \$20,144,369).

The percentage of impaired advances to gross advances to customers is 6.26% (2015: 6.65%).

*Notes to the financial statements (continued)*

*(Expressed in Hong Kong dollars)*

**14 Advances to customers (continued)**

(c) Movement in impairment allowance on trade bills and advances to customers

	2016			2015		
	Individually assessed	Collectively assessed	Total	Individually assessed	Collectively assessed	Total
At 1 January	17,760,000	11,557,208	29,317,208	9,825,000	14,862,209	24,687,209
Impairment losses charged/(released) to statement of comprehensive income (note 7)	8,560,503	(860,503)	7,700,000	11,033,001	(3,305,001)	7,728,000
Amounts written off	(3,097,503)	-	(3,097,503)	(3,098,001)	-	(3,098,001)
At 31 December	<b>23,223,000</b>	<b>10,696,705</b>	<b>33,919,705</b>	<b>17,760,000</b>	<b>11,557,208</b>	<b>29,317,208</b>
<b>Deducted from:</b>						
Trade bills (note 13(a))	11,157,000	5,399,705	16,556,705	7,875,000	5,996,208	13,871,208
Advances to customers (note 14(a))	12,066,000	5,297,000	17,363,000	9,885,000	5,561,000	15,446,000
	<b>23,223,000</b>	<b>10,696,705</b>	<b>33,919,705</b>	<b>17,760,000</b>	<b>11,557,208</b>	<b>29,317,208</b>

*Notes to the financial statements (continued)*

*(Expressed in Hong Kong dollars)*

**15 Fixed assets**

	2016			
	Leasehold improvements	Buildings	Furniture, fixtures, office equipment and motor vehicles	Total
<b>Cost or valuation:</b>				
At 1 January 2016	8,652,788	129,209,411	13,835,712	151,697,911
Additions	-	-	429,881	429,881
Disposals/written off	-	-	(199,867)	(199,867)
At 31 December 2016	8,652,788	129,209,411	14,065,726	151,927,925
<b>Representing:</b>				
Cost	8,652,788	114,709,411	14,065,726	137,427,925
Valuation	-	14,500,000	-	14,500,000
	<b>8,652,788</b>	<b>129,209,411</b>	<b>14,065,726</b>	<b>151,927,925</b>
<b>Aggregate depreciation:</b>				
At 1 January 2016	5,940,751	20,194,101	12,646,434	38,781,286
Charge for the year	1,230,135	2,789,522	633,147	4,652,804
Written back on disposals	-	-	(196,136)	(196,136)
At 31 December 2016	<b>7,170,886</b>	<b>22,983,623</b>	<b>13,083,445</b>	<b>43,237,954</b>
<b>Net book value:</b>				
At 31 December 2016	<b>1,481,902</b>	<b>106,225,788</b>	<b>982,281</b>	<b>108,689,971</b>

## Notes to the financial statements (continued)

(Expressed in Hong Kong dollars)

### 15 Fixed assets (continued)

	2015			
	Leasehold improvements	Buildings	Furniture, fixtures, office equipment and motor vehicles	Total
<b>Cost or valuation:</b>				
At 1 January 2015	10,255,655	129,209,411	14,242,191	153,707,257
Additions	83,010	-	252,721	335,731
Disposals/written off	(1,685,877)	-	(659,200)	(2,345,077)
At 31 December 2015	8,652,788	129,209,411	13,835,712	151,697,911
<b>Representing:</b>				
Cost	8,652,788	114,709,411	13,835,712	137,197,911
Valuation	-	14,500,000	-	14,500,000
	<b>8,652,788</b>	<b>129,209,411</b>	<b>13,835,712</b>	<b>151,697,911</b>
<b>Aggregate depreciation:</b>				
At 1 January 2015	5,890,337	17,411,958	12,294,732	35,597,027
Charge for the year	1,736,291	2,782,143	969,622	5,488,056
Written back on disposals	(1,685,877)	-	(617,920)	(2,303,797)
At 31 December 2015	<b>5,940,751</b>	<b>20,194,101</b>	<b>12,646,434</b>	<b>38,781,286</b>
<b>Net book value:</b>				
At 31 December 2015	<b>2,712,037</b>	<b>109,015,310</b>	<b>1,189,278</b>	<b>112,916,625</b>

The buildings are held in Hong Kong under a long term lease.

The Bank's residential apartment was purchased in 1984 for \$1,362,270. It was revalued at \$14,500,000 in 1994 on an open market value basis by an independent surveyor, Knight Frank Kan & Baillieu.

# Habib Bank Zurich (Hong Kong) Limited

## Notes to the financial statements (continued)

(Expressed in Hong Kong dollars)

### 16 Other assets

	2016	2015
Customer liabilities under acceptances	29,450,415	82,690,489
Interest receivable	2,750,692	7,973,466
Others	1,414,372	1,032,829
	<b>33,615,479</b>	<b>91,696,784</b>

Included in other assets are intangible assets of \$225,000 (2015: \$225,000) relating to club debentures held by the Bank. There has been no impairment of intangible assets in either the current or preceding year.

### 17 Deposits and balances from banks

	2016	2015
Deposits and balances from banks	5,252,100	4,161,518

### 18 Deposits from customers

	2016	2015
Staff provident fund	56,941,751	64,384,285
Time and call deposits	1,333,481,608	1,369,662,675
	<b>1,390,423,359</b>	<b>1,434,046,960</b>

### 19 Other liabilities

	2016	2015
Acceptances outstanding	29,450,415	82,690,489
Interest payable	5,431,184	4,831,209
Imprest accounts	204,674,887	106,299,499
Margin on L/Cs and trade bills	66,230,565	86,506,766
Interest received in advance	98,184	135,412
Others	5,105,574	5,535,903
	<b>310,990,809</b>	<b>285,999,278</b>

*Notes to the financial statements (continued)*

*(Expressed in Hong Kong dollars)*

**20 Income tax in the statement of financial position**

(a) Current taxation in the statement of financial position represents:

	2016	2015
Provision for Hong Kong profits tax for the year	3,490,949	4,656,368
Provisional profits tax paid	(4,582,542)	(8,271,167)
	<b>(1,091,593)</b>	<b>(3,614,799)</b>

(b) Deferred tax assets and liabilities recognised

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

	Difference between depreciation allowances and related depreciation	Revaluation of properties	Individual impairment allowance for bad and doubtful debts	Collective impairment allowance for bad and doubtful debts	Fair value adjustment for available-for- sale financial assets	Total
<b>Deferred tax arising from:</b>						
At 1 January 2016	(994,646)	1,855,217	-	(1,906,939)	(187,783)	(1,234,151)
(Credited)/charged to statement of profit or loss and other comprehensive income	230,476	-	(3,193,410)	141,983	-	(2,820,951)
Credited to available-for-sale financial assets revaluation reserve (note 9)	-	-	-	-	(116,354)	(116,354)
At 31 December 2016	<b>(764,170)</b>	<b>1,855,217</b>	<b>(3,193,410)</b>	<b>(1,764,956)</b>	<b>(304,137)</b>	<b>(4,171,456)</b>
At 1 January 2015	(521,535)	1,855,217	-	(2,452,264)	(13,569)	(1,132,151)
(Credited)/charged to statement of profit or loss and other comprehensive income	(473,111)	-	-	545,325	-	72,214
Credited to available-for-sale financial assets revaluation reserve (note 9)	-	-	-	-	(174,214)	(174,214)
At 31 December 2015	<b>(994,646)</b>	<b>1,855,217</b>	<b>-</b>	<b>(1,906,939)</b>	<b>(187,783)</b>	<b>(1,234,151)</b>

## Notes to the financial statements (continued)

(Expressed in Hong Kong dollars)

### 21 Material related party transactions

#### (a) Transactions with other related parties

During the year, the Bank entered into transactions with related parties in the ordinary course of business including the taking and placing of inter-bank deposits. These transactions were priced at relevant market rates at the time of each transaction.

The amounts included in the financial statements arising from transactions with related parties are as follows:

	Parent company		Fellow subsidiaries		Affiliates		Key management personnel	
	2016	2015	2016	2015	2016	2015	2016	2015
Commission rebate	-	-	-	-	1,459,834	1,356,394	-	-
Interest income	-	-	-	-	29,959	-	-	-
Interest expenses	1,027	227,120	-	-	-	2,082	-	-
IT maintenance	695,006	700,000	-	-	-	-	-	-
Other services	3,023,877	1,699,532	-	-	-	-	-	-
Staff Provident Fund expense	-	-	-	-	1,319,103	2,894,521	-	-
Cash and balances with banks	2,336,979	3,972,722	452,550	471,600	8,830,684	22,945,724	-	-
Deposits and balances from banks	4,039,682	2,094,941	58,918	36,012	1,120,949	1,974,210	-	-
Time deposits	-	-	-	-	-	-	10,476,854	10,581,921
Imprest accounts	-	-	-	-	-	-	709,066	548,046
Staff Provident Fund deposit	-	-	-	-	56,941,751	64,384,285	-	-

The aggregate unsecured facilities granted to connected parties who are (i) individuals did not exceed \$1,000,000 per person or 5% of the capital base and (ii) firms, partnerships or non-listed companies (as specified in section 83(4) of the Banking Ordinance) did not exceed 10% of the capital base. The maximum aggregate unsecured facilities to all connected parties did not exceed 10% of the capital base. The secured lending to connected parties follows the supervisory policy manual on connected lending (CR-G-9) clause 2.5 issued by the HKMA.

The Bank has entered into an agreement with its parent company for the provision of banking software and related IT services.

**Notes to the financial statements (continued)**

(Expressed in Hong Kong dollars)

**21 Material related party transactions (continued)**

(b) Key management personnel remuneration

	2016	2015
Short-term employee benefits	10,696,545	10,523,460
Post-employment benefits	588,335	574,406
	<b>11,284,880</b>	<b>11,097,866</b>

Total remuneration is included in staff costs (see note 5(a)).

**22 Loans to directors and bodies corporate controlled by them**

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

	2016	2015
Loans made by a third party under a guarantee given by the Bank	-	-
Loans made by the Bank	-	-
	-	-

**23 Share capital**

	2016		2015	
	No. of shares (000)		No. of shares (000)	
<b>Ordinary shares issued and fully paid:</b>				
At 1 January and 31 December	3,000	300,000,000	3,000	300,000,000

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

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Bank. All ordinary shares rank equally with regard to the Bank's residual assets.

*Notes to the financial statements (continued)*

*(Expressed in Hong Kong dollars)*

**24 Reserves and dividends**

(a) Nature and purpose of reserves

(i) Available-for-sale financial assets revaluation reserve

The available-for-sale financial assets revaluation reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the financial assets are derecognised and is dealt with in accordance with the accounting policies in notes 1(f) and 1(g).

(ii) Property revaluation reserve

The revaluation reserve has been set up in accordance with the accounting policies adopted for land and buildings in note 1(i). The revaluation reserve is not available for distribution to shareholders.

(iii) Regulatory reserve

The regulatory reserve is an appropriation from retained earnings and is maintained for the purpose of paragraph 9 of the Seventh Schedule to the Hong Kong Banking Ordinance to set aside amounts in respect of losses which the Bank will or may incur on loans and advances in addition to impairment losses recognised under HKAS 39, “Financial instruments: Recognition and measurement”. Transfer to and from the regulatory reserve are made directly through retained earnings and not the statement of comprehensive income.

(b) Distributability of reserves

At 31 December 2016, the aggregate amount of reserves available for distribution to equity shareholders of the Bank was \$218,810,728 (2015: \$216,849,589).

(c) Dividends

	2016	2015
Final dividend in respect of the current financial year proposed after the end of reporting period of \$4.00 per ordinary share (2015: \$4.00 per ordinary share)	12,000,000	12,000,000

The dividend proposed after the end of reporting period has not been recognised as a liability at the end of reporting period.

	2016	2015
Final dividend in respect of the previous financial year, approved and paid during the year, of \$4.00 per ordinary share (2015: \$8.00 per ordinary share)	12,000,000	24,000,000

## Notes to the financial statements (continued)

(Expressed in Hong Kong dollars)

### 25 Assets pledged as security

The following assets have been pledged as collateral:

	2016	2015
Balances with banks	2,601,150	2,497,749
Investments	68,218,051	59,845,430
	<b>70,819,201</b>	<b>62,343,179</b>

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

### 26 Contingent assets, liabilities and commitments

(a) Contingent assets, liabilities and commitments to extend credit

The following is a summary of the contractual amounts of each significant class of contingent liabilities and commitments:

	2016	2015
Trade-related contingencies	383,943,010	319,161,184
Credit risk weighted amounts	56,252,969	42,179,271

Contingent liabilities and commitments are credit-related instruments which include letters of credit, confirmation of letters of credit, guarantees and commitments to extend credit. The risk involved in these credit-related instruments is essentially the same as the credit risk involved in extending loan facilities to customers. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client default. As the facilities may expire without being drawn upon, the contractual amounts do not represent expected future cash flows. The risk weights used in the computation of credit risk weighted amounts range from 0% to 100%.

(b) Lease commitments

The total future minimum lease payments in respect of IT services and properties under non-cancellable operating leases are payable as follows:

	2016	2015
Within 1 year	246,813	198,034
After 1 year but within 5 years	-	-
	<b>246,813</b>	<b>198,034</b>

### 27 Ultimate and immediate holding company

As at 31 December 2016, the directors consider the Bank's immediate parent to be Habib Bank AG Zurich and ultimate holding company to be Gefan Finanz AG. Both the parent and ultimate holding company are incorporated in Switzerland.

## *Notes to the financial statements (continued)*

*(Expressed in Hong Kong dollars)*

### **28 Financial risk management**

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

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

The Bank has established policies and procedures to identify and analyse these risks, to set appropriate risk limits and to devise controls, and to monitor such risks and limits continually by means of reliable and up-to-date management and information systems. The Bank continually modifies and enhances its risk management policies and systems to reflect changes in markets, products and best practice risk management processes. Introduction of new products and systems is approved by the Board of Directors after proper risk assessment. The internal auditors also perform regular audits to ensure compliance with the policies and procedures.

#### **(a) Credit risk**

Credit risk arises from the possibility that the counterparty in a transaction may default. It arises from lending, trade finance, derivatives and other activities.

The Bank has policies and procedures in place to ensure that credit risk is properly addressed and managed at the transaction and portfolio levels. The Board of Directors formulates and updates the credit policies. The Bank's credit policies define credit extension criteria, credit sanctions, review and monitoring mechanisms, and the loan classification and provisioning policy.

To avoid large financial risk, the exposure to a single borrower or group of related borrowers is limited to a percentage of the capital base. Country risk concentration is managed by setting up country exposure limits and emphasising wide geographical spread of export markets.

The Credit Committee, chaired by the Chief Executive, monitors compliance with statutory and internal limits on credit exposures. The internal auditor carries out regular audits to ensure compliance with the stated policies and procedures. To strengthen the independence of the audit function, the internal auditor of the Bank reports directly to the Audit Committee.

*Notes to the financial statements (continued)*

*(Expressed in Hong Kong dollars)*

**28 Financial risk management (continued)**

**(a) Credit risk (continued)**

**(i) Maximum exposure**

The maximum exposure to credit risk at the end of reporting period without taking into consideration of any collateral held or other credit enhancements is represented by the carrying amount of each financial asset in the statement of financial position after deducting any impairment allowance. A summary of the maximum exposure is as follows:

	2016	2015
Cash and balances with banks	194,860,355	165,228,116
Placements with banks	519,856,554	453,850,877
Investments	411,471,463	323,157,387
Trade bills	490,283,080	580,358,779
Advances to customers	487,141,670	535,293,274
Other assets	33,615,479	91,696,784
Financial guarantees and other credit related contingent liabilities	383,943,010	319,161,184
	<b>2,521,171,611</b>	<b>2,468,746,401</b>

**(ii) Credit quality of advances to customers and trade bills**

The credit quality of advances to customers and trade bills can be analysed as follows:

	2016		2015	
	Gross amount of advances to customers '000	Gross amount of trade bills '000	Gross amount of advances to customers '000	Gross amount of trade bills '000
Neither past due nor impaired	423,725	438,664	452,290	506,878
Past due but not impaired	49,183	44,980	61,826	49,241
Impaired	31,597	23,196	36,623	38,111
	<b>504,505</b>	<b>506,840</b>	<b>550,739</b>	<b>594,230</b>
Of which:				
Neither past due nor impaired				
– Grade 1: Pass	375,408	437,132	419,120	505,165
– Grade 2: Special Mention	48,317	1,532	33,170	1,713
	<b>423,725</b>	<b>438,664</b>	<b>452,290</b>	<b>506,878</b>

The Bank classifies the advances to customers and trade bills in accordance with the loan classification system required to be adopted for reporting to the HKMA.

*Notes to the financial statements (continued)*

*(Expressed in Hong Kong dollars)*

**28 Financial risk management (continued)**

(a) Credit risk (continued)

(ii) Credit quality of advances to customers and trade bills (continued)

The ageing analysis of advances to customers and trade bills to customers that are past due but not impaired is as follows:

	2016		2015	
	Gross amount of advances to customers '000	Gross amount of trade bills '000	Gross amount of advances to customers '000	Gross amount of trade bills '000
Less than 1 month	29,074	32,409	31,281	34,180
3 months or less but over 1 month	9,048	12,571	13,944	10,995
6 months or less but over 3 months	8,226	-	6,066	103
1 year or less but over 6 months	2,835	-	10,535	3,963
Over 1 year	-	-	-	-
	<b>49,183</b>	<b>44,980</b>	<b>61,826</b>	<b>49,241</b>

(iii) Collateral and other credit enhancements

The Bank holds collateral against advances to customers in the form of mortgages over property and cash deposits. Collateral held as security for financial assets other than advances to customers is determined by the nature of the instrument.

An estimate of the fair value of collateral and other credit enhancements held against financial assets is as follows:

	2016 '000	2015 '000
Fair value of collateral and other credit enhancements held against financial assets that are:		
– neither past due nor impaired	535,883	558,709
– past due but not impaired	87,859	102,317
	<b>623,742</b>	<b>661,026</b>

## Notes to the financial statements (continued)

(Expressed in Hong Kong dollars)

### 28 Financial risk management (continued)

#### (a) Credit risk (continued)

##### (iii) Collateral and other credit enhancements (continued)

To mitigate credit risk, the Bank enters into netting arrangements with counterparties. Netting arrangements provide that, if an event of default occurs, all outstanding transactions with the counterparty will be terminated and all amounts outstanding will be settled on a net basis. Except for the event of default, all outstanding transactions with the counterparty are settled on a gross basis and generally do not result in offsetting the assets and liabilities in the statement of financial position.

	Note	2016			2015		
		Gross amounts of financial instruments in the statement of financial position '000	Related financial instruments that have not been offset '000	Net amount '000	Gross amounts of financial instruments in the statement of financial position '000	Related financial instruments that have not been offset '000	Net amount '000
<b>Financial assets</b>							
Trade bills	13(a)	506,840	101,122	405,718	594,230	125,211	469,019
Advances to customers	14(a)	504,505	124,071	380,434	550,739	171,688	379,051
		<b>1,011,345</b>	<b>225,193</b>	<b>786,152</b>	<b>1,144,969</b>	<b>296,899</b>	<b>848,070</b>
<b>Financial liabilities</b>							
Deposit from customers	18	1,390,423	179,664	1,210,759	1,434,047	248,210	1,185,837
Imprest and margin accounts	19	270,905	45,529	225,376	192,806	48,689	144,117
		<b>1,661,328</b>	<b>225,193</b>	<b>1,436,135</b>	<b>1,626,853</b>	<b>296,899</b>	<b>1,329,954</b>

***Notes to the financial statements (continued)***

*(Expressed in Hong Kong dollars)*

**28 Financial risk management (continued)**

**(b) Market risk management**

Market risk is the risk that movements in interest rates or foreign exchange rates will result in losses in on and off balance sheet positions.

The principal derivative instruments used by the Bank are foreign exchange rate contracts for hedging positions arising from commercial transactions.

The Bank's policy is to take no proprietary trading positions. The Bank does not engage in speculative trading activities, and hence it is not exposed to market risk arising from the trading book.

The Bank has been exempted under section 22(1) of the Banking (Capital) Rules from the calculation of market risk under section 17.

**(i) Currency risk**

Currency risk is the risk to earnings or capital emanating from the movement of foreign exchange rates. Foreign exchange exposures originate mainly from the trade finance business. The risk thereof has been largely eliminated by consciously devising policies that expressly prohibit speculation in currencies and mandate that trade finance related currency transactions are covered simultaneously and aggregate open positions exceeding amount equivalent to US\$1 million cannot be left overnight in currencies other than US\$. All exposures are managed by the Finance Department on a daily basis and reviewed periodically by the Asset and Liability Management Committee.

## Notes to the financial statements (continued)

(Expressed in Hong Kong dollars)

### 28 Financial risk management (continued)

#### (b) Market risk management (continued)

##### (i) Currency risk (continued)

Foreign exchange exposures arising from non-trading and structural positions, with an individual currency constituting 10% or more of the total net position in all foreign currencies, are shown as follows:

	2016			2015		
	Total '000	United States Dollars '000	Other foreign currencies '000	Total '000	United States Dollars '000	Other foreign currencies '000
<b>Assets</b>						
Cash and balances with banks	136,681	100,500	36,181	102,417	73,423	28,994
Placements with banks	115,857	62,049	53,808	58,851	-	58,851
Investments	411,540	411,540	-	314,055	314,055	-
Trade bills	506,111	498,949	7,162	594,230	585,270	8,960
Advances to customers	378,481	375,170	3,311	423,972	418,795	5,177
Other assets	29,578	29,578	-	82,812	82,523	289
<b>Spot assets</b>	<b>1,578,248</b>	<b>1,477,786</b>	<b>100,462</b>	<b>1,576,337</b>	<b>1,474,066</b>	<b>102,271</b>
<b>Liabilities</b>						
Deposits and balances of banks	(4,830)	(4,830)	-	(2,668)	(2,668)	-
Deposits from customers	(1,271,135)	(1,181,857)	(89,278)	(1,273,707)	(1,189,308)	(84,399)
Other liabilities	(283,112)	(272,241)	(10,871)	(253,370)	(235,822)	(17,548)
<b>Spot liabilities</b>	<b>(1,559,077)</b>	<b>(1,458,928)</b>	<b>(100,149)</b>	<b>(1,529,745)</b>	<b>(1,427,798)</b>	<b>(101,947)</b>
Forward purchases	-	-	-	-	-	-
Forward sales	-	-	-	-	-	-
<b>Net non structural position</b>	<b>19,171</b>	<b>18,858</b>	<b>313</b>	<b>46,592</b>	<b>46,268</b>	<b>324</b>

***Notes to the financial statements (continued)***

*(Expressed in Hong Kong dollars)*

**28 Financial risk management (continued)**

**(b) Market risk management (continued)**

**(i) Currency risk (continued)**

The Bank does not trade in foreign currencies, nor takes any other exposures on account of its clients. The Bank's foreign currency transactions primarily relate to discounting of foreign currency export and import bills. The exchange positions arising from trade bills as well as customers' foreign currency deposit-related transactions are covered in the local market. From time to time the Bank enters into foreign exchange forward transactions to mitigate currency risk. Details of such transactions appear in the above table.

As the majority (95%) of the Bank's financial instruments at 31 December 2016 and 2015 were denominated in either Hong Kong dollars ("HK\$") or United States dollars ("US\$") and the US\$ is pegged to the HK\$, management does not consider there to be any significant currency risk associated with them.

**(ii) Interest rate risk**

The Bank's interest rate risk positions arise from trade finance, lending and deposit taking activities. Interest rate risk primarily results from the timing difference in the repricing of interest-bearing assets and liabilities. It also relates to positions from non-interest bearing liabilities including shareholders' funds, as well as from certain fixed rate trade finance transactions and liabilities.

The Bank monitors interest rate movements by applying a weighting to assets and liabilities on the statement of financial position. Management monitors the weighted average rates on deposits, lending and placements to identify any mismatched exposures and alters the interest rate strategy accordingly. Interest bearing deposits from customers are for a fixed maturity mostly for a three month period and are generally utilised for a similar period. Surplus liquidity is placed in the interbank market and investments. A greater portion of the loans and trade advances is repricable on a per-transaction basis. Hence the risk element is contained swiftly and the magnitude of the risk posed by interest rates movement is low.

## Notes to the financial statements (continued)

(Expressed in Hong Kong dollars)

### 28 Financial risk management (continued)

#### (b) Market risk management (continued)

##### (ii) Interest rate risk (continued)

Interest sensitivity of assets and liabilities	2016						
	Effective interest rate	Total	3 months or less	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest bearing
	%	'000	'000	'000	'000	'000	'000
<b>Assets</b>							
Cash and balances with banks	-	194,860	-	-	-	-	194,860
Placements with banks	0.72%	519,857	519,857	-	-	-	-
Investments	2.71%	411,471	13,594	61,942	335,935	-	-
Trade bills	4.57%	506,840	436,543	70,297	-	-	-
– Collective impairment allowance for trade bills	-	(5,400)	-	-	-	-	(5,400)
– Individual impairment allowance for trade bills	-	(11,157)	-	-	-	-	(11,157)
Advances to customers	4.87%	504,505	401,346	50,727	52,432	-	-
– Collective impairment allowance for advances to customers	-	(5,297)	-	-	-	-	(5,297)
– Individual impairment allowance for advances to customers	-	(12,066)	-	-	-	-	(12,066)
Tax paid in advance	-	1,092	-	-	-	-	1,092
Deferred tax assets	-	4,172	-	-	-	-	4,172
Fixed assets	-	108,690	-	-	-	-	108,690
Other assets	-	33,615	-	-	-	-	33,615
<b>Total assets</b>	-	<b>2,251,182</b>	<b>1,371,340</b>	<b>182,966</b>	<b>388,367</b>	-	<b>308,509</b>
<b>Liabilities</b>							
Deposits and balances of banks	-	5,252	-	-	-	-	5,252
Deposits from customers	1.67%	1,390,423	1,052,009	336,751	1,663	-	-
Other liabilities	-	310,991	-	-	-	-	310,991
<b>Total liabilities</b>	-	<b>1,706,666</b>	<b>1,052,009</b>	<b>336,751</b>	<b>1,663</b>	-	<b>316,243</b>
<b>Net Re-Pricing gap</b>	-	<b>544,516</b>	<b>319,331</b>	<b>(153,785)</b>	<b>386,704</b>	-	<b>(7,734)</b>

# Habib Bank Zurich (Hong Kong) Limited

## Notes to the financial statements (continued)

(Expressed in Hong Kong dollars)

### 28 Financial risk management (continued)

#### (b) Market risk management (continued)

##### (ii) Interest rate risk (continued)

Interest sensitivity of assets and liabilities	2015						
	Effective interest rate	Total	3 months or less	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest bearing
	%	'000	'000	'000	'000	'000	'000
<b>Assets</b>							
Cash and balances with banks	-	165,229	-	-	-	-	165,229
Placements with banks	0.76%	453,851	449,940	3,911	-	-	-
Investments	2.68%	323,157	34,008	15,621	273,528	-	-
Trade bills	4.77%	594,230	534,046	60,184	-	-	-
– Collective impairment allowance for trade bills	-	(5,996)	-	-	-	-	(5,996)
– Individual impairment allowance for trade bills	-	(7,875)	-	-	-	-	(7,875)
Advances to customers	5.04%	550,739	434,930	65,834	49,975	-	-
– Collective impairment allowance for advances to customers	-	(5,561)	-	-	-	-	(5,561)
– Individual impairment allowance for advances to customers	-	(9,885)	-	-	-	-	(9,885)
Tax paid in advance	-	3,615	-	-	-	-	3,615
Deferred tax assets	-	1,234	-	-	-	-	1,234
Fixed assets	-	112,917	-	-	-	-	112,917
Other assets	-	91,696	-	-	-	-	91,696
<b>Total assets</b>	-	<b>2,267,351</b>	<b>1,452,924</b>	<b>145,550</b>	<b>323,503</b>	-	<b>345,374</b>
<b>Liabilities</b>							
Deposits and balances of banks	-	4,162	-	-	-	-	4,162
Deposits from customers	1.67%	1,434,047	1,118,892	313,498	1,657	-	-
Other liabilities	-	285,999	-	-	-	-	285,999
<b>Total liabilities</b>	-	<b>1,724,208</b>	<b>1,118,892</b>	<b>313,498</b>	<b>1,657</b>	-	<b>290,161</b>
<b>Net Re-Pricing gap</b>	-	<b>543,143</b>	<b>334,032</b>	<b>(167,948)</b>	<b>321,846</b>	-	<b>55,213</b>

***Notes to the financial statements (continued)***

*(Expressed in Hong Kong dollars)*

**28 Financial risk management (continued)**

**(b) Market risk management (continued)**

**(ii) Interest rate risk (continued)**

At 31 December 2016, it is estimated that a general increase/decrease of 50 basis points in interest rates (2015: 50 basis points in interest rates), with all other variables held constant, would not significantly impact the Bank's profit after taxation (2015: not significant impact).

The sensitivity analysis above has been determined assuming that the change in interest rate had occurred at end of the reporting period and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The 50 basis point increase or decrease represents management's assessment of a reasonable possible change in interest rates over the period until the next annual reporting date.

**(c) Liquidity risk management**

Liquidity relates to the ability of a company to meet its obligations as they fall due.

The Bank manages the liquidity structure of its assets, liabilities and commitments so as to ensure that liquidity sources match funding needs and that the statutory liquidity ratio is complied with. The Bank's average liquidity maintenance ratio in 2016 of 129.10% (2015: liquidity maintenance ratio of 143.65%) was well above the statutory minimum ratio of 25%.

The finance department reviews the current and prospective funding requirements for all operations through monitoring of the liquidity maintenance ratio and the maturity mismatch profile. Liquidity risk is managed by holding sufficient liquid assets (e.g. cash and short term funds) of appropriate quality to ensure that short term funding requirements are covered within prudent limits. Customer deposits form a significant part of the Bank's overall funding and they have remained relatively diversified and stable. Adequate standby facilities are maintained to provide strategic liquidity to meet unexpected and material cash outflows in the ordinary course of business. The Asset and Liability Management Committee measures the liquidity and adequacy of funds periodically and evaluates the overall risks and mitigation. The Committee also manages the funds and investments within the internal and regulatory framework.

*Notes to the financial statements (continued)*

*(Expressed in Hong Kong dollars)*

**28 Financial risk management (continued)**

**(c) Liquidity risk management (continued)**

Analysis of non derivative assets and liabilities by remaining maturity

The following maturity profile is based on the remaining period at the end of reporting period to the contractual maturity date.

	2016							
	Total	Repayable on demand	Within 1 month	Over 1 month but within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Indefinite
	'000	'000	'000	'000	'000	'000	'000	'000
<b>Assets</b>								
Cash and balances with banks	194,860	194,860	-	-	-	-	-	-
Placements with banks	519,857	-	192,196	327,661	-	-	-	-
Investments	411,471	-	-	13,594	61,942	335,935	-	-
Trade bills	490,283	60,954	131,508	228,273	69,548	-	-	-
Advances to customers	487,142	67,555	96,855	220,657	50,194	51,881	-	-
Tax paid in advance	1,092	-	-	-	1,092	-	-	-
Deferred tax assets	4,172	-	-	-	-	-	-	4,172
Fixed assets	108,690	-	-	-	-	-	-	108,690
Other assets	33,615	1,414	8,468	9,107	14,626	-	-	-
<b>Total assets</b>	<b>2,251,182</b>	<b>324,783</b>	<b>429,027</b>	<b>799,292</b>	<b>197,402</b>	<b>387,816</b>	<b>-</b>	<b>112,862</b>
<b>Liabilities</b>								
Deposits and balances of banks	5,252	5,252	-	-	-	-	-	-
Deposits from customers	1,390,423	11,664	399,846	640,499	336,751	1,663	-	-
Tax payable	-	-	-	-	-	-	-	-
Other liabilities	310,991	276,012	11,246	9,107	14,626	-	-	-
<b>Total liabilities</b>	<b>1,706,666</b>	<b>292,928</b>	<b>411,092</b>	<b>649,606</b>	<b>351,377</b>	<b>1,663</b>	<b>-</b>	<b>-</b>
<b>Net liability gap</b>	<b>544,516</b>	<b>31,855</b>	<b>17,935</b>	<b>149,686</b>	<b>(153,975)</b>	<b>386,153</b>	<b>-</b>	<b>112,862</b>

## Notes to the financial statements (continued)

(Expressed in Hong Kong dollars)

### 28 Financial risk management (continued)

#### (c) Liquidity risk management (continued)

Analysis of non derivative assets and liabilities by remaining maturity

The following maturity profile is based on the remaining period at the end of reporting period to the contractual maturity date.

	2015							
	Total	Repayable on demand	Within 1 month	Over 1 month but within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Indefinite
	'000	'000	'000	'000	'000	'000	'000	'000
<b>Assets</b>								
Cash and balances with banks	165,228	165,228	-	-	-	-	-	-
Placements with banks	453,851	-	202,111	247,829	3,911	-	-	-
Investments	323,157	-	17,270	16,738	15,621	273,528	-	-
Trade bills	580,359	78,848	181,555	260,379	59,577	-	-	-
Advances to customers	535,293	81,928	109,682	229,044	65,169	49,470	-	-
Tax paid in advance	3,615	-	-	-	3,615	-	-	-
Deferred tax assets	1,234	-	-	-	-	-	-	1,234
Fixed assets	112,917	-	-	-	-	-	-	112,917
Other assets	91,697	1,033	20,511	61,208	8,945	-	-	-
<b>Total assets</b>	<b>2,267,351</b>	<b>327,037</b>	<b>531,129</b>	<b>815,198</b>	<b>156,838</b>	<b>322,998</b>	<b>-</b>	<b>114,151</b>
<b>Liabilities</b>								
Deposits and balances of banks	4,162	4,162	-	-	-	-	-	-
Deposits from customers	1,434,047	6,634	443,895	668,363	313,498	1,657	-	-
Tax payable	-	-	-	-	-	-	-	-
Other liabilities	285,999	197,612	18,234	61,208	8,945	-	-	-
<b>Total liabilities</b>	<b>1,724,208</b>	<b>208,408</b>	<b>462,129</b>	<b>729,571</b>	<b>322,443</b>	<b>1,657</b>	<b>-</b>	<b>-</b>
<b>Net liability gap</b>	<b>543,143</b>	<b>118,629</b>	<b>69,000</b>	<b>85,627</b>	<b>(165,605)</b>	<b>321,341</b>	<b>-</b>	<b>114,151</b>

*Notes to the financial statements (continued)*

*(Expressed in Hong Kong dollars)*

**28 Financial risk management (continued)**

**(c) Liquidity risk management (continued)**

The total gross undiscounted cash flows for the above liabilities are the same as shown above except for deposits and balances of banks and deposits from customers which are as follows:

	<b>2016</b>							
	Carrying amount	Total contractual undiscounted cash flows	Repayable on demand	Within 1 month	Over 1 month but within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Indefinite
	'000	'000	'000	'000	'000	'000	'000	'000
Deposits and balances of banks	5,252	5,252	5,252	-	-	-	-	-
Deposits from customers	1,390,423	1,400,353	11,745	402,949	643,980	340,012	1,667	-
	<b>1,395,675</b>	<b>1,405,605</b>	<b>16,997</b>	<b>402,949</b>	<b>643,980</b>	<b>340,012</b>	<b>1,667</b>	-

	<b>2015</b>							
	Carrying amount	Total contractual undiscounted cash flows	Repayable on demand	Within 1 month	Over 1 month but within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Indefinite
	'000	'000	'000	'000	'000	'000	'000	'000
Deposits and balances of banks	4,162	4,162	4,162	-	-	-	-	-
Deposits from customers	1,434,047	1,443,952	6,680	445,695	672,395	317,521	1,661	-
	<b>1,438,209</b>	<b>1,448,114</b>	<b>10,842</b>	<b>445,695</b>	<b>672,395</b>	<b>317,521</b>	<b>1,661</b>	-

## ***Notes to the financial statements (continued)***

*(Expressed in Hong Kong dollars)*

### **28 Financial risk management (continued)**

#### **(d) Operational risk**

Operational risk is the risk of potential loss arising from inadequate or failure in internal processes, people and systems or from external events.

The Board of Directors and senior management are responsible for approving and reviewing the overall business strategies and the policies for each major area of operations. A Risk and Compliance Management Committee is in place to manage operational risks.

The Bank recognises the importance of managing operational risk in a pro-active manner. Operational risk management tools and mechanisms adopted include operational risk incidents reporting, key risk indicators, operation manuals, accounting controls, business continuity planning, insurance policies etc.

The Bank attaches great importance to conducting its business in a safe and sound manner. Strict control is exercised at every level of operations. Additionally, an internal audit system plays an essential role in ensuring due adherence to policies, various internal and statutory limits, and regulatory requirements thus limiting operational risk.

#### **(e) Capital management**

The HKMA sets and monitors capital requirements for the Bank as a whole. In implementing current capital requirements the HKMA requires the Bank to maintain prescribed ratios of capital to total risk-weighted assets. The Bank's operations are categorised as banking book and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

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

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

***Notes to the financial statements (continued)***

*(Expressed in Hong Kong dollars)*

**28 Financial risk management (continued)**

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

The Bank monitors its capital adequacy ratios on a quarterly basis. The capital adequacy ratios are computed as specified by the HKMA for its regulatory purposes and are in accordance with the Banking (Capital) (Amendment) Rules 2012 and 2013 of the Hong Kong Banking Ordinance which came into effect from 1 January 2013 and 30 June 2013 respectively.

The Bank has complied with all capital requirements throughout the years ended 31 December 2016 and 2015 and is well above the minimum required ratio set by the HKMA.

**29 Fair values of financial instruments**

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

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

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1 - Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2 - Observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 - Fair value measured using significant unobservable inputs.

*Notes to the financial statements (continued)*

*(Expressed in Hong Kong dollars)*

**29 Fair values of financial instruments (continued)**

(b) Fair value

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

	2016				2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets</b>								
Available-for-sale financial assets:								
– Debt securities	-	85,765,046	-	85,765,046	-	80,508,498	-	80,508,498
Derivative financial instruments:								
– Forward exchange contracts	-	-	-	-	-	-	-	-
	-	85,765,046	-	85,765,046	-	80,508,498	-	80,508,498
<b>Liabilities</b>								
Derivative financial instruments:								
– Forward exchange contracts	-	-	-	-	-	-	-	-

During the year there were no significant transfers of financial instruments between Level 1 and Level 2 of the fair value hierarchy.

***Notes to the financial statements (continued)***

*(Expressed in Hong Kong dollars)*

**30 Accounting estimates and judgements**

**Key sources of estimation uncertainty**

Note 30 contains information about the assumptions and their risk factors relating to fair value of financial instruments. Another key source of estimation uncertainty is as follows:

**Impairment losses - Loans and advances**

Loan portfolios are reviewed periodically to assess whether impairment losses exist. The Bank makes judgements as to whether there is any objective evidence that a loan is impaired. Objective evidence for impairment includes observable data that the payment status of borrowers in a group has adversely changed. It may also include observable data that local or economic conditions have worsened which correlate with defaults on the assets in the Bank. If management has determined, based on their judgement, that objective evidence for impairment exists, expected future cash flows are estimated based on historical loss experience for assets with credit risk characteristics similar to those of the Bank. Historical loss experience is adjusted on the basis of the current observable data.

Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss experience.

*Notes to the financial statements (continued)*

*(Expressed in Hong Kong dollars)*

**31 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2016**

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2016 and which have not been adopted in these financial statements. These include the following which may be relevant to the Bank.

	<i>Effective for accounting periods beginning on or after</i>
Amendments to HKAS 7, Statement of cash flows: Disclosure initiative	1 January 2017
Amendments to HKAS 12, Income taxes: Recognition of deferred tax assets for unrealised losses	1 January 2017
HKFRS 9, Financial instruments	1 January 2018
HKFRS 15, Revenue from contracts with customers	1 January 2018
HKFRS 16, Leases	1 January 2019

The Bank is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Bank's results of operations and financial position except for HKFRS 9, Financial Instruments. It is however impracticable to quantify the effect of the implications of this standard as at the date of publication of these financial statements.

# Habib Bank Zurich (Hong Kong) Limited

## Unaudited supplementary financial information

(Expressed in Hong Kong dollars)

### (a) Capital and capital adequacy

	2016	2015
<b>Capital ratio:</b>		
Common Equity Tier 1 (“CET1”) Capital Ratio	33.66%	34.60%
Tier 1 Capital Ratio	33.66%	34.60%
Total Capital Ratio	35.10%	36.04%

The components of total capital before and after deductions are shown below:

	2016	2015
	’000	’000
<b>CET1 Capital:</b>		
CET1 Capital instruments	300,000	300,000
Retained earnings	218,811	216,850
Disclosed reserves	25,705	26,293
CET1 Capital before deductions	<b>544,516</b>	<b>543,143</b>
<b>Regulatory deductions to CET1 capital:</b>		
Reserves arising from revaluation of land and buildings	(11,244)	(11,244)
Reserve for general banking risk	(16,000)	(16,000)
Net deferred tax assets	(4,171)	(1,234)
<b>Total CET1 Capital</b>	<b>513,101</b>	<b>514,665</b>
<b>Additional Tier 1 (“AT1”) Capital</b>	-	-
<b>Total Tier 1 (“T1”) Capital</b>	<b>513,101</b>	<b>514,665</b>
<b>Tier 2 (“T2”) Capital</b>		
Reserves arising from revaluation of land and buildings	5,060	5,060
Reserve for general banking risk and collective impairment allowances	16,829	16,219
Regulatory deductions to T2 capital	-	-
<b>Total T2 Capital</b>	<b>21,889</b>	<b>21,279</b>
<b>Total Capital</b>	<b>534,990</b>	<b>535,944</b>

## *Unaudited supplementary financial information*

*(Expressed in Hong Kong dollars)*

### **(a) Capital and capital adequacy (continued)**

The capital adequacy ratios were calculated in accordance with the Banking (Capital) Rules (the “Capital Rules”). In accordance with the Capital Rules, the Bank has adopted the “Basic Approach” for the calculation of the risk-weighted assets for credit risk, and the “Basic Indicator Approach” for the calculation of operational risk. The Bank has been exempted under section 22(1) of the Banking (Capital) Rules from the calculation of market risk under section 17.

CET1 capital instruments represents HK\$300,000,000 (2015: HK\$300,000,000) of issued and fully paid ordinary shares. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Bank. All ordinary shares rank equally with regard to the Bank’s residual assets.

The revaluation reserve has been set up in accordance with the accounting policies adopted for land and buildings. The revaluation reserve is not available for distribution to shareholders.

A regulatory reserve of \$16,000,000 (2015: \$16,000,000) is maintained to satisfy the provisions of the Hong Kong Banking Ordinance. Movements in the reserve are made directly through retained earnings.

A collective impairment allowance is maintained to cover potential impairment losses for a group of financial assets with similar credit risk characteristics where the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset.

No item benefits from the transitional arrangements set out in Section 4H to the Capital Rules.

To comply with the Banking (Disclosure) Rules, a section “Regulatory Disclosures” is available on the Bank’s website at [www.hbzhongkong.com](http://www.hbzhongkong.com) and includes the following information:

- A detailed breakdown of the CET1 capital, Additional Tier 1 capital, Tier 2 capital and regulatory deductions applied to the capital base of the institution by using the standard capital disclosures template as specified by the HKMA.
- A full reconciliation of the CET1 capital items, Additional Tier 1 capital items, Tier 2 capital items and regulatory deductions applied to the capital base of the institution and the balance sheet in the published financial statements of the institution.
- A description of the main features and the terms and conditions of capital instruments issued by the institution.

## Habib Bank Zurich (Hong Kong) Limited

### *Unaudited supplementary financial information*

*(Expressed in Hong Kong dollars)*

#### **(b) Leverage Ratio**

	2016	2015
Leverage Ratio	20.66%	21.05%
	2016	2015
	'000	'000
Tier 1 Capital	513,101	514,665
Exposure Measure	2,483,134	2,444,991

The leverage ratio as at 31 December 2016 and 31 December 2015 were compiled in accordance with the Leverage Ratio Framework issued by the HKMA.

Leverage ratio disclosures as required by section 24A of the Banking (Disclosure) Rules are available in the section of Regulatory Disclosures of our website [www.hbzhongkong.com](http://www.hbzhongkong.com).

#### **(c) Countercyclical Capital Buffer Ratio**

	2016	2015
Countercyclical Capital Buffer Ratio	0.529%	-

The relevant disclosures pursuant to section 45B of the Banking (Disclosure) Rules for 2016 are available in the section of Regulatory Disclosures of our website [www.hbzhongkong.com](http://www.hbzhongkong.com).

There was no information disclosed relating to the countercyclical capital buffer ratio pursuant to section 45B to the Banking (Disclosure) Rules for 2015 because the applicable JCCyB ratios for Hong Kong and for jurisdictions outside Hong Kong are at 0% before 1 January, 2016 according to section 3P and section 3Q of the Capital Rules.

#### **(d) Capital Conservation Buffer Ratio**

Under section 3M of the Capital Rules, the capital conservation buffer ratios for calculating the Bank's buffer level are 0.625% for 2016 and 0% for 2015.

#### **(e) Liquidity information**

	2016	2015
Average liquidity maintenance ratio for the year	129.10%	143.65%

The average liquidity maintenance ratio ("LMR") for the year is calculated as the simple average of each month's average LMR as reported in the Liquidity Position Return.

## Unaudited supplementary financial information

(Expressed in Hong Kong dollars)

### (f) Segmental information

The Bank's total operating income (net of interest expense) and operating assets directly attributable to the following classes of business are set out below:

	2016			2015		
	Trade finance and deposits taking	Treasury and others	Total	Trade finance and deposits taking	Treasury and others	Total
Interest income	52,731,289	13,093,806	65,825,095	62,004,441	8,985,804	70,990,245
Interest expense	(23,234,368)	(23,591)	(23,257,959)	(22,449,900)	(234,438)	(22,684,338)
<b>Net interest income</b>	<b>29,496,921</b>	<b>13,070,215</b>	<b>42,567,136</b>	<b>39,554,541</b>	<b>8,751,366</b>	<b>48,305,907</b>
Fee and commission income	27,279,603	-	27,279,603	28,107,898	-	28,107,898
Fee and commission expense	(597,853)	-	(597,853)	(525,271)	-	(525,271)
<b>Net fee and commission income</b>	<b>26,681,750</b>	<b>-</b>	<b>26,681,750</b>	<b>27,582,627</b>	<b>-</b>	<b>27,582,627</b>
<b>Other net income</b>	<b>20,419,458</b>	<b>1,674,016</b>	<b>22,093,474</b>	<b>20,222,344</b>	<b>1,031,313</b>	<b>21,253,657</b>
<b>Operating income</b>	<b>76,598,129</b>	<b>14,744,231</b>	<b>91,342,360</b>	<b>87,359,512</b>	<b>9,782,679</b>	<b>97,142,191</b>
Operating expenses	(57,950,303)	(11,154,746)	(69,105,049)	(61,874,159)	(6,928,782)	(68,802,941)
<b>Operating profit before provisions</b>	<b>18,647,826</b>	<b>3,589,485</b>	<b>22,237,311</b>	<b>25,485,353</b>	<b>2,853,897</b>	<b>28,339,250</b>
Impairment losses on trade bills and advances to customers	(7,700,000)	-	(7,700,000)	(7,603,000)	-	(7,603,000)
<b>Operating profit after provisions</b>	<b>10,947,826</b>	<b>3,589,485</b>	<b>14,537,311</b>	<b>17,882,353</b>	<b>2,853,897</b>	<b>20,736,250</b>
<b>Profit before taxation</b>	<b>10,947,826</b>	<b>3,589,485</b>	<b>14,537,311</b>	<b>17,882,353</b>	<b>2,853,897</b>	<b>20,736,250</b>
Capital expenditure	-	429,881	429,881	-	335,731	335,731
Depreciation	(3,901,761)	(751,043)	(4,652,804)	(4,935,383)	(552,673)	(5,488,056)
Segment assets	1,006,875,165	1,244,306,456	2,251,181,621	1,198,342,542	1,069,008,250	2,267,350,792
<b>Total assets</b>	<b>1,006,875,165</b>	<b>1,244,306,456</b>	<b>2,251,181,621</b>	<b>1,198,342,542</b>	<b>1,069,008,250</b>	<b>2,267,350,792</b>
Segment liabilities	1,690,759,226	15,907,042	1,706,666,268	1,709,543,714	14,664,042	1,724,207,756
<b>Total liabilities</b>	<b>1,690,759,226</b>	<b>15,907,042</b>	<b>1,706,666,268</b>	<b>1,709,543,714</b>	<b>14,664,042</b>	<b>1,724,207,756</b>

## Habib Bank Zurich (Hong Kong) Limited

### *Unaudited supplementary financial information*

*(Expressed in Hong Kong dollars)*

#### **(f) Segmental information (continued)**

The Bank's principal activities are the taking of deposits and financing of import/export and local trade.

Segment information has been presented in two reportable segments as follows:

The major component of business is trade finance extended to customers by way of opening letters of credit and financing import and export bills. Within the trade finance portfolio, the emphasis is on purchasing/discounting of export bills with a wide geographical spread. Such advances are of short term duration, normally not exceeding 120 days. The short term nature of the advances provides a cushion against the pronounced adverse changes in the business and economic cycles, deflation in assets prices and risk transfer. The financing of import/export and local trade is sourced through deposits.

Treasury and others includes interbank and capital market activities.

#### **(g) Advances to customers**

##### (i) By industry sector

Loans and advances to customers analysed by the coverage of collateral, overdue amount and the impairment allowance is as follows:

	2016							
	Gross loans and advances '000	% of gross loans and advances covered by collateral %	Overdue loans and advances '000	Impaired loans and advances '000	Individually assessed impairment allowance '000	Collectively assessed impairment allowance '000	Impairment charged to statement of comprehensive income during the year '000	Impaired loans written off during the year '000
Loans for use in Hong Kong individual - other loans	6,583	97%	-	198	198	-	198	-
Trade finance	497,922	34.8%	73,136	31,399	11,868	5,297	4,058	2,339

## Unaudited supplementary financial information

(Expressed in Hong Kong dollars)

### (g) Advances to customers (continued)

#### (i) By industry sector (continued)

	2015							
	Gross loans and advances	% of gross loans and advances covered by collateral	Overdue loans and advances	Impaired loans and advances	Individually assessed impairment allowance	Collectively assessed impairment allowance	Impairment charged to statement of comprehensive income during the year	Impaired loans written off during the year
	'000	%	'000	'000	'000	'000	'000	'000
Loans for use in Hong Kong individual - other loans	\$14,271	100%	-	-	-	-	-	-
Trade finance	536,468	41.7%	88,199	36,623	9,885	5,561	1,636	2,605

#### (ii) By geographical area

Advances to customers by geographical area are classified according to the location of the counterparties after taking into account the transfer of risk. In general, risk transfer applies when an advance is guaranteed by a party in an area which is different from that of the counterparty.

	2016	2015
<b>Gross advances to customers</b>		
Hong Kong	499,313,453	536,962,696
Asia Pacific excluding Hong Kong	738,018	-
Africa, Caribbean, Latin America and North America	4,453,199	13,776,578
Europe	-	-
	<b>504,504,670</b>	<b>550,739,274</b>

All impaired advances to customers at 31 December 2016 and 2015 are located in Hong Kong.

## Habib Bank Zurich (Hong Kong) Limited

### Unaudited supplementary financial information

(Expressed in Hong Kong dollars)

#### (h) Overdue and rescheduled assets

The gross amount of overdue assets are as follows:

	2016							
	Advances to customers				Trade bills			
	Amount	Collateral value	% of gross advances	Impairment allowance	Amount	Collateral value	% of gross trade bills	Impairment allowance
Overdue for:								
– 6 months or less but over 3 months	8,226,653	8,226,653	1.63%	-	-	-	-	-
– 1 year or less but over 6 months	13,262,296	7,454,155	2.63%	4,374,799	7,462,008	4,796,339	1.47%	2,665,669
– Over 1 year	13,524,837	3,435,952	2.68%	7,166,164	15,536,748	1,839,447	3.07%	8,491,294
	<b>35,013,786</b>	<b>19,116,760</b>	<b>6.94%</b>	<b>11,540,963</b>	<b>22,998,756</b>	<b>6,635,786</b>	<b>4.54%</b>	<b>11,156,963</b>

	2015							
	Advances to customers				Trade bills			
	Amount	Collateral value	% of gross advances	Impairment allowance	Amount	Collateral value	% of gross trade bills	Impairment allowance
Overdue for:								
– 6 months or less but over 3 months	7,969,757	7,969,757	1.45%	320,000	536,694	433,037	0.09%	-
– 1 year or less but over 6 months	21,462,976	17,784,510	3.90%	1,942,919	25,228,542	22,145,831	4.24%	1,412,977
– Over 1 year	5,253,804	350,622	0.95%	4,666,691	6,415,399	700,966	1.08%	5,114,702
	<b>34,686,537</b>	<b>26,104,889</b>	<b>6.30%</b>	<b>6,929,610</b>	<b>32,180,635</b>	<b>23,279,834</b>	<b>5.41%</b>	<b>6,527,679</b>

Collaterals held with respect to overdue advances to customers and trade bills are cash deposits and mortgage property with the Bank.

#### (i) 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 defined by the Hong Kong Monetary Authority under the Banking (Disclosure) Rules with reference to the Hong Kong Monetary Authority return of non-bank Mainland exposures.

**Unaudited supplementary financial information**

(Expressed in Hong Kong dollars)

**(i) Non-bank Mainland exposures (continued)**

	On-balance sheet exposure '000	Off-balance sheet exposure '000	Total '000
<b>2016</b>			
1. Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	59,459	-	59,459
2. Local governments, local government-owned entities and their subsidiaries and JVs	67,853	-	67,853
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	-	-	-
4. Other entities of central government not reported in item 1 above	-	-	-
5. Other entities of local governments not reported in item 2 above	-	-	-
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	171,208	121,263	292,471
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	61,822	1,779	63,601
	<b>360,342</b>	<b>123,042</b>	<b>483,384</b>
Total assets after provision	2,221,731	-	-
On-balance sheet exposures as percentage of total assets	16.22%	-	-
<b>2015</b>			
1. Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	59,558	-	59,558
2. Local governments, local government-owned entities and their subsidiaries and JVs	41,304	-	41,304
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	-	-	-
4. Other entities of central government not reported in item 1 above	-	-	-
5. Other entities of local governments not reported in item 2 above	-	-	-
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	167,207	93,680	260,887
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	81,626	747	82,373
	<b>349,695</b>	<b>94,427</b>	<b>444,122</b>
Total assets after provision	2,186,740	-	-
On-balance sheet exposures as percentage of total assets	15.99%	-	-

## Habib Bank Zurich (Hong Kong) Limited

### *Unaudited supplementary financial information*

*(Expressed in Hong Kong dollars)*

#### **(j) International claims**

The country risk exposures are prepared according to the location and types of the counterparties as defined by the HKMA under the Banking (Disclosure) Rules with reference to the HKMA's Return of International Banking Statistics. International claims are on-balance sheet exposures to counterparties based on the location of the counterparties after taking into account the transfer of risk, and represent the sum of cross-border claims in all currencies and local claims in foreign currencies. International claims on individual areas, after risk transfer, amounting to 10% or more of the aggregate international claims are shown as below.

As at 31 December 2016	Banks	Official sector	Non-bank private sector		Total
			Non-bank financial institutions	Non-financial private sector	
HK\$ million equivalent					
Developed countries	27	-	-	104	131
Offshore centres	218	-	-	447	665
of which Hong Kong	213	-	-	409	622
Developing Europe	3	-	-	48	51
Developing Latin America and Caribbean	6	-	-	40	46
Developing Africa and Middle East	25	-	-	80	105
Developing Asia and Pacific	431	8	-	283	722
<b>Total</b>	<b>710</b>	<b>8</b>	<b>-</b>	<b>1,002</b>	<b>1,720</b>

As at 31 December 2015	Banks	Official sector	Non-bank private sector		Total
			Non-bank financial institutions	Non-financial private sector	
HK\$ million equivalent					
Developed countries	48	-	-	95	143
Offshore centres	151	-	-	523	674
of which Hong Kong	151	-	-	453	604
Developing Europe	1	-	-	52	53
Developing Latin America and Caribbean	9	-	-	30	39
Developing Africa and Middle East	12	-	-	103	115
Developing Asia and Pacific	466	8	-	220	694
<b>Total</b>	<b>687</b>	<b>8</b>	<b>-</b>	<b>1,023</b>	<b>1,718</b>

## ***Unaudited supplementary financial information***

*(Expressed in Hong Kong dollars)*

### **(k) Corporate governance**

The Bank is committed to high standards of corporate governance, and has complied with the guideline in the supervisory policy manual module CG-1 “Corporate Governance of Locally Incorporated Authorised Institutions” issued by the Hong Kong Monetary Authority (“HKMA”).

#### **(1) Board level Committees**

The Board of Directors has established two board level committees, namely the Board Risk and Compliance Committee and the Board Audit Committee.

##### **(i) Board Risk and Compliance Committee**

The Board Risk and Compliance Committee is responsible for, among other things, the Bank’s risk profile, risk appetite and tolerance, effectiveness of the risk management framework and systems of internal control and compliance. The Committee comprises one independent non-executive director, one non-executive director and one executive director.

##### **(ii) Board Audit Committee**

The main purpose of the Board Audit Committee is to represent and assist the Board of Directors in providing independent review and monitoring of financial reporting process, internal control system, the internal and external audit process and compliance with regulatory requirements. The Committee comprises of one independent non-executive director and one non-executive director.

#### **(2) Specialised Management Committees**

The Board of Directors has established several specialised management committees, namely the Risk and Compliance Management Committee, Credit Committee, Asset & Liability Committee, IT Steering Committee and Human Resources Committee.

##### **(i) Risk and Compliance Management Committee**

The Risk and Compliance Management Committee is entrusted with the task of putting in place systems and procedures that address the prevention of risks emerging or likely to emerge. The Committee identifies all quantifiable and material risk factors and evaluates the adequacy of organisational policies and procedures to manage the risks effectively. The Committee is also responsible for monitoring and reviewing regulatory compliance within the institution. The Committee comprises the Chief Executive, Alternate Chief Executives, Chief Risk Officer, Chief Financial Officer, Chief Compliance Officer and two executives.

## *Unaudited supplementary financial information*

*(Expressed in Hong Kong dollars)*

### **(k) Corporate governance (continued)**

#### (ii) Credit Committee

The Credit Committee is responsible for building and maintaining an infrastructure that promotes growth of a quality loan portfolio and minimises losses within the constraints of established policies and relevant regulations. The Committee approves credit limits up to a defined threshold. It also determines and maintains adequate loan loss allowances. The Committee comprises the Chief Executive, Alternate Chief Executives, Chief Risk Officer, Credit Risk Manager and two executives.

#### (iii) Asset and Liability Committee

The Asset and Liability Committee's principal responsibility is to maintain an effective risk control framework relating to balance sheet structure, liquidity and capital management and market risks while achieving an optimal return. The Committee recommends policy directives to the Board of Directors and provides analytical services relating to funding and investment strategies. The Committee comprises the Chief Executive, Alternate Chief Executives, Chief Risk Officer, Chief Financial Officer and two executives.

#### (iv) IT Steering Committee

The IT Steering Committee is responsible for authorisation of system changes, review of computer hardware/software security and performance, overview of data integrity of transactions and information. The committee comprises the Chief Executive, Alternate Chief Executive, Head of IT, Chief Risk Officer, Chief Financial Officer, Chief Compliance Officer and one executive.

#### (v) Human Resources Committee

The Human Resources Committee is responsible for overseeing various staff management issues like capacity planning practices, succession planning, reviewing compensation and reward policies, performance management schemes, framework for staff promotion and grading, and staff training and development plan. The committee comprises the Chief Executive, Alternate Chief Executives, Chief Financial Officer, Head of Human Resources and two executives.

## Unaudited supplementary financial information

(Expressed in Hong Kong dollars)

### (I) Remuneration system

The Bank has adopted and is committed to promoting a sound and prudent remuneration system in accordance with the guideline in Part 3 of the Supervisory Policy Manual Module CG-5 “Guideline on a Sound Remuneration System” issued by the HKMA.

The Bank recognises that achievement of its mission, vision and strategic objectives depends on the quality and commitment of its staff. The principles of the HBZ Remuneration Policy reflect its goal to attract, retain, motivate and reward quality staff. The guiding principles used to determine the institution-wide remuneration policy are based on sound governance, internal equality, competitiveness, sustainability and conservative approach to risk-taking. The remuneration policy is reviewed annually by the Board of Directors.

To establish the relative merit and worth of each position and ensure equity in remuneration, a performance appraisal system is in place and is consistently applied across all areas of work and responsibilities. Performance of individual employees is based on a set of pre-defined criteria which are determined according to the individual’s designation as well as relevant qualitative and quantitative factors. Promotions and increments are linked to performance appraisals.

The parameters used for allocating cash versus other forms of remuneration depend on the organizational status of the employee. The remuneration package across the organization is structured with a fixed compensation component only. The remuneration package comprises of basic salary, allowances, retirement scheme contributions, bonuses and benefits. A provident fund under the Occupational Retirement Scheme Ordinance is also in place.

The senior management comprises of the Chief Executive and two Alternate Chief Executives while key personnel include two senior executives of the Bank. The aggregate remuneration for senior management and key personnel are shown below in accordance with the disclosure requirement of the afore-mentioned guideline:

	2016		2015	
	Senior Management	Key Personnel	Senior Management	Key Personnel
Fixed Remuneration				
– Cash based	6,350,134	3,427,864	6,224,708	3,386,844
– Retirement scheme contributions	371,389	216,946	360,977	213,430
– Benefit in kind	600,000	-	600,000	-

Benefit in kind represents provision of the Bank’s residential apartment. No sign-on awards or severance payments were made to the senior management or key personnel during the year.

## Habib Bank Zurich (Hong Kong) Limited

### *Unaudited supplementary financial information*

*(Expressed in Hong Kong dollars)*

The capital requirements on each class of exposures calculated under the basic (credit risk) approach at the balance sheet date can be analysed as follows:

#### Classes of exposure

	2016	2015
	'000	'000
Sovereign	634	640
Bank	18,431	16,121
Corporate	74,442	72,848
Other exposures which are not past due	9,229	9,495
Past due	6,962	8,024
Total capital requirements for on-balance sheet exposures	<b>109,698</b>	<b>107,128</b>
Trade-related contingencies	4,971	4,697
Exchange rate contracts	-	-
Total capital requirements for off-balance sheet exposures	4,971	4,697
	<b>114,669</b>	<b>111,825</b>

#### Capital charge

The capital charge for operational risk calculated in accordance with the basic indicator approach at the balance sheet date is:

	2016	2015
	'000	'000
Capital charge for operational risk	<b>15,527</b>	<b>16,583</b>

*List of branches*

**Head Office and Main Branch**

	17/F, Wing On House, 71 Des Voeux Road, Central, Hong Kong
Tel:	(852) 2521 4631
Fax:	(852) 2810 4477
Swift:	HFLIHKHHXXX
Email:	mainoffice@hbzhongkong.com
Website:	www.hbzhongkong.com

**Kowloon Branch**

	Unit 1 & 20, 12/F, Lippo Sun Plaza, 28 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong
Tel:	(852) 2376 0211
Fax:	(852) 2375 7629
Swift:	HFLIHKHHXXX
Email:	kowloon@hbzhongkong.com

**Lai Chi Kok Branch**

	Unit C, 25/F, Billion Plaza II, 10 Cheung Yue Street, Cheung Sha Wan, Kowloon, Hong Kong
Tel:	(852) 2480 6786
Fax:	(852) 2480 0804
Swift:	HFLIHKHHXXX
Email:	laichikok@hbzhongkong.com

**Kwun Tong Branch**

	Unit G, 29/F., Legend Tower, 7 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong.
Tel:	(852) 2389 3808
Fax:	(852) 2389 5895
Swift:	HFLIHKHHXXX
Email:	kwuntong@hbzhongkong.com

**Hung Hom Branch**

	8/F, 805, Hunghom Com. Centre B, 37 Ma Tau Wai Road, Hung Hom, Kowloon, Hong Kong.
Tel:	(852) 2627 1185
Fax:	(852) 2627 1135
Swift:	HFLIHKHHXXX
Email:	hunghom@hbzhongkong.com

# Habib Bank Zurich (Hong Kong) Limited

## *Services we offer*

We offer a wide range of financial services for Foreign Trade related activities. Our growth and successful operations are singularly fueled by our commitment to provide fast service and a rapid response to our customers' needs. Flexibility and capability to tailor make products to meet and anticipate emerging needs are the trade marks our customers have come to appreciate.

### **Our products include:**

#### **Corporate Financial Services**

- Multi-currency Deposits
- Foreign Exchange
- Letters of Credit & Guarantees
- Post Import Finance
- Pre-shipment Finance
- Export Documents Purchase and Discounting
- Accounts Receivable Financing
- Revolving and Term Loans
- Documentary Collection
- International Payments
- Customised Trade Solutions
- Trade Information and Access to International Network of Correspondent Banks

#### **Financial Institutional Services**

- Letters of Credit Advising and Confirmation
- Negotiation and discounting of Documents under Letters of Credit
- Rediscounting of Bankers Acceptances / Forfaiting
- Buyers Credit

