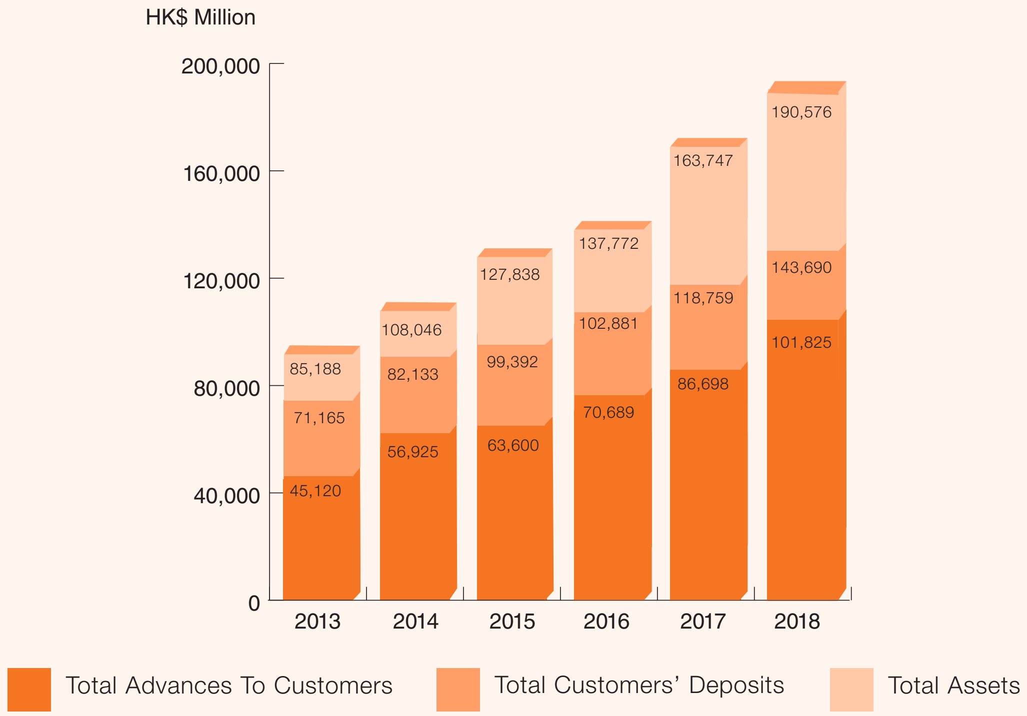
創興銀行有限公司
Chong Hing Bank Limited

Stock Code : 1111

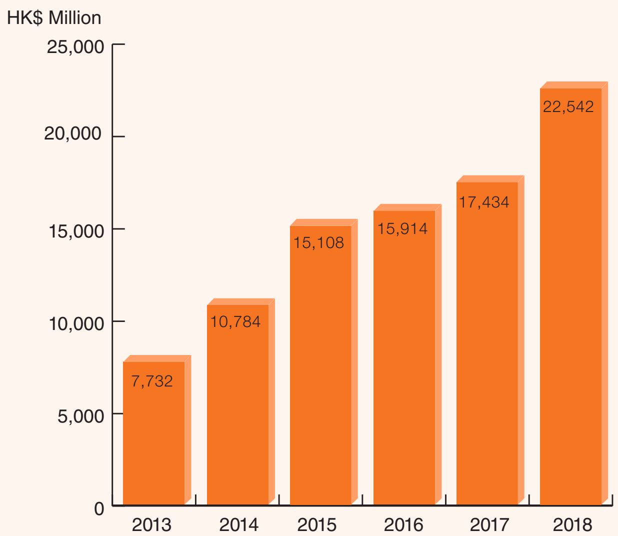
創造富強 興盛未來

2018 ANNUAL REPORT

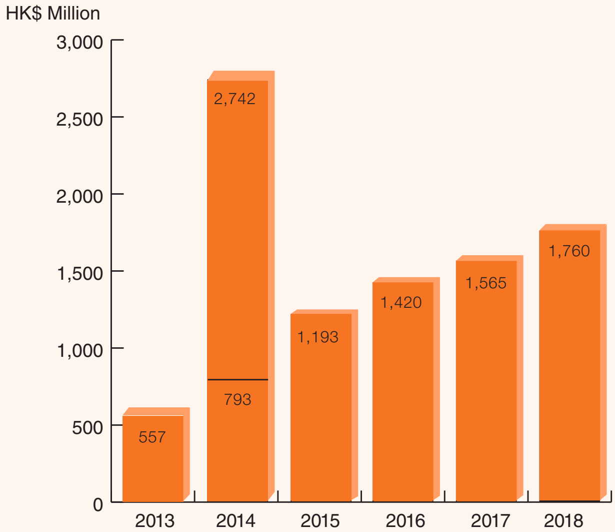
Total Advances To Customers / Total Customers' Deposits / Total Assets



Total Equity



Profit Attributable To Equity Owners



FINANCIAL SUMMARY

	2013 *HK$ Million*	2014 *HK$ Million*	2015 *HK$ Million*	2016 *HK$ Million*	2017 *HK$ Million*	2018 *HK$ Million*
Advances to customers	45,120	56,925	63,600	70,689	86,698	101,825
Total customers deposits	71,165	82,133	99,392	102,881	118,759	143,690
Total assets	85,188	108,046	127,838	137,772	163,747	190,576
Total liabilities	77,456	97,262	112,730	121,858	146,313	168,033
Total equity	7,732	10,784	15,108	15,914	17,434	22,542
Profit attributable to equity owners *(Note)*	557	2,742	1,193	1,420	1,565	1,760

Note: In 2014, profit attributable to equity owners amounted to HK$2,742 million and after excluding the profit from the sale of Chong Hing Bank Centre, amounted to HK$793 million.

CORPORATE INFORMATION

as of 28 February 2019

BOARD OF DIRECTORS

Executive Directors

Mr ZONG Jianxin *(Deputy Chairman and Chief Executive)*
Mr LAU Wai Man *(Deputy Chief Executive)*

Non-executive Directors

Mr ZHANG Zhaoxing *(Chairman)*
Mr LI Feng
Mr CHOW Cheuk Yu Alfred BBS, JP
Ms CHEN Jing

Independent Non-executive Directors

Mr CHENG Yuk Wo
Mr MA Chiu Cheung Andrew
Mr LEE Ka Lun
Mr YU Lup Fat Joseph

BOARD COMMITTEES

Audit Committee

Mr CHENG Yuk Wo *(Chairman)*
Mr CHOW Cheuk Yu Alfred BBS, JP
Ms CHEN Jing
Mr LEE Ka Lun
Mr YU Lup Fat Joseph

Connected Party Transactions Committee

Mr MA Chiu Cheung Andrew *(Chairman)*
Mr CHOW Cheuk Yu Alfred BBS, JP
Mr CHENG Yuk Wo
Mr CHAN Kam Ki Vincent *(Chief Financial Officer)*
Mr HSU Rockson *(Chief Risk Officer)*

Nomination Committee

Mr YU Lup Fat Joseph *(Chairman)*
Mr ZHANG Zhaoxing
Mr CHENG Yuk Wo
Mr MA Chiu Cheung Andrew

Remuneration Committee

Mr YU Lup Fat Joseph *(Chairman)*
Mr ZHANG Zhaoxing
Mr CHOW Cheuk Yu Alfred BBS, JP
Mr MA Chiu Cheung Andrew
Mr LEE Ka Lun

Risk Committee

Mr LEE Ka Lun *(Chairman)*
Mr LI Feng
Mr CHENG Yuk Wo
Mr YU Lup Fat Joseph

SENIOR MANAGEMENT

Mr FUNG Siu Ming *(Deputy Chief Executive)*
Mr CHAN Kam Ki Vincent *(Chief Financial Officer)*
Mr HSU Rockson *(Chief Risk Officer)*
Mr CHIU Tak Wah Edward *(Chief Operating Officer)*
Mr CHUNG Siu Kuen *(Head of Personal Banking Division)*
Ms CHAN Yun Ling *(Head of Financial Markets Division)*
Ms MA Yuen Lai Barbara *(Head of Hong Kong Corporates Division)*
Mr SIN Tat Wo *(Head of Mainland Corporates Division)*
Ms LAM Pik Ha, Eliza *(Head of Financial Institutions Division)*
Ms CHAN Oi Hung Blanche *(Head of Human Resources Division)*
Ms LAI Wing Nga *(Company Secretary)*

as of 28 February 2019

REGISTERED OFFICE

Address	: Ground Floor, Chong Hing Bank Centre 24 Des Voeux Road Central, Hong Kong
Telephone	: (852) 3768 1111
Facsimile	: (852) 3768 1888
SWIFT BIC	: LCHB HK HH
Website	: www.chbank.com
E-mail	: info@chbank.com

Smartphone quick website access code

PRINCIPAL LEGAL ADVISERS

Deacons
Kwan & Chow
Mayer Brown JSM
Robertsons

AUDITOR

PricewaterhouseCoopers

SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited

STOCK CODES AND SHORT NAMES

The Stock Exchange of Hong Kong Limited's Stock Codes and Short Names in respect of the Bank's (1) shares, (2) subordinated notes due 2020, (3) undated non-cumulative subordinated additional tier 1 capital securities and (4) tier 2 subordinated notes due 2027 are (1) 01111 (CHONG HING BANK), (2) 04327 (CH BANK N2011), (3) 05804 (CH BANK UCS) and (4) 05249 (CH BANK N2707) respectively.

as of 28 February 2019

BOARD OF DIRECTORS

Front (from left to right): CHOW Cheuk Yu Alfred, LAU Wai Man, ZHANG Zhaoxing, ZONG Jianxin, YU Lup Fat Joseph
Back (from left to right): CHEN Jing, MA Chiu Cheung Andrew, LI Feng, CHENG Yuk Wo, LEE Ka Lun

Executive Directors

Mr ZONG Jianxin

aged 52, was appointed Deputy Managing Director and Head of China Business of the Bank in May 2015 and ceased to act as Deputy Managing Director in May 2018. Mr Zong has been appointed an Executive Director, the Chief Executive and the Deputy Chairman of the Bank since September 2015, April 2017 and May 2018, respectively. He also acted as Alternate Chief Executive of the Bank from May 2016 to April 2017. Mr Zong has been appointed an Executive Director of Yuexiu Financial Holdings Limited (the immediate holding company of the Bank) ("Yuexiu Financial Holdings") since November 2015 and the Deputy Chairman and the Chief Executive of Yuexiu Financial Holdings since May 2018. He acted as Alternate Chief Executive of Yuexiu Financial Holdings from June 2016 to May 2018. He has been a Director and the Chief Executive of Chong Hing Finance Limited, a wholly-owned subsidiary of the Bank, since August 2017. Mr Zong has more than 20 years of banking experience, specialising in corporate banking, international business and investment banking business. He was an Executive Director and Alternate Chief Executive of Industrial and Commercial Bank of China (Asia) Limited ("ICBC Asia") from October 2010 to May 2015, and was also a Director of various subsidiaries of ICBC Asia from December 2010 to May 2015. Mr Zong held various positions in Industrial and Commercial Bank of China Limited, Shenzhen Branch from October 1999 to December 2009, with his last position as the Vice President of the Branch from June 2006 to December 2009. Mr Zong holds a Master Degree in Business Administration awarded by Shanghai Jiao Tong University.

as of 28 February 2019

Mr LAU Wai Man

aged 60, has been appointed an Executive Director of the Bank since August 2001 and was appointed as Deputy Managing Director in May 2016, and such title was changed to Deputy Chief Executive of the Bank in May 2018. Mr Lau also acts as Alternate Chief Executive of the Bank. He has been an Executive Director and Alternate Chief Executive of Yuexiu Financial Holdings since February 2014 and appointed as Deputy Chief Executive since May 2018. Mr Lau is also a Director of all the subsidiaries of the Bank. Mr Lau holds a Bachelor of Law degree and a Master of Business Administration degree. He is a Vice President of the Council of the Hong Kong Institute of Bankers, a Certified Financial Planner[CM] and a member of the Hong Kong Institute of Certified Public Accountants. He was a fellow of the Association of Chartered Certified Accountants and a senior associate of the Australian Institute of Bankers. Mr Lau joined the Bank as the Chief Auditor in 1988, and was Deputy Chief Executive Officer from July 2007 to March 2013 and Chief Executive Officer from March 2013 to May 2016. Before joining the Bank, he had worked for an international bank and a global accounting firm.

Non-executive Directors

Mr ZHANG Zhaoxing

aged 55, has been appointed the Chairman and a Non-executive Director of the Bank since February 2014. Mr Zhang is the Chairman of Guangzhou Yue Xiu Holdings Limited ("GZYX Holdings") and Yue Xiu Enterprises (Holdings) Limited ("YX Enterprises"). Mr Zhang holds an Executive Master of Business Administration degree awarded by Huazhong University of Science and Technology and possesses the qualification of senior accountant in China. He has extensive experience in the financial management, industrial operation, capital operation and corporate culture development of large enterprises. Prior to joining YX Enterprises in 2008, Mr Zhang was the Director and General Manager of Guangzhou Radio Group Co., Ltd., Chairman and General Manager of Haihua Electronics Enterprise (China) Corporation, Chairman of Guangzhou Guangdian Real Estate Development Co., Ltd. and a Director of GRG Banking Equipment Co., Ltd. (Stock Code: 002152), a company listed on the Shenzhen Stock Exchange. He was also an Executive Director, the Vice Chairman and the Chairman (appointed since July 2013) of Yuexiu Property Company Limited (Stock Code: 00123) ("Yuexiu Property") from July 2008 to August 2018, a company listed on the Stock Exchange, and General Manager from July 2008 to March 2014. Mr Zhang is a deputy to the 12th National People's Congress of the People's Republic of China.

Mr LI Feng

aged 50, has been a Non-executive Director of the Bank since February 2014. Mr Li is the Chief Capital Officer of GZYX Holdings and YX Enterprises, managing the Capital Department, Customer Resource Management and Synergy Department and Information Centre of GZYX Holdings and YX Enterprises, mainly responsible for formulating and implementing major capital management plans, organizing and coordinating the investor relationship of listed companies, optimizing and upgrading the customer resource management and synergy, and facilitating and enhancing the development of information technology, etc. Mr Li is also a Non-executive Director and the Chairman of Yuexiu Financial Holdings and a Director of Guangzhou City Construction & Development Co., Ltd. He is an Executive Director of Yuexiu Property and Yuexiu Transport Infrastructure Limited (Stock Code: 01052) ("Yuexiu Transport"), both of which are listed on the Stock Exchange; a Non-executive Director of Yuexiu REIT Asset Management Limited (the Manager of Yuexiu Real Estate Investment Trust (Stock Code: 00405), which is listed on the Stock Exchange); and a Director of Guangzhou Yuexiu Financial Holdings Group Co., Ltd. (formerly known as GuangZhou Friendship Group Co., Ltd.), a company listed on the Shenzhen Stock Exchange (Stock Code: 000987). Mr Li graduated from the Faculty of Naval Architecture and Ocean Engineering of South China University of Technology majoring in Naval Architecture, and obtained a Master of Business Administration degree from Jinan University. He holds the qualification of a Senior Engineer in China and the certificate in Major Administrative Decision-Making and Argumentation (廣州市重大行政決策論證專家) conferred by the Guangzhou Municipal Government. Mr Li is also the President of the Association of Guangzhou Belt and Road Investment Enterprises, the Secretary-general of the Council for the Promotion of Guangzhou-Hong Kong-Macao Cooperation, a Director of the Guangzhou People's Association for Friendship with Foreign Countries and the Vice-president of the Listed Companies Council, Hong Kong Chinese Enterprises Association. Mr Li joined YX Enterprises in December 2001 and has successively held positions in GZYX Holdings and YX Enterprises, including the Assistant to General Manager, Assistant Manager of Corporate Management Department, Assistant to General Manager of Supervision and Auditing Department, Deputy General Manager of Capital Department, and Deputy General Manager of Yue Xiu International Development Limited. Mr Li is familiar with business of listed companies and the operations of capital markets. Since 2008, he has participated in all of the major capital operation projects of GZYX Holdings and YX Enterprises; before that, he was also involved in the successful listing of Yuexiu Real Estate Investment Trust, and has extensive practical experience in capital operations.

Mr CHOW Cheuk Yu Alfred BBS, JP

aged 68, has been a Board member of the Bank since February 2003, and was re-designated from Independent Non-executive Director to Non-executive Director of the Bank in September 2004. Mr Chow has been a Non-executive Director of Yuexiu Financial Holdings since February 2014. He is also the Chairman and a Non-executive Director of Chong Hing Insurance Company Limited ("Chong Hing Insurance"), a wholly-owned subsidiary of the Bank. He graduated from The University of Hong Kong with a Bachelor of Laws degree and a Master of Social Sciences (Public Administration) degree. With 17 years' working experience in the civil service and over 30 years as a solicitor, Mr Chow is presently the senior partner of Kwan & Chow, Solicitors in Hong Kong. He is also a China-Appointed Attesting Officer. Mr Chow is a director and legal advisor of Hong Kong Chiu Chow Chamber of Commerce Limited and Federation of HK Chiu Chow Community Organizations Limited; and legal advisor to Jao Tsung-I Petite Ecole Fan Club and various community bodies. He was the Chairman of the HKSAR Passports Appeal Board and Chief Adjudicator of the Registration of Persons Tribunal, and currently serves on other statutory boards.

Ms CHEN Jing

aged 47, has been a Non-executive Director of the Bank since August 2018. Ms Chen is the Chief Financial Officer and General Manager of the Finance Department of GZYX Holdings and YX Enterprises. Ms Chen is an Executive Director and Chief Financial Officer of Yuexiu Property and an Executive Director of Yuexiu Transport. She is also the Chairman of the Board of Directors of Yue Xiu Securities Holdings Limited and a Non-executive Director of Yuexiu Financial Holdings.

Ms Chen graduated from the Xi'an Jiaotong University with a major in auditing, and holds a Master of Business Administration Degree from the School of Management and Economics of the Beijing Institute of Technology and the qualifications of auditor and certified internal auditor. Ms Chen joined GZYX Holdings in July 2004 and was the Deputy General Manager of the Supervisory (Audit) Office and the General Manager of the Audit Department. Ms Chen has participated in building a system to monitor the major risks of GZYX Holdings. Ms Chen is well versed in risk management and internal control management of listed companies and has extensive experience in establishing a sound system for risk management and internal control for enterprises. Prior to joining GZYX Holdings, Ms Chen worked in the School of Business of Hubei University and Hisense Kelon Electrical Holdings Company Limited (formerly known as "Guangdong Kelon Electrical Holdings Company Limited").

Independent Non-executive Directors

Mr CHENG Yuk Wo

aged 58, has been an Independent Non-executive Director of the Bank since September 2004. He has also been an Independent Non-executive Director of Yuexiu Financial Holdings since February 2014. He has been an Independent Non-executive Director of Chong Hing Insurance since May 2017. Mr Cheng, a co-founder of a Hong Kong merchant banking firm, is currently the proprietor of a certified public accountant practice in Hong Kong. Mr Cheng obtained a Master of Science (Economics) degree in Accounting and Finance from the London School of Economics, England and a Bachelor of Arts (Honours) degree in Accounting from the University of Kent, England. He is a fellow of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants, and a member of the Institute of Chartered Professional Accountants of Canada. Mr Cheng has more than 30 years of expertise in financial and corporate advisory services in mergers, acquisitions and investments. He had worked at Coopers and Lybrand (now known as PricewaterhouseCoopers) in London and Swiss Bank Corporation (now known as UBS AG) in Toronto, and held senior management positions in a number of Hong Kong listed companies.

In addition to his directorship in the Bank, Mr Cheng is also an Independent Non-executive Director of a number of companies listed on the Stock Exchange, including CSI Properties Limited (Stock Code: 00497), HKC (Holdings) Limited (Stock Code: 00190), C.P. Lotus Corporation (Stock Code: 00121), Goldbond Group Holdings Limited (Stock Code: 00172), CPMC Holdings Limited (Stock Code: 00906), Top Spring International Holdings Limited (Stock Code: 03688), Liu Chong Hing Investment Limited (Stock Code: 00194), Chia Tai Enterprises International Limited (Stock Code: 03839), DTXS Silk Road Investment Holdings Company Limited (formerly known as UDL Holdings Limited) (Stock Code: 00620), Miricor Enterprises Holdings Limited (Stock Code: 01827), Somerley Capital Holdings Limited (Stock Code: 08439) and Kidsland International Holdings Limited (Stock Code: 02122). Besides, Mr Cheng was an Independent Non-executive Director of Imagi International Holdings Limited (Stock Code: 00585), a company listed on the Stock Exchange, from July 2010 to January 2016.

as of 28 February 2019

Mr MA Chiu Cheung Andrew

aged 77, has been an Independent Non-executive Director of the Bank since August 2007. Mr Ma has also been an Independent Non-executive Director of Yuexiu Financial Holdings since February 2014. He has been an Independent Non-executive Director of Chong Hing Insurance since January 2018. Mr Ma is a founder and former director of AMA CPA Limited (formerly known as Andrew Ma DFK (CPA) Limited). He is presently a Director of Mayee Management Limited and also a Director of several other private companies. Mr Ma has more than 40 years' experience in the fields of accounting, auditing and finance. He received his Bachelor's degree in Economics from The London School of Economics and Political Science (University of London) in England. Mr Ma is a fellow member of the Institute of Chartered Accountants in England and Wales, the Hong Kong Institute of Certified Public Accountants, The Hong Kong Institute of Directors and The Taxation Institute of Hong Kong.

In addition to his directorship in the Bank, Mr Ma is also an Independent Non-executive Director of a number of companies listed on the Stock Exchange, including Asia Financial Holdings Limited (Stock Code: 00662), China Resources Power Holdings Company Limited (Stock Code: 00836), C.P. Pokphand Co. Ltd. (Stock Code: 00043), Asiaray Media Group Limited (Stock Code: 01993) and C-MER Eye Care Holdings Limited (Stock Code: 03309).

Mr LEE Ka Lun

aged 63, has been an Independent Non-executive Director of the Bank since February 2014. Mr Lee has been an Independent Non-executive Director of Yuexiu Financial Holdings since November 2013. He is also an Independent Non-executive Director of Yuexiu Property, Chow Sang Sang Holdings International Limited (Stock Code: 00116), Medicskin Holdings Limited (Stock Code: 08307), Ever Harvest Group Holdings Limited (Stock Code: 01549) and Best Mart 360 Holdings Limited (Stock Code: 02360), all of which are listed on the Stock Exchange. He was an Independent Non-executive Director of REXLot Holdings Limited (Stock Code: 00555), a company listed on the Stock Exchange, from April 2007 to June 2018. Mr Lee is an accountant by profession and is a Fellow of the Association of Chartered Certified Accountants in the UK. He has over 20 years of experience in banking and auditing.

Mr YU Lup Fat Joseph

aged 71, has been an Independent Non-executive Director of the Bank since August 2015. Mr Yu has been an Independent Non-executive Director of Yuexiu Financial Holdings since August 2015. He is also an Independent Non-executive Director of Yuexiu Property. Mr Yu holds a Master Degree in Applied Finance from Macquarie University in Australia, a Diploma of Management Studies from The University of Hong Kong and a Diploma from the Association of International Bond Dealers. Mr Yu was the Founding President of the Hong Kong Forex Club from 1974 to 1975. Mr Yu was also the Founding Deputy Chairman of the Hong Kong Capital Markets Association and Asia Chairman of the Association of International Bond Dealers. Mr Yu has held numerous senior managerial and advisory positions and has more than 40 years of experience in investment, banking and finance.

Note: The directorships held by the Directors in the subsidiaries of the Bank (where applicable) are set out in the "List of names of the directors of Chong Hing Bank Limited and its subsidiaries" posted on the Bank's website (www.chbank.com/en/about-ch-bank/investor-relations/directors-list/index.shtml).

SENIOR MANAGEMENT

Mr FUNG Siu Ming

aged 66, has been the Deputy Managing Director of the Bank since September 2017, and such title was changed to Deputy Chief Executive of the Bank in May 2018. Mr Fung has also been an Alternate Chief Executive of the Bank since December 2017, and an Alternate Chief Executive of Yuexiu Financial Holdings and Chong Hing Finance Limited since December 2017 and February 2018, respectively. Prior to joining the Bank, Mr Fung was the Executive Director, Alternate Chief Executive and Chief Risk Officer of the Hong Kong subsidiary of a large-size China banking group until his retirement in April 2014, and served as an advisor of that banking Group from September 2014 to September 2017 and the Compliance Officer of the Hong Kong Branch of the same group from April 2015 to September 2017. Except for a brief period, Mr Fung had been a Non-executive Director of a China-incorporated bank of the same group operating in Shenzhen since October 2011 until September 2017. Mr Fung holds a Bachelor's Degree in Social Sciences from The University of Hong Kong. He has more than 40 years of local banking experience specialised in bank lending and credit risk management.

Mr CHAN Kam Ki Vincent

aged 56, Executive Vice President, has been the Chief Financial Officer of the Bank since April 2017. Mr Chan graduated from The Chinese University of Hong Kong and obtained a Master Degree in Applied Finance from Macquarie University, Australia. He is a fellow of the Hong Kong Institute of Certified Public Accountants and a member of the Institute's Banking Regulatory Advisory Panel, a member of the American Institute of Certified Public Accountants, a designation holder of the Chartered Institute of Management Accountants and a Certified Internal Auditor of The Institute of Internal Auditors. Mr Chan has more than 30 years of auditing and financial controllership experience in the financial services industry. He worked for an international accounting firm and held regional roles in major cities of several international banks and senior positions in regional and local banks prior to joining the Bank.

Mr HSU Rockson

aged 49, Executive Vice President, has been the Chief Risk Officer of the Bank since September 2015. Mr Hsu has more than 27 years of risk management experience in foreign and local banks and possesses sound knowledge in credit risk management in China and various business segments. Prior to joining the Bank, he was Deputy Risk Officer of a local bank. Mr Hsu graduated from New York University, USA and obtained a Bachelor of Science degree in Finance and International Business.

Mr CHIU Tak Wah Edward

aged 56, Executive Vice President, has been the Chief Operating Officer of the Bank since May 2017. He is also a Director of various subsidiaries of the Bank. He graduated from Kings College London, University of London, and obtained a Master (Econ) degree from London School of Economics and Political Science, University of London. Mr Chiu has more than 29 years' experience in banking, financial services and management consultancy in the Asia Pacific region, Europe and China while working for several leading financial institutions. Prior to joining the Bank, he was a General Manager, Head of Operations of a leading Chinese bank, and held different senior positions in major financial institutions.

as of 28 February 2019

Mr CHUNG Siu Kuen
aged 55, Executive Vice President, has been the Head of Personal Banking Division since joining the Bank in August 2018. Mr Chung holds a degree of Doctor of Business Administration awarded by The Hong Kong Polytechnic University, a Master Degree of Business and Administration awarded by the University of Birmingham, and a Bachelor of Laws degree awarded by the University of Wolverhampton in the United Kingdom. Mr Chung possesses about 30 years of working experience in the financial services industry, and has worked in various local and foreign banks in Hong Kong overseeing retail banking business. Mr Chung has extensive management experience in wealth management business, consolidated channel management, as well as deposit and loan products.

Ms CHAN Yun Ling
aged 52, Executive Vice President, has been the Head of Financial Markets Division since April 2015. She holds a Bachelor of Arts degree from The Chinese University of Hong Kong, and had pursued studies in France and the U.K. Specialising in financial markets business, Ms Chan has worked in major financial hubs including Hong Kong, Tokyo, Singapore, Shanghai and Taiwan, in charge of financial markets related activities in various financial institutions.

Ms MA Yuen Lai Barbara
aged 52, Executive Vice President, joined the Bank in March 2017 as Deputy Head of Hong Kong Corporates Division and has been appointed the Head of Hong Kong Corporates Division since March 2018. Ms Ma has more than 25 years of experience in corporate banking with U.K., U.S. and local financial institutions and has worked in London, New York and Hong Kong. Over her career, she has possessed experience in managing a broad spectrum of clients from a wide range of industries. Ms Ma obtained a Bachelor of Science (Economics) degree in International Relations from The London School of Economics and Political Science.

Mr SIN Tat Wo
aged 48, Executive Vice President and the Head of Mainland Corporates Division. Mr Sin graduated from Hong Kong Baptist University with a Bachelor degree in Business Administration. He has more than 20 years of experience in the banking industry in Hong Kong and China. He worked for a number of major Chinese Banks in their corporate, commercial and investment banking departments. Mr Sin joined the Bank in December 2015.

Ms LAM Pik Ha, Eliza
aged 57, Executive Vice President and the Head of Financial Institutions Division. Ms Lam has over 30 years of experience in corporate and institutional banking business and has held different senior positions with various international banks in managing corporate and institutional clients in the Asia Pacific region. Ms Lam obtained a postgraduate diploma in international marketing of the Society of Business Practitioner (U.K.). Ms Lam joined the Bank in September 2018.

Ms CHAN Oi Hung Blanche

aged 54, Executive Vice President and the Head of Human Resources Division. Ms Chan is a seasoned human resources practitioner with over 25 years of experience and held senior and head positions with international, regional and local banks in Hong Kong. Ms Chan received a Bachelor of Social Sciences degree in Economics from The University of Hong Kong and a Master degree in Business Administration from The Chinese University of Hong Kong. Ms Chan joined the Bank in July 2016.

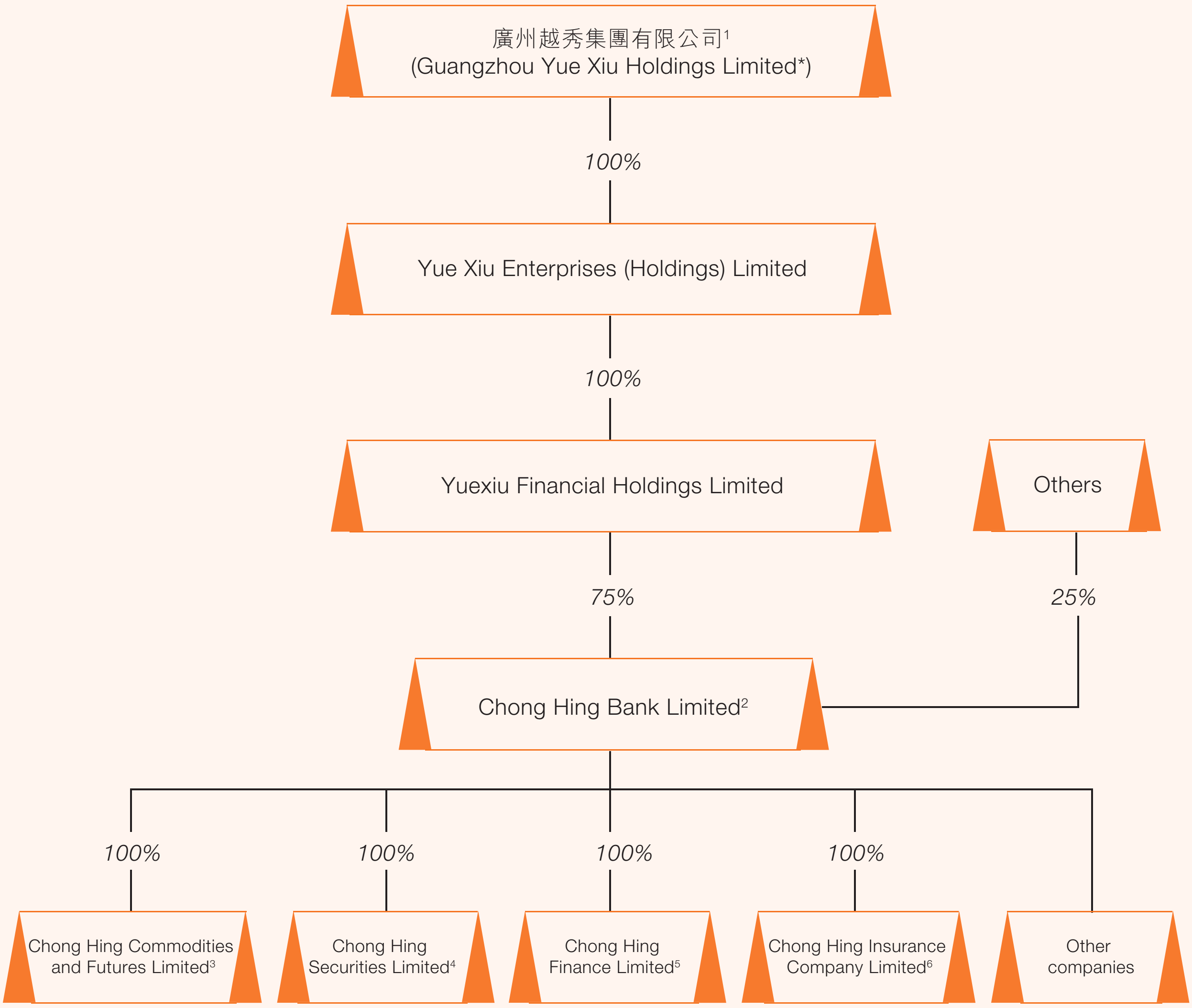
Ms LAI Wing Nga

aged 54, Executive Vice President, has been appointed the Company Secretary of the Bank since August 2015. Ms Lai has had over 25 years of working experience in the corporate secretarial and governance areas of sizable listed companies and financial institutions. Prior to joining the Bank, Ms Lai was the company secretary of AIA Group Limited from April 2010 to July 2015, which is a company listed on the Stock Exchange (Stock Code: 01299). She was the company secretary of Standard Chartered Bank (Hong Kong) Limited from April 2005 to March 2010 and before that was the company secretary of Industrial and Commercial Bank of China (Asia) Limited from April 2000 to April 2005. Ms Lai obtained a master of business degree from The University of Newcastle in Australia. She also obtained a postgraduate diploma in corporate finance from The Hong Kong Polytechnic University. Ms Lai is a fellow of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the U.K.

Note: The directorships held by the Senior Management in the subsidiaries of the Bank (where applicable) are set out in the "List of names of the directors of Chong Hing Bank Limited and its subsidiaries" posted on the Bank's website (www.chbank.com/en/about-ch-bank/investor-relations/directors-list/index.shtml).

ABRIDGED CORPORATE STRUCTURE

as of 28 February 2019



[1] *Wholly state-owned enterprise under the supervision of the State-owned Assets Supervision and Administration Commission of the Guangzhou Municipal People's Government*

[2] *Listed on The Stock Exchange of Hong Kong Limited*

[3] *Registered with The Hong Kong Futures Exchange Limited as a participant*

[4] *Registered with The Stock Exchange of Hong Kong Limited as a participant*

[5] *Licensed under the Hong Kong Banking Ordinance as a deposit-taking company*

[6] *Licensed under the Insurance Ordinance as an insurance company*

* *for identification purpose only*

as of 28 February 2019

14 August 2018	Interim results for the first half of 2018 announced
9 October 2018	Interim cash dividend for 2018 of HK$0.17 per share paid
28 February 2019	Final results for the year of 2018 announced
10 to 16 May 2019 (both days inclusive)	Register of Members will be closed for the purpose of ascertaining entitlements to attend and vote at the 2019 Annual General Meeting
17 May 2019	2019 Annual General Meeting will be held
24 to 28 May 2019 (both days inclusive)	Register of Members will be closed for the purpose of ascertaining entitlements to receive the final cash dividend for 2018
4 June 2019	If approved by Shareholders at the 2019 Annual General Meeting, the final cash dividend for 2018 of HK$0.41 per share will be payable to Shareholders whose names appear on the Register of Members of the Bank on 28 May 2019

Mr Zhang Zhaoxing
Chairman

2018 was a year of steady growth for Chong Hing Bank Limited (the "Bank" or "Chong Hing Bank"). Embracing the core values of "Exceed Excel", Chong Hing Bank managed to achieve satisfactory performance by steadfastly implementing its five-year strategic plan, maintaining a clear focus on its strategic vision and constantly striving for dynamic development. The year 2018 was also memorable for Chong Hing Bank as one in which it celebrated its 70th anniversary and successfully secured a new strategic investor. Furthermore, the Bank's plan to fully grasp the opportunities arising from the Guangdong-Hong Kong-Macao Greater Bay Area (the "Greater Bay Area") development plan has gained much support and recognition from a variety of sectors.

I am pleased to announce that, in 2018, Chong Hing Bank's core businesses and overall financial position remained strong, its asset quality was sound and the profitability of core businesses was enhanced. Operating profit after impairment allowances amounted to HK$1,959 million. Profit attributable to equity owners amounted to HK$1,760 million, an improvement of 12.5% from last year, and earnings per share were HK$2.14. To properly balance sharing of success and preserving capital for future growth, the Board has recommended the payment of a final cash dividend of HK$0.41 per share for the year. The total dividend payout for the year as a percentage of this adjusted profit attributable to equity owners less distribution paid on the additional equity instruments will be 39.08%.

The major financial ratios for 2018 are as follows:

- Return on shareholders' equity: 9.47%
- Average liquidity maintenance ratio: 44.49%
- Total capital ratio as of 31 December 2018: 19.01%
- Tier 1 capital ratio as of 31 December 2018: 15.19%
- Loan to deposit ratio as of 31 December 2018: 67.95%

The global economy in 2018 was complicated by a series of factors. The market showed concern about the economic outlook as a result of the Sino-US trade conflicts, the slowing growth momentum of major economies, and Brexit. With the downward pressure on the Mainland China's economy, the growth in the Mainland's Gross Domestic Product (GDP) slowed to 6.6% for 2018. However, the growth of Guangzhou's economy remained stable and its commercial, industrial and other major sectors have been developing steadily under an enhanced economic structure. In the "2018 Global Financial Centres Index" published in September 2018, Guangzhou ranked among the world's top 20 for the first time, qualifying it as a significant international financial hub.

The Greater Bay Area development plan is a major decision and strategy of China and a new milestone on its road map to the new era of opening up the economy. The Yuexiu Group, based in Guangzhou, is committed to becoming an important platform company in the world-class economic cluster of the Greater Bay Area, well positioned to contribute significantly to the development of the area. As a core member of the financial sector of the Yuexiu Group, Chong Hing Bank will continue to take full advantage of the resources of the substantial shareholder and the strong support of its new strategic shareholder Guangzhou Metro. This will enable the Bank to proactively deepen the regional synergies between Guangdong and Hong Kong, support the development of the real economy and enhance cross-border financial services capabilities. The Bank will seize the historic opportunity brought by the Greater Bay Area initiative and endeavour to realise its vision of becoming "an integrated commercial bank with cross-border expertise".

In the Top World Banks 2018 released by "The Banker", Chong Hing Bank ranked among the top 500 in the world, representing a landmark achievement. In achieving the goals of China's "National 13th Five-Year Plan", innovation continues to be a key development strategy. For traditional banks, Fintech is bound to further bring about major reform opportunities. Therefore, Chong Hing Bank will accelerate the pace of its Fintech development, allocate more resources to promote digital transformation and optimise its electronic channel platforms. These will include new mobile payment technologies and biometric verification technologies, further enhancing service and customer experience. This combination of financial and technological advances will provide a wider scope for the development of Chong Hing Bank.

The year 2019 will see both challenges and opportunities. Uncertainties about the global economy and turbulence in the international environment will continue to bring challenges to the banking industry. On the other hand, with the People’s Republic of China marking its 70th anniversary this year, extra effort will be devoted to financial reforms, new policies are expected and fresh opportunities for the financial sector will be created. Chong Hing Bank will pay close attention to all changes in the market environment, strengthen risk prevention and controls on all fronts, seek progress amidst stability, and strive to scale new heights in its business and operational performance. At the same time, Chong Hing Bank will continue to set up its Mainland network and make every effort to establish a Shanghai Branch in a timely manner as the first key step to entering the national market. It will then move towards the goal of establishing a Mainland incorporated bank and solidly build into an integrated commercial bank with nationwide operations.

Finally, I would like to express my heartfelt gratitude to all the Directors for their valuable guidance and unwavering support, to the management team and the entire Bank staff for their persistent dedication, and to our shareholders, customers and business partners for their trust. I am convinced that under the concerted efforts of Chong Hing Bank colleagues, we will continue to maintain our strategic focus, operate with prudence and in full compliance, and proactively seize opportunities for further development, achieving quality business growth.

Zhang Zhaoxing
Chairman

Hong Kong, 28 February 2019

Mr Zong Jianxin
Chief Executive

ECONOMIC ENVIRONMENT

In 2018, major economies around the world saw weakened growth momentum in the second half of the year, rendering a significant rise in downside risks. The US economy experienced a sustained recovery, with a year-on-year increase of 3.4% in its third-quarter Gross Domestic Product (GDP). The US Federal Reserve Board delivered four rate hikes in 2018, and a slower pace of hikes is expected. China and the US had disputes over trade issues since June, which undermined confidence in the global economy and investment sentiment. Both parties reached an agreement in December to suspend new tariffs, while the development of subsequent negotiations will continue to affect the atmosphere of the global financial market. In the Eurozone, amid a number of political and economic risk incidents, GDP growth for the year slowed to 1.8%.

The economic growth in Mainland China slowed down amid the Sino-US trade friction. GDP for the year grew by 6.6%, which was basically in line with expectations. Amidst the complicated and critical external environment, the economic structure of Mainland China will continue to be transformed so that domestic demand becomes the major driving force in stabilising the economy. Among core cities in the Pearl River Delta region, Guangzhou continued to enjoy a steady improvement in its economy with GDP growth of 6.2% for the year, while Shenzhen sustained rapid development, driven by the speedy growth of high-tech and other industries, with GDP growth of 7.6% for the year. The exchange rate of RMB experienced extreme volatility throughout the year. Onshore RMB (CNY) fell by 5.15% against the US dollar for the year due to, among other things, the Sino-US trade friction and the US dollar trend.

With unfavourable external factors on the rise, Hong Kong's GDP grew by 3.0% in 2018. For foreign trade, the total exports of goods and exports of services have grown at a much slower pace since September, increasing by 3.5% and 4.9% respectively. Private consumption expenditure increased by 5.6% due to stable domestic demand as well as favourable employment and income conditions. Overall investment expenditure rose by 2.2%. However, business sentiment in Hong Kong has become more cautious in recent months. In September, banks in Hong Kong increased their prime rates in response to the US rate hikes. For the property market, which was affected by the external environment and rising interest rates, the 28-month bull run in the private residential property price index came to an end in August. By December, property prices had fallen by 9.6% from their height. The rising trend of the Hong Kong stock market for two consecutive years ended, as evidenced by the downward fluctuations of the Hang Seng Index during the year since its historic high reached in January. The Hang Seng Index fell to 25,845 on the last trading day of 2018, plunging by 13.6% for the year.

RESULTS ANNOUNCEMENT AND PROFIT ANALYSIS

The results for the financial year of 2018 of the Bank, on a consolidated basis, are summarised below:

Key Financial Data

		31 December (12 months)		
		2018	2017	Variance
		HK$'000	*HK$'000*	
1.	Operating profit after impairment allowances	**1,959,023**	983,413	+99.21%
2.	Profit attributable to equity owners	**1,760,387**	1,564,867	+12.49%
3.	Net interest income	**2,879,962**	2,317,128	+24.29%
4.	Net fee and commission income	**384,494**	327,471	+17.41%
5.	Net income (loss) from trading and investments	**248,155**	(93,938)	+364.17%
6.	Other operating income	**173,506**	158,895	+9.20%
7.	Operating expenses	**1,548,840**	1,353,633	+14.42%
8.	Net impairment losses on financial assets	**178,254**	372,510	-52.15%
			(Restated)	

		As of 31 December 2018	As of 31 December 2017	Variance
		HK$'000	*HK$'000*	
9.	Loans and advances to customers	**101,825,227**	86,698,372	+17.45%
10.	Deposits from customers	**143,690,294**	118,758,674	+20.99%
11.	Investments in securities	**46,986,126**	39,153,501	+20.00%
12.	Total assets	**190,575,638**	163,747,114	+16.38%

Key Financial Data

		31 December (12 months)		
		2018	2017	Variance
		HK$'000	*HK$'000*	*(Note (3))*
13.	Return on shareholders' equity *(Note (1))*	**9.47%**	9.89%	-0.42pp
14.	Earnings per share *(Note (2))*	**HK$2.14**	HK$2.16 (Restated)	-0.93%
15.	Net interest margin	**1.73%**	1.52%	+0.21pp
16.	Cost to income ratio	**42.02%**	49.96%	-7.94pp
17.	Average liquidity maintenance ratio	**44.49%**	40.73%	+3.76pp

		As of 31 December 2018	As of 31 December 2017	Variance
		HK$'000	*HK$'000*	
18.	Impaired loan ratio	**0.35%**	0.46%	-0.11pp
19.	Non-performing loan ratio	**0.35%**	0.56%	-0.21pp
20.	Loan to deposit ratio	**67.95%**	70.85%	-2.90pp
21.	Net assets value per share (excluding additional equity instruments and before the final dividend)	**HK$20.80**	HK$23.18	-10.27%
22.	Total capital ratio	**19.01%**	17.60%	+1.41pp
23.	Tier 1 capital ratio	**15.19%**	13.30%	+1.89pp
24.	Common Equity Tier 1 capital ratio	**13.44%**	11.30%	+2.14pp

Notes:

(1) Return on shareholders' equity took into consideration the distribution paid on the additional equity instruments relevant for the period.

(2) Earnings per share was calculated after deducting the distribution paid on the additional equity instruments in the relevant year and the earnings per share for the year ended 31 December 2017 has been restated to take into account the placement of shares and rights issue of the Bank completed in the third quarter of 2018.

(3) pp means percentage point.

ANALYSIS OF KEY FINANCIAL DATA

In 2018, profit attributable to equity owners of the Bank amounted to HK$1,760 million, representing an increase of 12.5% compared to 2017.

The increase in consolidated profit for the year was mainly attributable to a widened net interest margin and higher non-interest income as well as lower impairment allowances on financial assets. Net interest income increased by 24.3% year-on-year to HK$2,880 million. The improvement in net interest income was achieved mainly through growth of loans and advances and widened net interest margin. Net interest margin at 1.73% was 21 basis points more than the same period last year, resulting from the rise in HKD and USD money market interest rates as well as proactive assets and liabilities rates management.

Net fee and commission income improved by 17.4% to HK$384 million, which was mainly attributable to the handling fees of loans as well as commission from wealth management and credit card services.

Net income from trading and investments at HK$248 million was due to RMB depreciation resulting in a FX translation gain of HK$61 million, foreign currency funding swap activities, trading income and customer FX transactions contribution.

Loans and advances to customers increased by HK$15.1 billion to HK$101.8 billion, with noticeable growth in term loans and syndication loans. With careful management of credit risk exposure, asset quality of loans and advances continued to be good with both impaired loan ratio and non-performing loan ratio at 0.35%.

Deposits from customers increased by 21.0% to HK$143.7 billion. The Bank continued to maintain a stable deposit base, allowing the Bank to balance loan growth and investment in debt securities, as well as wealth management and cross-border financial business needs.

Total assets increased by 16.4% to HK$190.6 billion. As at 31 December 2018, 84.2% of the Bank's assets were based in Hong Kong.

As a result of proactive management of assets and liabilities, the Bank's liquidity remained stable, the loan to deposit ratio was 67.95%, and the liquidity maintenance ratio was an average of 44.49%.

Total capital ratio was at 19.01%, the Tier 1 capital ratio was at 15.19% and the Common Equity Tier 1 capital ratio was at 13.44%.

Overall, the Bank's core business lines, financial positions and asset quality are strong, while impaired loan ratio remains low. Capital adequacy ratio and liquidity maintenance ratio are above the relevant statutory requirements.

DIVIDEND

To properly balance sharing of success with preserving capital for future growth, the Board has recommended the payment of the final cash dividend of HK$0.41 per share for the financial year of 2018 (2017 final cash dividend: HK$0.39 per share). Subject to the approval of shareholders at the forthcoming annual general meeting of the Bank, the final cash dividend will be paid on Tuesday, 4 June 2019 to the shareholders whose names appear on the register of members of the Bank on Tuesday, 28 May 2019. Total dividends for the financial year of 2018, including the interim cash dividend of HK$0.17 per share paid on 9 October 2018 (2017 interim cash dividend: HK$0.15 per share), amounted to HK$0.58 per share (2017 total dividends: HK$0.54 per share). The total dividend payout for the year as a percentage of adjusted profit attributable to equity owners less distribution paid on the additional equity instruments will be 39.08% (2017: 38.46%).

COMPLETION ON ISSUE OF NEW SHARES UNDER GENERAL MANDATE AND RIGHTS ISSUE

With active support from the substantial shareholder Yuexiu Group, the Bank successfully completed the allotment of new shares under the subscription agreement with Guangzhou Metro Investment Finance (HK) Limited ("GZ Metro") on 21 August 2018, under which GZ Metro subscribed for 70,126,000 shares of the Bank (the "Subscription Shares") at approximately HK$1 billion. The allotment and issue of the Subscription Shares represented approximately 9.7% of the Bank's total number of issued shares as enlarged by the allotment and the subscription price per Subscription Share was HK$14.26. On 24 September 2018, the Bank completed the rights issue at a subscription price of HK$14.26 per rights share, on the basis of one rights share for every two shares held on 30 August 2018. A total of 249,900,094 rights shares were subscribed with proceeds of more than HK$3.5 billion.

The allotment and rights issue raised a total net proceeds of more than HK$4.5 billion, providing the Bank with abundant capital and effectively improving its capital adequacy ratio and liquidity maintenance ratio, which supported the ongoing growth of the Bank's business. Moreover, with the regional network, client resources and relationships of our new strategic investor GZ Metro in the Guangdong Province, it is believed that the Bank could enjoy significant synergies, complementing the Bank's development strategies in the Greater Bay Area. Meanwhile, the credit rating agency Moody's also upgraded the Bank's long-term deposit rating from Baa2 to Baa1.

BUSINESS REVIEW

Corporate Banking

Chong Hing Bank provides a full range of banking products and professional services for its corporate customers in Hong Kong and Mainland China, including business loans, trade finance, cash management and financial markets solutions.

The Bank pays constant attention to the needs of customers. In close collaboration with units across its business operation, the Bank supports its corporate customers with value-added services such as employee banking, MPF and wealth management, aiming to provide a one-stop banking services platform. In addition to its participation in the "SME Loan Guarantee Scheme" of the HKSAR Government, the Bank also whole-heartedly supports the "SME Financing Guarantee Scheme" offered by HKMC Insurance Limited.

In recent years, the Bank has achieved a remarkable performance in the syndication loan business and successfully elevated its brand name in the region. In 2018, the Bank obtained mandates to act as book runner to structure and offer syndicated loans jointly with regional peer banks to three corporate group customers. In addition, the Bank won mandates to lead onshore-offshore syndicated loans jointly with local and international banks for two renowned private equity funds. For the full year, the Bank completed 20 syndicated loans and acted as a lead arranger for five of them. In addition, the Bank proactively enhanced the quality of loan asset portfolio and improved relevant return via secondary market transactions. Moreover, the Bank has reached a new milestone in its structured finance business, as evidenced by completion of several transactional deals to help clients with business restructuring, cross-border acquisition and refinancing.

Being an integrated commercial bank offering cross-border expertise, and leveraging on its competitive edge in network interaction between Hong Kong and the Mainland, the Bank provides a variety of cross-border financial products and services to accommodate customers' funding requirements in the Greater Bay Area. It also effectively manages their interest rate and exchange risks through its treasury product portfolio. The Bank will proactively seize the opportunities arising from the development of the Greater Bay Area to expand vigorously its cross-border target customers. It will also continue to improve the professional standard of its customer services to cater to the integrated financial needs of its customers.

Personal Banking

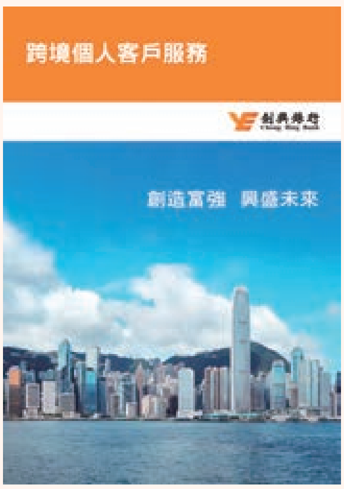
The Bank provides a wide range of personal wealth management services to its customers, including deposits, mortgage loans, automobile loans, credit cards, wealth management and personal banking. Committed to serving both Hong Kong and cross-border personal customers in Guangdong and Hong Kong with quality banking services and products, our personal banking team actively grows its wealth management customer base by deepening existing relationships and organising a number of promotional activities.

In 2018, the personal banking business continued to record steady growth:

- Total deposits of personal banking grew by 14% and the number of affluent customers with assets exceeding HK$1 million rose by 32% as compared with 2017. Our loan business maintained stable growth, with loan quality staying at a healthy level.

- Investment business saw strong momentum in the first half of the year, but was impacted by a downturn in market sentiment during the latter half. Despite market uncertainties, the Bank remained active in developing its business and implemented a series of measures to improve customer experience. In addition to launching a new online/mobile banking fund trading platform, enhancing foreign exchange trading channels, and increasing the number of wealth management products, the Bank has introduced high-end medical insurance plans and optimised life insurance services. As a result, commission income from wealth management and life insurance products sales rose by 28% year-on-year, continuing the double-digit growth for the third year.

- In respect of the credit card business, the Bank has launched a number of targeted promotions and rewards programmes to attract new customers and push up the credit card use rate. The Bank will continue to provide mobile payment services corresponding to market needs in order to increase the transaction convenience for customers and merchants. Credit card commission income saw strong 126% growth year-on-year, attributed to the efforts devoted to improving merchant services.



The Bank provides new fintech products and services to enhance service quality and customer experience.

Financial Markets Business

The Bank is committed to developing its financial markets business and has seen significant growth in areas such as treasury, product development, and customer business. Trading business has successfully been established in recent years. Our ability to provide quotations has been enhanced within the risk tolerance limit, and market share has expanded, leading to additional revenue for the Bank.

With regard to the treasury business, the Bank aims at optimising the balance sheet by effectively applying a variety of financial instruments while complying with established risk appetite, risk limits and ensuring a safe liquidity level. The Bank continued to focus on fine-tuning its investment strategy to enhance its asset quality.

The Bank has been progressively completing the build-up of its product and marketing team, which comprises personnel with substantial financial market experience. Meanwhile, the Bank actively enriches its financial products and offers appropriate advice and services suiting the financial needs of different types of corporate and personal customers, thereby increasing its market share and fee income.

In 2018, the Bank set a five-year development plan for its asset management business. Going forward, its asset management products and business will be gradually deepened and enriched in tandem with customer portfolio development.

Mainland Operations

In 2018, the Bank's Mainland branches and sub-branches enjoyed impressive growth. With a growing variety of product series, the customer base was continuously consolidated, its internal process was constantly optimised and its information system and risk management were continuously enhanced and strengthened, achieving steady growth in asset scale and significant enhancement in operating efficiency.

Cross-border business broke new ground. Based on the launch of the "Guangzhou and Hong Kong Pass" commercial service in the first half of the year, the Bank took a further step in launching another commercial service in the second half of the year. This is the "Shenzhen-Hong Kong Stock Connect", expanding our cross-border commercial service coverage from two free trade zones, namely Nansha and Hengqin, to Guangzhou, Shenzhen and Zhuhai. In addition, the Bank took advantage of its outlets across Guangdong and Hong Kong to launch the Hong Kong account opening agency service in the Mainland, providing customers with quality and convenient value-added services. The Bank also optimised the corporate account-opening process and promoted the account-opening appointment services, providing convenient financial services to our corporate customers.

The Bank's institutions business remained in good shape and continued to receive support from the Guangzhou Municipal Government with fiscal deposits. In collaboration with the Guangzhou Public Resources Trading Center and the Provident Fund Center, the Bank successfully launched its land security deposit business and provident fund deposit business, providing the Bank with new sources of deposits.

The corporate banking business also enjoyed favourable development in the year. The Bank promoted the steady growth of corporate deposits by establishing a system for marketing deposit services, taking forward key projects, launching new deposit products and promoting and applying new-generation internet banking in the Mainland. The Bank achieved effective improvement in scale and revenue by actively optimising corporate credit accounts, strengthening performance appraisal, enhancing bargaining power and establishing a comprehensive income review and approval mechanism for loans. Fee income also increased as a result of an enriched product portfolio, and expansion of the customer base was accelerated through improving the assessment mechanism for relationship managers.

The Bank's offerings in the financial markets were constantly diversified and it has become a more active market player as a number of new products and services were successfully launched such as pledged repo, interbank lending, bond trading, and interbank discounting of bank acceptance bills. The Guangzhou Branch and Shenzhen Branch successfully hooked on to the network of the national inter-bank bond market and were granted qualifications for the national interbank lending market transaction. The Guangzhou Branch was also approved by the Shanghai Commercial Paper Exchange Corporation Limited to have access to the China Bill Trading System, effectively improving its liquidity management capability and comprehensive use of funding.

Following the successful launch of the new-generation core system in the Mainland in 2017, the Bank officially commenced the operation of its domestic intermediate business platform and domestic new-generation corporate online banking service. The domestic intermediate business platform was designed mainly to serve governmental and institutional customers, aiming to facilitate the Bank in offering safer and more efficient settlement services. The new-generation corporate online banking service was launched in February 2018. Its number of online banking and mobile banking users saw rapid growth following the launch, laying down a solid foundation for the development of the Bank's domestic e-banking business.

To support the national Greater Bay Area strategy, the Bank established the Guangdong-Hong Kong-Macao Bay Area Management Office. The office is responsible for the innovation of the business model and service strategy for the Greater Bay Area, as well as building a cross-border financial integration service system. The Bank also participated in the first strategic cooperation among three banks incorporated in Guangdong, Hong Kong and Macau, promoting the development of the Greater Bay Area with their cross-border financial products and services.

Chong Hing Securities Limited

In the year under review, due to uncertainties such as the Sino-US trade conflicts, the European political turmoil and the interest rate trend, sentiment in the global financial market suffered a setback. Investors tended to be conservative and cautious, contributing to less investment in retail securities and shrinking transactions. Overall turnover of Chong Hing Securities suffered as a result of the weaker market conditions in 2018. However, the amount of fee income and number of new customers increased by 7.5% and 7.6% respectively, as compared with the same period in 2017.

Chong Hing Insurance Company Limited

During the year, general insurance business was highly competitive. The market was impacted by storms of varying strength causing damage and the rainy seasons. The overall market profit of the general insurance business recorded either negative growth or a decline. However, with its conservative approach, Chong Hing Insurance maintained stable operations in this year and recorded a profit in terms of its underwriting and pre-tax results.

Chong Hing Insurance strengthened its links and synergies with Chong Hing Bank's different channels riding on the development of the online platform, and strived to explore new business opportunities in order to achieve better efficiency and results.

Transformation of Business Development

Fintech

In 2018, the Bank successively launched different features in its information technology system, achieving unified management in credit management, credit approval procedure, post-lending management and end-to-end risk pricing, thereby centralising financial information and standardising business procedures. On the Mainland China front, the Bank completed the connection with the Government's resource system, attracting an inflow of government funds and increasing bank income. The Bank also optimised its electronic channel platform to enhance service quality and customer experience.

The Bank established digital banking transformation teams in both Hong Kong and Shenzhen, which not only strengthened its "Financial + Technological" talent team but also kept the Bank abreast of the market trends, enabling the commencement of banking business on mobile device and internet platforms. The new fintech products and services are as follows:

- The first bank in Hong Kong to launch JETCO Pay P2M.
- One of the first banks to launch the "Faster Payment System", introduce mobile banking and online fund trading services and develop the Open Application Programming Interface (Open API).
- One of the first local banks in Hong Kong to provide SWIFT GPI (Global Payments Innovation) cross-border remittance services.
- The first bank in Hong Kong to join the JP Morgan Interbank Information Network, IIN.

Process Banking

The Bank continued to optimise "process banking", in order to enhance customer experience, strengthen service quality, shorten end-to-end time in the process, and to effectively control and lower operational risks. The following are the key projects in 2018:

- Setting up an "Outstanding Service Award Scheme" in recognition of employees whose customer service is of high and consistent standard, and whose goal is to exceed customers' expectations.

- Successfully reducing operating cost through the "Cost Reduction Plan" and the "Green Office Plan".

- Establishing a Centralised Transaction Services Department to focus on transactions and business in line with the Bank's goal of "freeing up frontline production capacity and improving operational efficiency". The Bank's services for new commercial customers, such as "new account opening in five days" and "bank confirmation issuance in three days", were leading the industry, and customers can make an appointment for opening an account through the Bank's website.

70TH ANNIVERSARY

Established in 1948, Chong Hing Bank has developed from a small-scale local Chinese bank into a listed bank offering a comprehensive range of financial management services. For seven decades, Chong Hing Bank has persisted in sound operations and strives to provide quality services. The Bank has established a strong bond and long-standing relationship with its customers built on trust.

To commemorate the 70th anniversary of Chong Hing Bank, a series of celebratory activities were held in 2018 to share the joy with the public, including:

- The 70th Anniversary Cocktail Reception of Chong Hing Bank, which was successfully held on 14 November and attended by approximately 760 guests including Mrs Carrie Lam Cheng Yuet-ngor, Chief Executive of the HKSAR, Mr Wen Guohui, Mayor of Guangzhou, and Mr Zhang Zhaoxing, Chairman of Chong Hing Bank, as guest speakers. Also present were government officials of Hong Kong and Guangzhou, and friends from the commercial and community sectors.

- The successful publication of monograph "Exceed Excel – 70th Anniversary of Chong Hing Bank" (《不斷超越，更加優秀－創興銀行邁向七十周年》), which reviewed the development of Chong Hing Bank over 70 years.

- For publicity purposes, the Bank conducted interviews with a number of senior employees and long-term clients and published a series of articles entitled "Celebrating Success With You" (有您，最值得慶祝), in which they shared their stories with Chong Hing Bank. In addition, the Bank launched its 70th anniversary corporate advertising campaign in Hong Kong and Mainland China to enhance the corporate brand image of Chong Hing Bank.

- Sponsorship of secondary students' visit to the Jockey Club Life Journey Centre, organising an Elderly Visiting Day with the Senior Citizen Home Safety Association, and supporting the Child Development Fund Scheme organised by the Labour and Welfare Bureau.

- The Ocean Park Fun Day of Chong Hing Bank, attended by about 3,000 people, including employees of the Bank, their families and customers.

CORPORATE RESPONSIBILITY

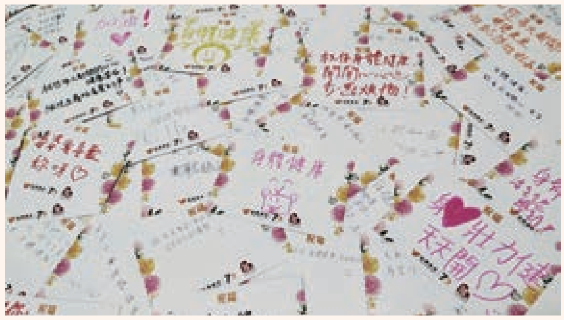
To achieve its corporate mission, "To benefit Community", the Bank has committed itself to improving the well-being of the community and is an enthusiastic supporter of charitable causes while at the same time developing business. It actively supports and engages in the activities of social welfare organisations, environmental organisations and cultural groups, conveys love and care to the public and helps create a better community.

Community and Art Events

- In March, the Bank participated in the "Earth Hour 2018" environmental protection activity.

- In September, the Bank engaged in the "'Battling Against 16 Degrees': 1000 People Paper Fan Origami Moving Showroom" held by South China Media; sponsored and participated in the "Parent-child Marshmallow Cupcake Class" held by the Hong Kong Federation of the Blind; and sponsored "Fine Art Asia and Ink Asia 2018", a fair showcasing a wide range of collectable fine art from Asia and the West.

- In October, the Bank sponsored secondary school students to visit the Jockey Club Life Journey Centre and send their blessings and wishes to the elderly.



- In December, the Bank organised 70 volunteers to join the "Sending Peace" visits held by the Senior Citizen Home Safety Association.

Through the Bank's branch network and in its support for numerous charities such as the Community Chest of Hong Kong, Hong Kong Society for the Protection of Children, Po Leung Kuk and Tung Wah Group of Hospitals, the Bank organised a variety of community fund-raising activities, including selling raffle tickets and collecting donations from flag bags on flag-selling day. Furthermore, to contribute to public welfare, the Bank inserted promotional leaflets of charity organisations into its bank mailers sent to customers.

Achievements under Corporate Responsibility

The Bank advocates protection of the environment, supports education and culture as well as assists the disadvantaged through diversified public welfare activities with the hope and expectation of making a significant contribution to society. The Bank strives to fulfil its responsibilities of corporate citizenship, and its achievements in this area were recognised by various sectors of the community. In 2018, it received the following awards and recognition:

- The 10 Years Plus "Caring Company" logo awarded by the Hong Kong Council of Social Service.

- The "Raffle Ticket Selling Competition – First Runner Up in Commercial and Industrial Institutes and Groups Category" title and the "Raffle Tickets Selling Award" presented by the Tung Wah Group of Hospitals.

- The "Environmental, Society and Governance Award 2018" presented by Economic Digest.

- The "Platinum Award" won for the third consecutive year for its compliance with the "Charter on External Lighting" organised by the Environment Bureau of the HKSAR.

- The Certification of CO_2 Reduction in Paper Recycling awarded by Integrated Waste Solutions Group, recognising the enthusiasm of the Bank in reducing paper consumption and promoting waste reduction at source.

- "The Employer of Choice Award 2018" presented by JobMarket.

- The "2018 Listed Companies Distinguished Award" presented by the TVB Finance & Information Channel.

CORPORATE GOVERNANCE

The Bank fully recognises the importance to the sustainable development of the Bank of compliance with relevant regulations and regulatory requirements and the maintenance of good corporate governance standards. Hence the Bank adopts and implements corresponding measures to ensure compliance with relevant regulations and regulatory requirements in order to maintain high-quality corporate governance.

For details of the Bank's corporate governance practices, please refer to the section entitled "Corporate Governance Report" of this Annual Report.

AWARDS

The Bank is committed to providing quality banking services and improving operational efficiency. In 2018, it received the following awards and recognition from professional bodies:

- The "Best SME's Partner Award" from the Hong Kong General Chamber of Small and Medium Business for the tenth time, and was also awarded the "Best SME's Partner Gold Award 2018" during the year.

- Three customer service staff received the 50th "Distinguished Salesperson Award" jointly organised by the Hong Kong Management Association and the Sales and Marketing Executives Club.

- The "Straight Through Processing (STP) Award" of the Australian dollar and New Zealand dollar from Australia and New Zealand Banking Group Limited, won for the first time, for its straight through processing operation ranked in the Best 10 percent among the 950 banking partners of Australia and New Zealand Banking Group Limited.

- The "Straight Through Processing (STP) Award" of the US dollar from the Bank of New York Mellon for the tenth consecutive year.

- Two "Straight Through Processing (STP) Awards" from Citibank, including US dollar wholesale payment services and commercial payment services.

FUTURE DEVELOPMENT

Chong Hing Bank will progressively carry forward its five-year strategic plan and actively allocate resources to strengthen risk management, enhance operation process, promote digital transformation and establish competitive advantages in cross-border business. By so doing the Bank is laying down a solid foundation for its stable and sound development and realising the corporate vision of establishing itself as "an integrated commercial bank with cross-border expertise".

Looking ahead, the Bank will grasp the growth opportunities arising from China's Greater Bay Area development plan, offering distinctive and differentiated cross-border financial products and services, focusing on the corporations and customers in the Greater Bay Area. The Bank will also make full use of the advantages of national licences to actively implement the expansion of branches in the Mainland, further deepen the synergies available and proactively expand its Mainland operation by capitalising on abundant resources of the substantial shareholder Yuexiu Group. It will also continuously optimise the aggregation payment platform functions of e-banking in Hong Kong and the Mainland through construction of the digital banking platform, offering more convenient cross-broader payment, wealth management and financial services for customers in Hong Kong and the Mainland.

APPRECIATION

Having its roots in Hong Kong dating back 70 years, Chong Hing Bank has experienced extraordinary development over the years. I am very honoured to witness the significant milestone of the 70th anniversary of Chong Hing Bank, which has developed from a local Chinese bank into a substantial listed bank, gradually becoming an integrated commercial bank with cross-border expertise. Every step we have taken relies on the support and assistance we received from all sectors of the community. I sincerely thank all those who have cared about and supported Chong Hing Bank over the years. Meanwhile, I would like to express my heartfelt gratitude to all members of the Board for their valuable guidance, and to the management team and all the Bank's staff members for their dedication. Also, I would like to convey my sincere appreciation to the shareholders, business partners and customers who always support and trust the Bank.

Finally, I firmly believe that, based on the solid foundation it has laid down over the past 70 years, Chong Hing Bank will definitely achieve sustained growth and succeed in taking advantage of opportunities as they arise. The Bank will endeavour to put into practice its corporate mission: "To benefit Customers, Employees, Shareholders and Community", creating a rewarding and brilliant future by persisting with reform and innovation and progressing with time.

Zong Jianxin
Chief Executive

Hong Kong, 28 February 2019

The Directors are pleased to present their annual report and the audited consolidated financial statements for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Bank is engaged in the provision of banking and related financial services. The principal activities and other particulars of its principal subsidiaries are set out in note 23 to the consolidated financial statements.

Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance (the “CO”), including a fair review of the business and a description of the principal risks and uncertainties facing the Bank and its subsidiaries (the “Group”), particulars of important events affecting the Group that have occurred since the end of the financial year 2018 (if any), as well as indication of likely future development in the Group’s business are set out in the sections headed “Chairman’s Statement”, “Chief Executive’s Statement” and “Notes to the Consolidated Financial Statements” contained in this Annual Report. Discussions on the environmental policies and performance, compliance by the Group with the relevant laws and regulations that have a significant impact on the Group and an account of the key relationships of the Group with its stakeholders are contained in the “2018 Environmental, Social and Governance Report” (the “ESG Report”), which is an online report available on the websites of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and the Bank. The abovementioned sections and the ESG Report form part of this Report.

BUSINESS PERFORMANCE

The Group’s total operating income (net of interest expense and fee and commission expense) is analysed and reported by significant business classes as follows:

	2018	2017
	HK$’000	*HK$’000*
Corporate and personal banking	**2,722,166**	2,125,600
Financial markets activities	**499,373**	426,800
Securities dealing business	**144,461**	154,834
Others	**320,117**	2,322
	3,686,117	2,709,556

The corporate and personal banking services provided by the Group are principally lending and trade finance facilities, auto financing, consumer financing, overdraft facilities, mandatory provident fund services, provision of fixed deposits, current and savings accounts, credit cards and personal wealth management services. The Group also provides fully automated telephone and internet banking services to its customers. Other banking services offered include remittance and money exchange, safe deposit boxes, autopay and direct debit services.

Financial markets activities mainly comprise inter-bank placement and deposit transactions, management of overall interest rate risk and liquidity of the Group and centralised cash management. Income from foreign exchange activities is generated from services provided to customers in the form of foreign exchange trading and forward contracts, and from the Bank’s cash management activities through foreign currency funding swaps.

Securities dealing activities of the Group include securities trading, stockbroking and futures broking.

Others comprise investment holding, insurance, other investment advisory services and property investments.

MAJOR CUSTOMERS

The Directors believe that the five largest customers of the Group accounted for less than 30% of the total of interest income and other operating income of the Group for the year.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated income statement and the consolidated statement of comprehensive income on pages 79 and 80.

An interim cash dividend of HK$0.17 per share was paid to the shareholders during the year. The Board has recommended the payment of a final cash dividend for the year ended 31 December 2018 of HK$0.41 per share (2017: HK$0.39 per share) to the shareholders whose names appear on the register of members of the Bank on 28 May 2019.

DISTRIBUTABLE RESERVES

The distributable reserves are shown in note 41 to the consolidated financial statements.

PRINCIPAL PROPERTIES

The Group's investment properties were revalued during the year. The net increase in fair value arising on the revaluation, which has been credited directly to the consolidated income statement, amounted to HK$10,250,000. Details of the investment properties of the Group are set out in note 25 to the consolidated financial statements.

Details of the movements in the property and equipment of the Group during the year are set out in note 26 to the consolidated financial statements.

SHARE CAPITAL

Details of the share capital of the Bank are set out in note 32 to the consolidated financial statements. During the year, the Bank has issued an aggregate of 320,026,094 ordinary shares with details as follows:

Issue of New Shares under General Mandate

On 14 August 2018, the Bank entered into a subscription agreement with Guangzhou Metro Investment Finance (HK) Limited ("GZ Metro") pursuant to which the Bank has agreed to allot and issue to GZ Metro 70,126,000 subscription shares at the subscription price of HK$14.26 per subscription share (the "Subscription"). The Subscription was completed on 21 August 2018.

Rights Issue

On 24 September 2018, the Bank had completed a rights issue of 249,900,094 rights shares at the subscription price of HK$14.26 per rights share on the basis of one rights share for every two shares held on 30 August 2018 on a non-underwritten basis (the "Rights Issue"), which have been listed and traded on the Stock Exchange since 26 September 2018. A total of 240,019,500 rights shares had been allotted to Yuexiu Financial Holdings Limited ("Yuexiu Financial Holdings"), being the immediate holding company of the Bank, and Yuexiu Financial Holdings holds 75% of the Bank's total number of issued shares immediately following the completion of the Rights Issue.

The Bank raised a total net proceeds of more than HK$4.5 billion through the Subscription and the Rights Issue, which were used to strengthen the capital base of the Bank, leading to a stronger capital adequacy ratio position to support the ongoing growth of business development.

PURCHASE, SALE OR REDEMPTION OF THE BANK'S LISTED SECURITIES

Neither the Bank nor any of its subsidiaries purchased, sold or redeemed any of the Bank's listed securities during the year.

EQUITY-LINKED AGREEMENTS

Other than the share option scheme as set out in note 35 to the consolidated financial statements, no equity-linked agreements were entered into by the Bank during the year or subsisted at the end of the year. No options have been granted under the said scheme since its adoption in 2012.

DIRECTORS

The Directors of the Bank during the year and up to the date of this Report are:

Executive Directors

Mr ZONG Jianxin	*(Deputy Chairman and Chief Executive)*
Mr LAU Wai Man	*(Deputy Chief Executive)*
Mrs LEUNG Ko May Yee Margaret SBS, JP *(Retired with effect from 18 May 2018)*	*(Deputy Chairman and Managing Director)*

Non-executive Directors

Mr ZHANG Zhaoxing	*(Chairman)*
Mr LI Feng	
Mr CHOW Cheuk Yu Alfred BBS, JP	
Ms CHEN Jing *(Appointed with effect from 15 August 2018)*	
Mr ZHU Chunxiu *(Resigned with effect from 15 August 2018)*	
Mr WANG Shuhui *(Resigned with effect from 18 May 2018)*	

Independent Non-executive Directors

Mr CHENG Yuk Wo
Mr MA Chiu Cheung Andrew
Mr LEE Ka Lun
Mr YU Lup Fat Joseph

Ms Chen Jing, who was appointed Non-executive Director of the Bank on 15 August 2018, shall retire and offer herself for re-election at the forthcoming annual general meeting to be held on 17 May 2019 (the "2019 AGM") in accordance with Article 84 of the Bank's Articles of Association and the Code Provision A.4.2 in the Corporate Governance Code set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

Article 100 of the Bank's Articles of Association stipulates that, among other things, one-third of the Directors for the time being, who have been longest in office since their last election, shall be subject to retirement by rotation and re-election at each annual general meeting. Pursuant to the Code Provision A.4.2 in the Corporate Governance Code set out in Appendix 14 to the Listing Rules, every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. Accordingly, Messrs Zong Jianxin, Zhang Zhaoxing, Li Feng and Yu Lup Fat Joseph shall retire and offer themselves for re-election at the 2019 AGM.

Details of the five Directors to be re-elected at the 2019 AGM are set out in the circular to the shareholders sent together with this Annual Report.

None of the five Directors proposed for re-election at the 2019 AGM has a service contract with the Bank and/or any of its subsidiaries which is not determinable by the Bank within one year without payment of compensation (other than statutory compensation).

STATUS OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Bank has received from each of the Independent Non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Bank still considers all the Independent Non-executive Directors to be independent.

DIRECTORS OF SUBSIDIARIES

Listed below are the names of all the Directors who have served on the boards of the Bank's subsidiaries during the year and up to the date of this Report:

CHAN Man Mei
CHAN Tai On
CHENG Yuk Wo
CHIU Tak Wah Edward
CHIU Yau Sim
CHOW Cheuk Yu Alfred
CHU Shiu Man
CHUN Ka Wing
LAI Kwok Wai Paul(2)
LAU Wai Man
LEE Ka Shing(1)
LEUNG Chan Keung
LEUNG Ko May Yee Margaret(1)
MA Chiu Cheung Andrew
MA Wai Leung
SEI Wing Keen(2)
WONG Wan Hong
YU Kam Ping Alice(1)
ZONG Jianxin

Notes:

(1) Resigned/ceased as a Director of the relevant subsidiary(ies) of the Bank as of 31 December 2018.

(2) Appointed as a Director of the relevant subsidiary(ies) of the Bank during the year of 2018.

A list setting out specifically the directorship of each individual subsidiary of the Bank is updated whenever there are directorate changes and is posted on the Bank's website (www.chbank.com/en/about-ch-bank/investor-relations/directors-list/index.shtml).

DIRECTORS' (INCLUDING THE CHIEF EXECUTIVE'S) INTERESTS AND SHORT POSITIONS

As of 31 December 2018, the interests and short positions of the Directors (including the Chief Executive) in the shares, underlying shares and debentures of the Bank and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO (the "Register"), or as otherwise notified to the Bank and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers under Appendix 10 to the Listing Rules (the "Model Code"), were as follows:

Interests in shares

			Number of ordinary shares held				Percentage of issued
Name of Director	Associated Corporation	Long/short position	Personal interests	Spousal interests	Corporate interests	Total interests	share capital[1]
Li Feng	Yuexiu Property Company Limited	Long	172,900	–	–	172,900	0.001
Lee Ka Lun	Yuexiu Property Company Limited	Long	3,200,000	–	–	3,200,000	0.026
Yu Lup Fat Joseph	Yuexiu Property Company Limited	Long	4,000,000	–	–	4,000,000	0.032

Note:

(1) Based on 12,401,306,631 shares of Yuexiu Property Company Limited issued as at 31 December 2018.

Save as disclosed above, as of 31 December 2018, none of the Directors (including the Chief Executive) had or was deemed to have any other interests or short positions in any shares, underlying shares or debentures of the Bank or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the Register or as otherwise notified to the Bank and the Stock Exchange pursuant to the Model Code. Moreover, as of 31 December 2018, none of the Directors (including the Chief Executive), their spouses or children under 18 years of age was granted, or exercised, any right to subscribe for shares in or debentures of the Bank or any of its associated corporations (within the meaning of Part XV of the SFO).

At no time during the year was the Bank or any of its holding companies, its subsidiaries or its fellow subsidiaries 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, with the exception of the share option scheme as described under the heading "EQUITY-LINKED AGREEMENTS" of this Report.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

Other than those interests disclosed below under the heading "CONNECTED TRANSACTIONS", no transactions, arrangements and contracts of significance in relation to the Group's business to which the Bank or any of its holding companies, its subsidiaries or its fellow subsidiaries was a party and in which a Director of the Bank or an entity connected with a Director (within the meaning of Section 486 of the CO) had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors is interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Bank.

DISCLOSURE OF CHANGES IN DIRECTORS' INFORMATION

Changes in Directors' information since the date of the 2018 Interim Report which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules are set out below:

Name of Director	Change
Mr ZHANG Zhaoxing *Non-executive Director*	• Resigned as Chairman and Executive Director of Yuexiu Property Company Limited (Stock Code: 00123), a company listed on the Stock Exchange, with effect from 14 August 2018
	• Resigned as Chairman and Non-executive Director of Yuexiu Financial Holdings with effect from 16 August 2018
Mr LI Feng *Non-executive Director*	• Appointed as Chairman and Non-executive Director of Yuexiu Financial Holdings with effect from 16 August 2018
Ms CHEN Jing *Non-executive Director*	• Appointed as Non-executive Director of the Bank with effect from 15 August 2018
	• Appointed as Non-executive Director of Yuexiu Financial Holdings with effect from 16 August 2018
Mr LEE Ka Lun *Independent Non-executive Director*	• Appointed as Independent Non-executive Director of Best Mart 360 Holdings Limited* (Stock Code: 02360) with effect from 18 December 2018
Mr ZHU Chunxiu *Former Non-executive Director*	• Resigned as Non-executive Director and Deputy Chairman and a member of the Risk Committee and the Nomination Committee of the Bank with effect from 15 August 2018

* *Listed on the Stock Exchange on 11 January 2019*

The emoluments of the Directors of the Bank on a named basis are set out in note 42 to the consolidated financial statements. Starting from 1 January 2018, the annual fees for the Chairman and members of the Audit Committee, Connected Party Transactions Committee (the "CPT Committee"), Nomination Committee, Remuneration Committee, Risk Committee and Special Board Committee (for an IT Project) (the "SBC") are as follows:

	Audit Committee	CPT Committee	Nomination Committee	Remuneration Committee	Risk Committee	SBC
Chairman	HK$100,000	HK$80,000	HK$80,000	HK$80,000	HK$80,000	HK$100,000
Member	HK$20,000	HK$20,000[(1)]	HK$20,000	HK$20,000	HK$20,000	HK$20,000[(2)]

Notes:

(1) Chief Financial Officer and Chief Risk Officer of the Bank, who also served as members of the CPT Committee, are not entitled to receive the abovementioned membership fee.

(2) Executive Directors of the Bank, who also served as members of the SBC, are not entitled to receive the abovementioned membership fee. The remaining members of the SBC are Mr LEE Ka Lun (being the Chairman of the SBC) and Mr LI Feng.

Other than the information disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

REMUNERATION POLICY

The Bank has set up the Remuneration Committee, responsibilities of which include reviewing and approving the performance-based remuneration packages payable to Directors and Senior Management, if any, by reference to the Bank's corporate goals and objectives.

PERMITTED INDEMNITY

Pursuant to the Bank's Articles of Association, every Director or other officer of the Bank shall be entitled to be indemnified out of the assets of the Bank against any liability (to the extent permitted by the CO) incurred by them or any of them as the holder of any such office or appointment to a person other than the Bank or any of its holding companies, its subsidiaries or its fellow subsidiaries. The Bank has taken out insurance against any liability associated with defending any proceedings which may be brought against the Directors and other officers of the Bank.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS

As of 31 December 2018, the register required to be kept under Section 336 of the SFO showed that the following parties had interests and short positions in the shares and underlying shares of the Bank:

Interests in shares

Name	Long/short position	Capacity	Number of ordinary shares	Percentage of issued share capital[1]
Yuexiu Financial Holdings Limited[2]	Long	Beneficial owner	729,394,500	75
Yue Xiu Enterprises (Holdings) Limited ("YX Enterprises")	Long	Interest of a controlled corporation	729,394,500	75
廣州越秀集團有限公司 (Guangzhou Yue Xiu Holdings Limited*) ("GZYX Holdings")	Long	Interest of a controlled corporation	729,394,500	75

Notes:

(1) Based on 972,526,094 shares of the Bank issued as at 31 December 2018.

(2) Yuexiu Financial Holdings Limited is wholly-owned by YX Enterprises, and YX Enterprises is wholly-owned by GZYX Holdings.

* *for identification purpose only*

Save as disclosed above, the Bank had not been notified of any other interests and short positions in its shares and underlying shares as of 31 December 2018 which were required to be recorded in the register kept under Section 336 of the SFO.

PUBLIC FLOAT

As at the date of this Report, the Bank has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Bank and within the knowledge of the Directors of the Bank.

CONNECTED TRANSACTIONS

i. The connected transactions between the Group and GZYX Holdings and its associates (as defined under Chapter 14A of the Listing Rules) (collectively referred to as the "Yue Xiu Group") during the year under review were as follows:

A. The Bank handled routine banking transactions for the members of the Yue Xiu Group. Services provided by the Bank included cheque clearing, accepting deposits, extending credit facilities, foreign exchange transactions, remittances and other banking and financial services. Such transactions were conducted on normal commercial terms and in the ordinary and usual course of business of the Bank, and are exempt from the relevant disclosure requirements under Chapter 14A of the Listing Rules.

B. As set out in the Bank's announcement dated 25 October 2017, the Bank and Guangzhou Yuexiu Financial Technology Co., Ltd.* (廣州越秀金融科技有限公司) ("Yuexiu Financial Technology") (an associate of GZYX Holdings) entered into an Information Technology Framework Agreement (the "IT Framework Agreement") on 25 October 2017 which governs the provision of various information technology related services (the "IT Services") by Yuexiu Financial Technology and its subsidiaries (the "Yuexiu Financial Technology Group") to the Group. The term of the IT Framework Agreement commenced on 25 October 2017 and shall end on 31 August 2020 (both dates inclusive). The fees charged by the Yuexiu Financial Technology Group for the IT Services to be supplied to the Group under the IT Framework Agreement will be determined with reference to the expected costs to be incurred in the course of provision of the IT Services to the Group, volume and duration of the IT Services required, and the prevailing market prices of the same or similar services offered by independent third parties.

The total fees incurred in respect of the IT Services provided by the Yuexiu Financial Technology Group to the Group during the financial year 2018 were HK$25,707,292, which was within the annual cap of HK$52,110,000 as announced on 25 October 2017.

C. As set out in the Bank's announcement dated 29 November 2016, the Bank and Yuexiu Property Company Limited ("Yuexiu Property") (an associate of YX Enterprises) entered into a Foreign Exchange Transactions Framework Agreement (the "FX Framework Agreement") on 29 November 2016 which governs the foreign exchange transactions (the "FX Transactions") to be entered into between the Group and Yuexiu Property and its subsidiaries (the "Yuexiu Property Group"). The term of the FX Framework Agreement commenced on 29 November 2016 and ended on 31 December 2018 (both dates inclusive). The FX Transactions between the Group and the Yuexiu Property Group adopted the prevailing market prices or rates normally applicable to similar transactions conducted with independent third parties.

Messrs Zhang Zhaoxing, Zhu Chunxiu (resigned as Director of the Bank on 15 August 2018), Li Feng, Lee Ka Lun and Yu Lup Fat Joseph, being common directors of the Bank and Yuexiu Property on the date of the FX Framework Agreement, abstained from voting on the resolutions approving the FX Framework Agreement and the FX Transactions. Save as disclosed above, none of the Directors has any material interest in the FX Framework Agreement and the FX Transactions.

As of 31 December 2018, the aggregate absolute amount of fair value at inception of the FX Transactions recorded as assets/liabilities was HK$9,646,287.21, which was within the annual cap of HK$20 million for the financial year 2018 as announced on 29 November 2016.

D. As set out in the Bank's announcements dated 17 June 2016 and 13 July 2016, the Bank and GZYX Holdings entered into a Foreign Exchange and Financial Markets Transactions Framework Agreement (the "Framework Agreement") on 17 June 2016 which governs the foreign exchange transactions and financial markets transactions (the "FX and FM Transactions") to be entered into between the Group and GZYX Holdings and its non-listed subsidiaries (the "Yuexiu Holdings Private Group"). The term of the Framework Agreement commenced from the date of the Framework Agreement and ended on 31 December 2018 (both dates inclusive). The FX and FM Transactions between the Group and the Yuexiu Holdings Private Group adopted the prevailing market prices or rates normally applicable to similar transactions conducted with independent third parties.

Messrs Zhang Zhaoxing, Zhu Chunxiu (resigned as Director of the Bank on 15 August 2018) and Wang Shuhui (resigned as Director of the Bank on 18 May 2018), being common directors of the Bank and GZYX Holdings on the date of the Framework Agreement, abstained from voting on the resolutions approving the Framework Agreement and the FX and FM Transactions. Save as disclosed above, none of the Directors has any material interest in the Framework Agreement and the FX and FM Transactions.

As of 31 December 2018, the aggregate absolute amount of fair value at inception of the FX and FM Transactions recorded as assets/liabilities was HK$706,698.36, which was within the annual cap of HK$60 million for the financial year 2018 as announced on 13 July 2016.

E. As set out in the Bank's announcement dated 30 November 2015, the Bank and Guangzhou City Construction & Development Co. Ltd. ("Guangzhou City Construction") (an associate of YX Enterprises) entered into a Tenancy Agreement (the "Original Tenancy Agreement") on 30 November 2015 for the lease of Rooms 01-16, 50/F Yuexiu Financial Tower, 28 Zhujiang East Road, Tianhe District, Guangzhou, the People's Republic of China (the "YX Tower Property") for its Guangzhou Branch ("Guangzhou Branch") at a monthly rent of RMB627,578 from 1 December 2015 to 30 November 2016, RMB665,233 from 1 December 2016 to 30 November 2017 and RMB705,147 from 1 December 2017 to 30 November 2018. The Bank was entitled to a rent concession period from 1 December 2015 to 29 February 2016 (the "Rent Concession Period") for rent concession of RMB209,192 from 1 December 2015 to 31 January 2016 and RMB209,194 from 1 February 2016 to 29 February 2016. If the Tenancy Agreement is terminated before its expiry date for reasons not related to Guangzhou City Construction, the Bank will no longer be entitled to such rent concession and the original rent (i.e. RMB627,578) will apply in respect of the Rent Concession Period.

On 30 November 2015, the Bank and Guangzhou Yue Xiu City Construction Jones Lang LaSalle Property Services Co., Ltd. ("GZYX Jones Lang") (an associate of YX Enterprises) entered into a Property Management Agreement (the "Original Management Agreement") for the provision of management services in relation to the YX Tower Property at a monthly management fee of RMB99,568.

Starting from 1 June 2016, Guangzhou Branch replaced the Bank as the tenant of the YX Tower Property and entered into relevant supplemental agreements to the Original Tenancy Agreement and the Original Management Agreement with Guangzhou City Construction (as landlord) and GZYX Jones Lang (as property manager) respectively. Starting from 1 August 2017, Guangzhou Jingyao Real Estate Company Limited ("Guangzhou Jingyao") (a wholly-owned subsidiary of Guangzhou City Construction) replaced Guangzhou City Construction as the landlord of the YX Tower Property and entered into a supplemental agreement with Guangzhou Branch.

The total rents and management fees incurred during the period from 1 January 2018 to 30 November 2018 were within the annual cap of RMB9,215,000 as announced on 30 November 2015.

On 30 November 2018, both the Original Tenancy Agreement and the Original Management Agreement expired.

As set out in the Bank's announcement dated 30 November 2018, Guangzhou Branch and Guangzhou Jingyao entered into a new Tenancy Agreement (the "New Tenancy Agreement") on 30 November 2018 for the lease renewal of YX Tower Property at a monthly rent (inclusive of 5% VAT) of RMB714,486.15 from 1 December 2018 to 30 November 2020 and RMB757,355.55 from 1 December 2020 to 30 November 2021.

On 30 November 2018, Guangzhou Branch and GZYX Jones Lang entered into a new Property Management Agreement for the provision of management services in relation to the YX Tower Property at a monthly management fee of RMB100,761.

The total rents and management fees incurred during the period from 1 December 2018 to 31 December 2018 were within the annual cap of RMB3,360,000 as announced on 30 November 2018.

F. As set out in the Bank's announcement dated 30 June 2017, Guangzhou Tianhe Sub-Branch of the Bank ("Guangzhou Tianhe Sub-Branch") and Guangzhou Yue Xiu City Construction International Finance Centre Co., Ltd. (the "IFC Landlord") (an associate of YX Enterprises) entered into a Tenancy Agreement (the "IFC Tenancy Agreement") on 30 June 2017 for the lease renewal of Unit 103, 1/F Podium, Guangzhou International Finance Centre, House 160, 5 Zhujiang West Road, Tianhe District, Guangzhou, the People's Republic of China and a portion of Unit 203, 2/F Podium, Guangzhou International Finance Centre, House 260, 5 Zhujiang West Road, Tianhe District, Guangzhou, the People's Republic of China (the "IFC Property") at a monthly rent (inclusive of 5% VAT) of RMB128,338.33 from 1 July 2017 to 31 August 2017 (with a monthly rent concession of RMB128,338.33 (tax inclusive) granted by the IFC Landlord), RMB256,675.65 from 1 September 2017 to 30 June 2018, RMB128,338.33 from 1 July 2018 to 31 August 2018 (with a monthly rent concession of RMB128,338.33 (tax inclusive) granted by the IFC Landlord), RMB256,675.65 from 1 September 2018 to 30 June 2019 and RMB269,508.75 from 1 July 2019 to 30 June 2020. If the IFC Tenancy Agreement is terminated before its expiry date for reasons not related to the IFC Landlord, Guangzhou Tianhe Sub-Branch will no longer be entitled to the rent concession granted by the IFC Landlord as described above and will be immediately required to repay the IFC Landlord all the rents payable during the relevant periods.

On 30 June 2017, Guangzhou Tianhe Sub-Branch and GZYX Jones Lang entered into a Property Management Agreement (the "IFC Management Agreement") for the provision of management services in relation to the IFC Property at a monthly management fee of RMB34,720.

To cater for the overall business development needs and planning of the Bank, Guangzhou Tianhe Sub-Branch has been relocated to Units 102-01, 201 and 301, Yuexiu Financial Tower, 28 Zhujiang East Road, Tianhe District, Guangzhou, the People's Republic of China (the "YX Financial Tower Property")# since 18 September 2018 and henceforth the IFC Tenancy Agreement and the IFC Management Agreement were terminated on 18 September 2018. In accordance with the terms of the IFC Tenancy Agreement, Guangzhou Tianhe Sub-Branch had paid RMB1,026,700.58 (being the aggregate amount of (i) the early termination penalty of RMB513,351.30 and (ii) the repayment of the rent concession of RMB513,349.28 for the period from 1 July 2017 to 31 August 2017 and 1 July 2018 to 31 August 2018) to the IFC Landlord as a result of early termination of the IFC Tenancy Agreement.

The total rents and management fees incurred for the financial year 2018 were within the annual cap of RMB3,282,000 as announced on 30 June 2017.

G. As set out in the Bank's announcement dated 29 March 2018, Guangzhou Tianhe Sub-Branch and Guangzhou Jiayao Real Estate Company Limited ("Guangzhou Jiayao") (an associate of YX Enterprises) entered into a Tenancy Agreement (the "YX Financial Tower Tenancy Agreement") on 29 March 2018 for the lease of YX Financial Tower Property at a monthly rent (inclusive of 5% VAT) of RMB166,576.20 from 1 April 2018 to 30 April 2018, RMB166,577.25 from 1 May 2018 to 31 May 2018, RMB333,153.45 from 1 June 2018 to 31 March 2019, RMB166,576.20 from 1 April 2019 to 30 April 2019, RMB166,577.25 from 1 May 2019 to 31 May 2019, RMB333,153.45 from 1 June 2019 to 31 March 2020, RMB166,576.20 from 1 April 2020 to 30 April 2020, RMB166,577.25 from 1 May 2020 to 31 May 2020 and RMB333,153.45 from 1 June 2020 to 31 March 2021. Guangzhou Tianhe Sub-Branch was entitled to a rent concession in an aggregate amount of RMB333,153.45 (inclusive of tax) for the first two months of each year of the lease period. If the YX Financial Tower Tenancy Agreement is terminated before its expiry date for reasons not related to Guangzhou Jiayao, Guangzhou Tianhe Sub-Branch will no longer be entitled to such rent concession and will be required to immediately repay Guangzhou Jiayao the difference between the rents payable during the aforesaid rent concession period and the actual rents paid.

On 29 March 2018, Guangzhou Tianhe Sub-Branch and GZYX Jones Lang entered into a Property Management Agreement for the provision of management services in relation to the YX Financial Tower Property at a monthly management fee of RMB48,743.

On 29 March 2018, Guangzhou Branch and Guangzhou Yuyao Real Estate Company Limited (an associate of YX Enterprises) entered into a Site Agreement for the lease of the rooftop of Yuexiu Financial Tower, 28 Zhujiang East Road, Tianhe District, Guangzhou, the People's Republic of China (the "Site") for display of the Bank's logo at an annual rental fee (inclusive of tax) of RMB800,000.

The total rents, management fees and rental fee of the Site incurred during the period from 1 April 2018 to 31 December 2018 were within the annual cap of RMB4,527,000 as announced on 29 March 2018.

ii. The connected transactions between the Bank and its Directors and their associates during the year under review were as follows:

The Bank handled routine banking transactions for its Directors and their associates, including cheque clearing, accepting deposits, extending credit facilities, foreign exchange transactions, remittances and other banking and financial services. Such transactions were conducted under terms and conditions normally applicable to customers of comparable standing, and are exempt from the relevant disclosure requirements under Chapter 14A of the Listing Rules.

The transactions described in sub-section (i) (comprising items A to G) and sub-section (ii) above are collectively referred to as the "Continuing Connected Transactions" entered into by the Group.

The Bank's external auditor was engaged to report on the Continuing Connected Transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing its findings and conclusions in respect of the Continuing Connected Transactions in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Bank to the Stock Exchange. The Independent Non-executive Directors have reviewed the Continuing Connected Transactions and the auditor's letter and have confirmed that those transactions have been entered into in the ordinary and usual course of business of the Group, on normal commercial terms, and in accordance with the respective agreements governing such transactions on terms that are fair and reasonable and in the interests of shareholders of the Bank as a whole.

Certain related party transactions (the "RPT Transactions") as disclosed under note 39 to the consolidated financial statements constituted connected transactions or continuing connected transactions under the Listing Rules. Such RPT Transactions are either disclosed in sub-section (i) above or exempt from the disclosure requirements under Chapter 14A of the Listing Rules because they are (1) below the de minimis threshold under Rule 14A.76(1) of the Listing Rules or (2) fallen within the exemptions under Rules 14A.87 and 14A.90 of the Listing Rules.

* *for identification purpose only*

\# *The address of YX Financial Tower Property as set out in the Bank's announcement dated 29 March 2018 was Units 101-01, 201 and 301, Yuexiu Financial Tower, 28 Zhujiang East Road, Tianhe District, Guangzhou, the People's Republic of China, which was subsequently corrected as Units 102-01, 201 and 301, Yuexiu Financial Tower, 28 Zhujiang East Road, Tianhe District, Guangzhou, the People's Republic of China.*

MANAGEMENT CONTRACTS

Save for the service contracts, no other contracts concerning the management and/or administration of the whole or any substantial part of the business of the Bank were entered into or subsisting during the year.

DONATIONS

During the year, the Group made charitable and other donations amounting to approximately HK$336,000 (2017: HK$12,000).

CORPORATE GOVERNANCE

Details of the Bank's corporate governance practices are set out in the "Corporate Governance Report" in this Annual Report.

AUDITOR

Messrs PricewaterhouseCoopers shall retire and, being eligible, offer itself for re-appointment as the Bank's auditor at the 2019 AGM.

On behalf of the Board

Zhang Zhaoxing
Chairman

Hong Kong, 28 February 2019

CORPORATE GOVERNANCE PRACTICES

Chong Hing Bank Limited (the "Bank") is an authorised institution supervised by the Hong Kong Monetary Authority (the "HKMA") under the Hong Kong Banking Ordinance (the "Banking Ordinance"). The Bank is committed to maintaining high standards of corporate governance, with a view to safeguarding the interests of shareholders, customers, employees and other stakeholders.

The Bank has applied the principles in the Corporate Governance Code set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the module on "Corporate Governance of Locally Incorporated Authorised Institutions" ("CG-1") under the Supervisory Policy Manual ("SPM") issued by the HKMA to its corporate governance structure and practices.

During the year ended 31 December 2018, the Bank complied with all the applicable code provisions set out in the Corporate Governance Code, except for deviation from the Code Provision A.4.1. Code Provision A.4.1 provides that non-executive directors should be appointed for a specific term, subject to re-election. None of the Non-executive Directors of the Bank was appointed for a specific term; however, all of them are subject to retirement by rotation and re-election at the annual general meeting of the Bank ("AGM") in accordance with the Bank's Articles of Association (the "Articles of Association").

The Bank has adopted its own code for securities transactions by Directors on terms no less exacting than those set out in the Model Code for Securities Transactions by Directors of Listed Issuers under Appendix 10 to the Listing Rules (the "Model Code"). All the Directors confirmed, following specific enquiry by the Bank, that they have complied with the required standards set out in the Model Code and the Bank's own code for securities transactions by Directors throughout the year ended 31 December 2018.

BOARD OF DIRECTORS

Roles and Responsibilities

The Board is ultimately responsible for the sustainable performance of the Bank and its subsidiaries (the "Group"), including the consistent achievement of business plans and compliance with statutory and corporate obligations. It is the ultimate decision-making body for all matters considered material to the Group and operates under defined Terms of Reference. The Board is also responsible for laying down strategic directions of the Group and overseeing their implementation by Senior Management, reviewing the operational and financial performance, and providing oversight to ensure that effective systems of risk management and internal control of the Group are in place. In addition, the Board also plays a leading role in establishing the Group's culture and behavioural standards that promote prudent risk-taking and fair treatment of customers.

While the Board delegates the day-to-day operations and administration of the Bank's business to Senior Management, specific matters are reserved for the Board's consideration and decision under its Terms of Reference, including but not limited to the Group's long-term objectives and strategies, annual business plan and budget, capital planning and management policies, annual and interim financial reporting, major acquisitions and disposals, overall risk management strategy and framework, and corporate governance matters covering the development, implementation and monitoring of the corporate governance policies and practices.

During the year under review, the Board conducted a robust review of the Group's corporate governance framework and updated its Terms of Reference and other Board Committees' Terms of Reference to reflect best practices. The Board also adopted various policies as recommended by the Risk Committee, Remuneration Committee and Executive Committee and reviewed the Bank's compliance with the Corporate Governance Code and the SPMs issued by the HKMA including the necessary disclosures in its reports to the shareholders of the Bank (the "Shareholders").

Chairman and Chief Executive

The roles of the Chairman and the Chief Executive of the Bank are separate, with a clear division of responsibilities as set out in the Board's Terms of Reference.

The Chairman of the Board, who is a Non-executive Director, is responsible for the leadership and effective running of the Board and for ensuring that decisions of the Board are taken on a sound and well-informed basis and in the best interest of the Group.

The Chief Executive, who is an Executive Director, is responsible for implementing the strategies and policies as established by the Board, including all day-to-day operations and administration, within the framework of the Group's policies, reserved powers and routine reporting requirements.

Board Composition

As of 31 December 2018, the Board was made up of 10 members, comprising two Executive Directors, four Non-executive Directors and four Independent Non-executive Directors. There is a strong independent element on the Board that ensures the independence and objectivity of the decisions of the Board, as well as the thoroughness and impartiality of the Board's oversight of the management.

The composition of the Board is well balanced with each Director having sound board level experience and a diverse range of business, banking and professional expertise relevant to the business operations and development of the Group. Biographies of the Directors, which include relationships with the members of the Board, Senior Management and substantial shareholders (as defined in the Listing Rules) of the Bank, are set out in the "Biographical Details of Directors and Senior Management" section on pages 6 to 13 of this Annual Report.

The Bank has received from each of the Independent Non-executive Directors an annual confirmation of his independence. Following the assessment of the independence of the Independent Non-executive Directors in accordance with the guidelines set out in Rule 3.13 of the Listing Rules, the Board confirmed that all Independent Non-executive Directors continue to be independent.

All Directors are expressly identified by reference to their roles and functions and whether they are Executive Directors, Non-executive Directors and Independent Non-executive Directors in all corporate communications of the Bank that disclose their names. An updated list of the Directors (including their roles and functions) is available on the websites of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Bank.

Appointment and Re-election of Directors

The Bank adopts a formal procedure in the selection of new Directors and nomination of retiring Directors for re-election by the Shareholders at general meetings.

The prospective director will first be assessed by the Nomination Committee, taking into account the balance of skills, knowledge, experience and diversity on the Board. Upon receiving the recommendation from the Nomination Committee, the proposed appointment will be considered and approved by the Board after due deliberation.

In accordance with the requirement under the Banking Ordinance, approval from the HKMA will be obtained for the appointment of new Directors.

All new Directors are subject to re-election by the Shareholders at the next AGM. None of the Non-executive Directors of the Bank was appointed for a specific term; however, all Directors are subject to retirement by rotation at the AGM at least once every three years in accordance with the Articles of Association. The retiring Directors shall be eligible for re-election.

Board Process

Board meetings shall be held at least four times a year and no less than once every quarter. Additional Board meetings will be held as and when warranted.

Notice of meetings will be given to all Directors at least 14 days before each regular meeting to give them an opportunity to attend. Meeting agenda and accompanying board papers are sent to all Directors a week before the intended date of a Board meeting.

The Board has a standing agenda of items to ensure that matters relating to overall strategies, business plans, interim and annual results, corporate governance review, risk management and compliance are covered in its meetings at appropriate intervals.

Apart from those regular financial and business performance reports submitted to the Board for deliberation at the regular meetings, the Management provides monthly updates to the Board members with information on the Bank's latest financial performance and any material variance from its annual business plan to enable them to discharge their responsibilities. Management also submits to the Board members regular reports regarding auditor's and regulators' findings and recommendations as well as loans and advances to connected parties for regular review and monitoring, where appropriate.

During the year under review, there were six Board meetings, all of which were convened in accordance with the Articles of Association and attended by the Directors either in person or through electronic means of communication. In addition to the formal Board meetings, the Chairman has regular gatherings with Directors, occasionally without the presence of the Executive Directors and Senior Management, to consider issues in an informal setting. During 2018, a total of 13 Board lunches and dinners were held, and the Chairman held a meeting that was attended only by Non-executive Directors and Independent Non-executive Directors.

All Directors are entitled to have access to board papers and related materials. Where queries are raised by Non-executive Directors, steps will be taken to respond as promptly and fully as possible. Any concerns raised or dissenting views expressed by the Directors in respect of any matter discussed at a Board meeting will be reflected clearly in the minutes. Full minutes are being kept by the Company Secretary and such minutes are open for inspection at any time during office hours on reasonable notice by any Director.

All Directors are entitled to seek independent professional advice for the purpose of discharging their duties at the Bank's expense.

Non-executive Directors have devoted sufficient time and attention to the affairs of the Bank.

The Bank has put in place procedures to deal with Directors' conflict of interest. Directors are required to declare their direct/indirect interests, if any, in any proposed transactions to be considered by the Board and, where appropriate, they should abstain from voting on the proposed transactions and should not be counted in the quorum.

Appropriate Directors' and Officers' liability insurance cover has been arranged to indemnify the Directors and Officers against liabilities arising out of corporate activities. The coverage and the sum insured for 2018/2019 was reviewed and renewed.

Attendance Records

The attendance records of individual Directors at the Board, Board Committee meetings and 2018 AGM held in 2018 are as follows:

	2018 Number of Meetings Attended/Required Meetings to Attend							
	Board	Audit Committee	Connected Party Transactions Committee	Executive Committee	Nomination Committee	Remuneration Committee	Risk Committee	2018 AGM
Names of Directors								
Chairman and Non-executive Director								
Mr ZHANG Zhaoxing	5/6	–	–	–	1/1	2/2	–	1/1
Executive Directors								
Mrs LEUNG Ko May Yee Margaret[(1)]	3/3	–	–	6/6	–	–	–	1/1
Mr ZONG Jianxin	6/6	–	–	15/16	–	–	–	1/1
Mr LAU Wai Man	6/6	–	–	16/16	–	–	–	1/1
Non-executive Directors								
Mr ZHU Chunxiu[(2)]	2/4	–	–	–	1/1	–	3/3	0/1
Mr WANG Shuhui[(3)]	2/3	0/2	–	–	–	–	–	0/1
Mr LI Feng	6/6	–	–	–	–	–	4/4	1/1
Mr CHOW Cheuk Yu Alfred	6/6	3/4	Nil[(5)]	–	–	2/2	–	1/1
Ms CHEN Jing[(4)]	2/2	1/1	–	–	–	–	–	–
Independent Non-executive Directors								
Mr CHENG Yuk Wo	6/6	4/4	Nil[(5)]	–	1/1	–	4/4	1/1
Mr MA Chiu Cheung Andrew	6/6	–	Nil[(5)]	–	1/1	2/2	–	1/1
Mr LEE Ka Lun	6/6	4/4	–	–	–	2/2	4/4	1/1
Mr YU Lup Fat Joseph	6/6	4/4	–	–	1/1	2/2	4/4	1/1

Notes:

(1) Mrs Leung retired as an Executive Director and the Chairman of the Executive Committee with effect from the conclusion of the Bank's AGM held on 18 May 2018.

(2) Mr Zhu resigned as a Non-executive Director and a member of the Nomination Committee and the Risk Committee with effect from 15 August 2018.

(3) Mr Wang resigned as a Non-executive Director and a member of the Audit Committee with effect from the conclusion of the Bank's AGM held on 18 May 2018.

(4) Ms Chen was appointed as a Non-executive Director and a member of the Audit Committee with effect from 15 August 2018.

(5) During the year, the Connected Party Transactions Committee has, by way of written resolutions, reviewed and recommended to the Board for approval of various connected transactions of the Group.

Board Effectiveness

During the year ended 31 December 2018, the Board conducted an annual review of its effectiveness by way of an evaluation survey (the "Survey") and received responses from all Directors. The scope of the Survey required Directors to consider the performance and effectiveness of the Board and its Board Committees including the composition, structure, dynamics, operation and diversity. The overall feedback was positive and encouraging. The evaluation revealed that the Board and all the Board Committees continue to perform well with a strong composition and operate to a high standard.

Induction and Ongoing Development

The Bank provides each Director with personalized induction, training and development. On appointment, each new Director receives a comprehensive and tailored induction covering, among others, information about the Group's operations and business, the roles and responsibilities of the Board and its key Board Committees, the Bank's governance structure and practices, and the ambit of the internal audit and risk management functions.

On an ongoing basis, all Directors are provided with briefings and trainings in order to keep them continually updated on the Group's business and the latest developments of the Listing Rules and other applicable laws, rules and regulations to ensure the continued enhancement of their knowledge and skills. Such briefings and trainings are provided at the Bank's expense.

During the year, the Bank organized a Board Strategy Day and provided a number of trainings and briefings to the Directors which covered such topics as corporate culture of the Bank, latest regulatory updates and financial technology. Directors also visited the Bank's Nansha sub-branch located in Mainland where Directors had an in-depth review of the Bank's business operations.

All Directors are required to provide their training records to the Bank on an annual basis. The training received by the Directors during the year under review is summarized as follows:

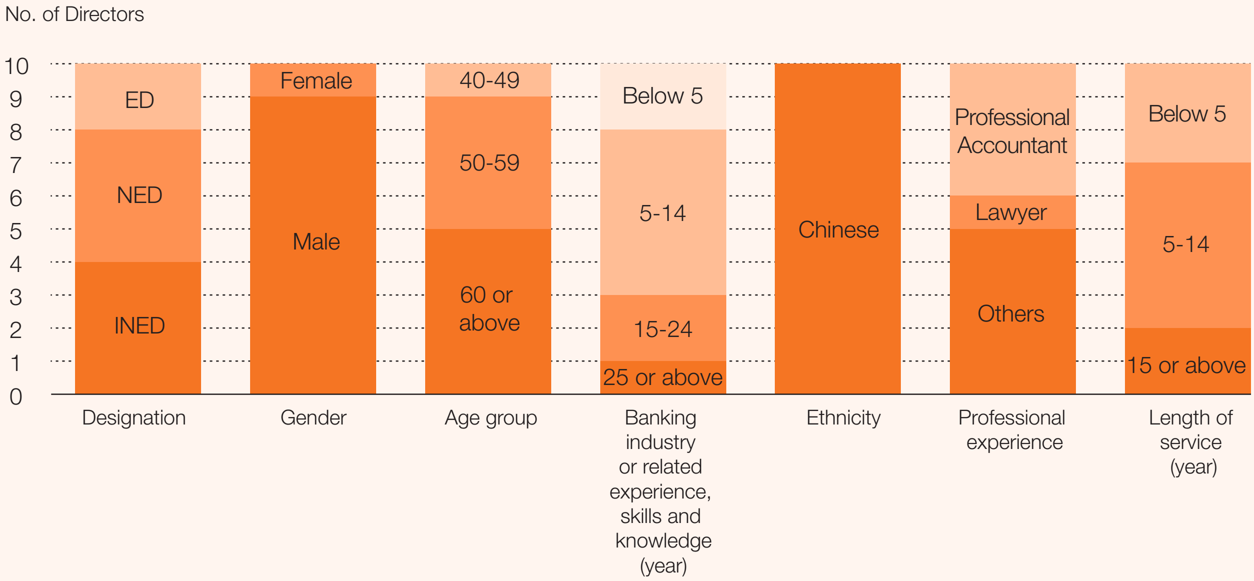
Names of Directors	Regulatory Updates	Articles/Seminars/Conferences relevant to the Bank's business and corporate governance
Chairman and Non-executive Director		
Mr ZHANG Zhaoxing	√	√
Executive Directors *(Note)*		
Mr ZONG Jianxin	√	√
Mr LAU Wai Man	√	√
Non-executive Directors *(Note)*		
Mr LI Feng	√	√
Mr CHOW Cheuk Yu Alfred	√	√
Ms CHEN Jing	√	√
Independent Non-executive Directors		
Mr CHENG Yuk Wo	√	√
Mr MA Chiu Cheung Andrew	√	√
Mr LEE Ka Lun	√	√
Mr YU Lup Fat Joseph	√	√

Note: The training records of Mrs LEUNG Ko May Yee Margaret, Mr WANG Shuhui and Mr ZHU Chunxiu who retired/resigned where appropriate, as Directors during the year, are not included therein.

Policy Statement on Board Diversity

The Bank recognizes and embraces the benefits of having a Board composed of a diverse range of experience, which is an essential element in supporting the attainment of the Bank's strategic objectives and achieving sustainable commercial success of the Bank.

Board diversity has been considered from various aspects in designing the Board's composition, including gender, age, cultural and educational background, industry or related experience, ethnicity, professional experience, skills, knowledge and length of service (the "Diversity Aspects"). All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. During the year, the Nomination Committee has reviewed the Board diversity based on the Diversity Aspects and considered that it has a balanced diversity. As at 31 December 2018, the composition of the Board was as follows:



The diverse culture helps promote critical thinking and foster constructive debate, thereby enabling the Board to provide strategic direction to the management and to ensure the decision-making process is fair and balanced. All of these are essential in achieving a sustainable and balanced development of the Group.

This policy statement is not intended to, and does not, either enlarge or diminish the responsibilities of the Directors under the Articles of Association and such other relevant laws, rules, regulations, codes, guidelines, practice notes, circulars and the like. This policy statement is, however, intended to serve as a source of guiding principles for Directors to take appropriate actions to achieve the aims of board diversity as outlined above. The Board will review and, where appropriate, revise from time to time this policy statement in light of experience, evolving standards of corporate governance and any other changing circumstances.

Company Secretary

All Directors have access to the advice and services of the Company Secretary. The Company Secretary is responsible for ensuring the Board policies and procedures are followed and for facilitating information flows and communications among Directors as well as with Shareholders and Management.

The Company Secretary's biography is set out in the "Biographical Details of Directors and Senior Management" section on page 13 of this Annual Report. During the year of 2018, the Company Secretary undertook over 15 hours of professional training to update her skills and knowledge.

BOARD COMMITTEES

The Board has delegated its authorities to various committees, namely the Audit Committee, the Connected Party Transactions Committee, the Executive Committee, the Nomination Committee, the Remuneration Committee and the Risk Committee which operate under defined Terms of Reference. Composition and Terms of Reference of the Board Committees are reviewed and updated regularly by the Board to ensure that they remain appropriate and in line with the Group's business and changes in governance practices.

Terms of Reference of the respective Board Committees are available on the websites of the Stock Exchange and the Bank.

Each Board Committee has been provided with sufficient resources to discharge its duties.

Audit Committee

The Audit Committee currently consists of five members, including three Independent Non-executive Directors and two Non-executive Directors.

Under its Terms of Reference, the Audit Committee is required, among other things, to make recommendations to the Board on the appointment, reappointment and removal of the external auditor, to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with the applicable standards, to review any engagement of external auditor for the provision of non-audit services, to review the half-year and annual reports and accounts before submission to the Board, to receive audit reports and review the external auditor's management letter, to review the HKMA's on-site examination reports and bring major findings to the attention of the Board, and to assess and consider the adequacy and effectiveness of the Group's systems of internal control, financial reporting and controls, risk management and regulatory compliance.

Four committee meetings were held in 2018 and the attendance records of the Audit Committee members are set out on page 54 of this Annual Report. The major work performed by the Audit Committee during the year included:

(i) met with the external auditor and the Bank's senior executives in charge of Finance and Capital Management to discuss the financial statements for the year ended 31 December 2017 and for the six months ended 30 June 2018;

(ii) reviewed and discussed with the external auditor to ensure that the Group's financial statements had been prepared in accordance with the accounting principles generally accepted in Hong Kong;

(iii) reviewed the independence and objectivity of the external auditor and the scope of audit services;

(iv) reviewed the audit fees payable to the external auditor and recommended to the Board for approval, and reviewed the non-audit services provided by the external auditor to the Group and the related fees;

(v) met and discussed with the external auditor on the audit strategy and assessment of the sufficiency of the internal control of the Group;

(vi) reviewed the internal control issues and the internal audit function of the Group, covering the annual internal audit plan, the staffing, resources and performance of Internal Audit Division, the audit findings and recommendations raised in the internal audits undertaken, and the implementation status of related audit recommendations;

(vii) approved the 2018 year plan of internal audit;

(viii) approved the revised Internal Audit Policy;

(ix) reviewed the Bank's proposed procedure for implementing the quarterly regulatory disclosure pursuant to the amended Banking (Disclosure) Rules and recommended to the Board for adopting the procedure;

(x) reviewed the latest Counter Base Erosion and Profit Shifting and Transfer Pricing regulation and impact on the Bank;

(xi) reviewed the Bank's progress for adoption of IFRS 9;

(xii) reviewed the Bank's progress for the adoption of HKFRS 9 (Financial Instruments) new impairment plan; and

(xiii) reviewed the Bank's Finance & Capital Management Division's structure, scope of work, qualification and experience of employee and employee's training course, and confirmed that the Bank has sufficient resources in accounting and financial reporting to deal with the daily work.

Auditors' Remuneration

The remuneration paid and payable to the Group's auditor, PricewaterhouseCoopers, for 2018 amounted to:

	HK$'000
Audit services and interim review	7,070
Tax service	250
Other service	3,128
Total	10,448

Connected Party Transactions Committee

The Connected Party Transactions Committee currently consists of five members, including one Non-executive Director, two Independent Non-executive Directors, the Chief Financial Officer and the Chief Risk Officer of the Bank.

Under its Terms of Reference, the Connected Party Transactions Committee is responsible for reviewing the robustness of the Bank's control framework to ensure proper compliance with all legal and regulatory requirements, Listing Rules together with accounting requirements (promulgated in Hong Kong and other jurisdictions) as may be applicable and approving significant connected transactions.

During the year, no physical committee meeting was held while the Connected Party Transactions Committee, by written resolutions, reviewed and recommended to the Board for approval of various connected transactions between the Group and the members of Guangzhou Yue Xiu Holdings Limited, including the granting of credits and loans and the entering into and the renewal of the tenancy agreements and property management agreements.

Executive Committee

The Executive Committee currently consists of seven members, including two Executive Directors and other senior executives of the Bank.

The Executive Committee exercises its powers, authorities and discretions as delegated by the Board to manage the day-to-day operations of the Group in accordance with its Terms of Reference and such other policies and directives as the Board may determine from time to time. The Executive Committee demonstrates its commitment and conviction in implementation of proper bank culture and values at all level of the Group, sets appropriate "tone from the top" and leads by example.

The Executive Committee has established the Asset and Liability Management Committee, the Expenses Control Committee, the New Product Approval Committee, the Disciplinary Committee, the Information Technology Committee, the Risk Management Committee and "Project Spring" Steering Committee with defined Terms of Reference that are in line with best practices. The above specialized sub-committees report directly to the Executive Committee and are responsible for overseeing assets and liabilities, expenses control, the approval of new products and services, staff disciplinary-related issues, overall information technology strategy, major risk and compliance issues as well as a specific project of the Group.

16 committee meetings were held in 2018 and the attendance records of the Executive Directors are set out on page 54 of this Annual Report.

Nomination Committee

The Nomination Committee currently consists of four members, including three Independent Non-executive Directors and one Non-executive Director.

Under its Terms of Reference, the Nomination Committee is responsible for, among others, reviewing and making recommendations to the Board on the structure, size and composition of the Board and identifying potential candidate suitably qualified to become director of the Bank.

One committee meeting was held in 2018 and the attendance records of the Nomination Committee members are set out on page 54 of this Annual Report. The primary duties performed by the Nomination Committee during the year included:

(i) recommended to the Board on the extension of the service agreement of Mrs Leung Ko May Yee Margaret;

(ii) recommended to the Board on the re-appointment of Mr Zong Jianxin as the Executive Director, Deputy Chairman and Chief Executive of the Bank;

(iii) recommended to the Board on the appointments of Non-executive Directors;

(iv) reviewed the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and its committees and made recommendations to the Board;

(v) reviewed the efficiency and effectiveness of the functioning of the Board and its committees;

(vi) assessed and confirmed the independence of the Independent Non-executive Directors of the Bank;

(vii) recommended the re-election of Directors to the Board for endorsement; and

(viii) approved and recommended to the Board on the updated Senior Management Succession Policy.

Remuneration Committee

Authority and Responsibility

The Remuneration Committee is responsible for considering and providing advice to the Board on the remuneration policy and structure of the Group in order to attract, motivate and retain quality personnel. Under the delegation by the Board, the Committee also determines and proposes to the Board for its approval the Remuneration Policy of the Group, including the individual remuneration packages and terms for Directors, Senior Management and Key Personnel of the Group as well as those in positions of significant influence and those having an impact on the Group's risk profile; ensuring that the remuneration frameworks and decisions shall be developed in a manner that is in line with the Group's risk appetite, risk culture and long-term interests; ensuring that no Director, Chief Executive, Senior Management and Key Personnel or any of his/her associates is involved in deciding his/her own remuneration. The Committee also provides advice and assists the Board in discharging its responsibilities for the Bank's corporate culture-related matters, including supervision and review on the policies and activities in relation to cultural reform spirit, with a view to fostering corporate culture to play a positive and evolving role in promoting sustainable growth and professional compliance operations of the Bank.

The Remuneration Committee comprises five members, including three Independent Non-executive Directors and two Non-executive Directors.

Remuneration Structure

The remuneration system of the Group is composed mainly of fixed remuneration (cash-based) with performance based variable remuneration (in cash-based discretionary bonus and/or other incentive) which not only conforms with the risk appetite, align with the long-term value creation and time horizon of risk of the Group to grow steadily and prudently by encouraging long-term performance rather than short-term risk taking, but also motivates, recognizes and rewards both outstanding individual contribution, sound team performance and positive behaviors. The proportion and amount of fixed and variable remuneration shall vary according to an employee's seniority, role and responsibilities within the Group, also the market benchmarking and trend.

Performance Management

The Group uses a Balanced Scorecard ("Scorecard") approach to measure and manage performance at the levels of the Group, business/functional units and individual employees. With reference to corporate goals and objectives at the beginning of financial year and when necessary, the Remuneration Committee reviews the Key Performance Indicators ("KPIs") and the corresponding target levels of the Group and recommends to the Board for approval. The targets of the Group will be cascaded down under the Balanced Scorecard Framework whereby the performance would be assessed from the four key dimensions of financial, customer, internal process and people management.

Each dimension of the Scorecard is comprised of a set of KPIs to assess the performance according to the specific areas of responsibility of the Group, business/functional units and individual employees; both financial and non-financial performance indicators are required to ensure a balanced evaluation. To ensure independence, financial KPIs should not be applicable to those risk control unit/personnel whose performance should be evaluated by their performance objectives and independent of the performance of the business areas which they oversee.

To put the principle of aligning performance and remuneration with risk into practice, on top of the mentioned KPIs, a Compliance and Risk Control Dimension is in place in the Scorecard to take into account any risk factors, control, ethics and compliance event, also its severity and impact to be fully reflected on the performance rating of the Group, business/functional units and individual employees.

In the respect of risk management, the Bank has developed a complete Risk Appetite Statement and Key Risk Indicators as the basis for monitoring, assessing and controlling the Group's risk profile. In the Risk Modifier Framework of the Corporate Scorecard for 2018, seven major areas including credit risk, market risk, interest rate risk, liquidity risk, operational risk, compliance risk and risk culture are taken into account as a Corporate Scorecard Risk Modifier.

The Compliance and Risk Control assessment at individual level covers the employee's compliance, risk control and ethical standard. This includes, but is not limited to, the performance of the assessed employee in controlling various risks (e.g. credit, compliance, operations and reputation etc.), the risk management ratings, compliance reports or audit reports related to the performance of the assessed employee, verbal or written warnings etc.

Compliance and Risk Control Modifier can be applied to adjust the annual performance score in response to any relevant performance. Poor performance can result in a deduction of the total score, which in turn affects the magnitude and amount of variable remuneration.

Since 2018, under the current performance management system, apart from evaluating individuals' KPIs in the Scorecard, there is a separate assessment of adherence to "Corporate Culture & Value". The assessment indicators are designed and matched with reference to the Group's "Management Concepts" and "Enterprise Spirit" and the six Core Competencies and their related behavioral indicators, so as to ensure employees and appraising managers clearly understand the required behaviors and attitude to achieve the defined corporate culture and core values of the Group.

The final performance rating of the staff (including the "Balanced Scorecard" and "Corporate Culture and Values") will be a major consideration factor of their salary review and discretionary bonus (if applicable).

Award of Variable Remuneration

The size of the overall discretionary bonus pool of the Group is determined according to the risk adjusted performance of the Group together with the consideration of all necessary factors (including capital position, market and peers business conditions, market competitiveness, material or potential risks involved in the business, and the extent to which the risks affect the Group as a whole), as recommended by Remuneration Committee to the Board for approval and is subject to the Board's discretion.

The subsequent allocation of discretionary bonus to each business/functional unit is based on the overall performance of the relevant business/functional unit; while the performance assessment of the employees is based on the final risk-adjusted performance rating in the individual Scorecards and the Corporate Culture and Value rating.

Poor performance (either financial or non-financial) will result in a reduction or elimination of discretionary bonus at any level. Adverse performance in non-financial factors, where appropriate, should override outstanding financial achievements. The overall performance of a business/functional unit or an individual employee could be thoroughly assessed, rather than solely relying on its/his/her financial performance. This ultimately helps mitigate risk to the Group and align with its long-term value creation.

To ensure independence, the remuneration of risk control personnel is determined in accordance with their performance objectives and commensurate with their key role in the Group. To avoid possible undue influence from business units, risk control personnel are compensated in a manner that is independent of the performance of the business unit which they oversee.

Deferral Arrangements

The award of discretionary bonus to employee is subject to deferment in such a manner as determined by the Remuneration Committee. Deferral of the payment of a portion of variable bonus will allow employees' performance, including the associated risks, to be observed and validated over a period of time before the payment is actually made. In general, when the overall level of their discretionary bonus exceeds a certain multiple of their fixed salary or a certain amount, a pre-defined portion of the bonus is subject to deferment. Deferral period can last for 2 years the longest.

The award of deferred bonus is subject to a minimum vesting period and pre-defined vesting conditions as determined by the Remuneration Committee and communicated to all relevant employees. Deferred bonus is awarded in such a manner so as to align the relevant employees' variable awards with long-term value creation and the time horizons of risk. The future performance (both financial and non-financial) of the Group, relevant business/ functional units, and individual employees are taken into consideration when approving the vesting arrangement. In circumstances where it is later established that any performance measurement for a pre-defined year was based on data that is later proven to have been manifestly misstated, or it is later established that the relevant employee has committed fraud, malfeasance, or a violation of internal control policies, any unvested portions of the deferred variable bonus (relating to that particular year in question) should be forgone, either in part or in whole, as determined by the Remuneration Committee.

External Remuneration Consultant

Appointed by the Board, the Remuneration Committee is authorised to obtain professional advice as it deems appropriate and is responsible for the selection and appointment of consultants to advise it on all aspects of remuneration.

The Group plans to introduce a long-term incentive scheme into the reward management system. With the objective to motivate and retain key talents, the Group has appointed PricewaterhouseCoopers (PwC) as the professional consultant for the project, to recommend a long-term incentive design framework and to provide the associated consulting services for the Group's consideration.

Summary of Work

Two Committee meetings were held in 2018 and the attendance records of the Remuneration Committee members are set out on page 54 of this Annual Report. The major works performed by the Remuneration Committee during the year included:

(i) reviewed the salary adjustment proposal for 2018, the variable bonus payment for 2017 for the Executive Directors, Senior Management and Key Personnel, contract-end gratuity for an Executive Director, also the new remuneration package for Chief Executive's re-appointment and recommended to the Board;

(ii) reviewed the Bank bonus budget and allocation mechanism proposal for 2018 and recommended to the Board;

(iii) reviewed the Bank-level 2016 deferred bonus vesting arrangement and recommended to the Board;

(iv) reviewed the Directors' Fee and additional payment proposal of Independent Non-executive Directors and recommended to the Board;

(v) reviewed the performance indicators of the Corporate Scorecard of the Bank for 2018 and the estimated achievement of targets; reviewed the proposal for the 2018 discretionary bonus pool and Mainland RM incentive framework and recommended to the Board;

(vi) reviewed the Bank-level 2019 annual salary review proposal and recommended to the Board;

(vii) reviewed the first proposal of Long-Term Incentive design framework for 2019 and onwards for Chong Hing Bank and recommended to the Board;

(viii) reviewed the update and enhancement of Remuneration Policy and Appendix with regards to the HKMA SPM Module "IC-2 Internal audit function" ("IC-2") and the Bank's new Grading Structure and recommended to the Board;

(ix) received the reports on Independent Review against CG-5 by Internal Audit Department;

(x) reviewed the implementation of Chong Hing Bank Corporate Culture in 2017 and 2018 and reported to the Board; and

(xi) reviewed and assessed the adequacy and appropriateness of relevant statements which set out the Bank's corporate culture and ethical behavioural standards.

The emolument payable to Directors will depend on their respective contractual terms under employment contracts and/or letters of appointment, where appropriate, and the recommendations made by the Remuneration Committee. Details of the Directors' emolument are set out in note 42 to the Consolidated Financial Statements. According to the Hong Kong Monetary Authority ("HKMA")'s Supervisory Policy Manual Module- CG-5 "Guideline on a Sound Remuneration System" and defined in the Remuneration Policy of the Group, Senior Management refers to Executive Directors, Chief Executive, Deputy Chief Executive and the Chief Functional Officers; Key Personnel refers to individual positions whose duties or activities involve the assumption of material risk or the taking on of material exposures on behalf of the Group and Heads of control functions. There are currently 6 and 11 employees categorised as Senior Management and Key Personnel respectively. The aggregate payouts for these senior executives for 2017 and 2018 are shown in the table below in accordance with the disclosure requirement under paragraph 3.2.3 of CG-5 issued by the HKMA on 12 March 2015.

as of 28 February 2019

The remuneration for the Senior Management and Key Personnel for the years ended 31 December 2017 and 2018, which was entirely paid in cash, is as follows:

	Year ended 31 December 2018		Year ended 31 December 2017 (Restate)	
Senior Management	*HK$'000* Non-deferred	*HK$'000* Deferred	*HK$'000* Non-deferred	*HK$'000* Deferred
Fixed remuneration:	38,638	–	38,283	–
– Cash	38,638	–	38,283	–
– Shares and share-linked instrument	N/A	N/A	N/A	N/A
– Others	N/A	N/A	N/A	N/A
Number of beneficiaries	7	–	9	–
Variable remuneration:	8,557	3,633	429	–
– Cash	8,557	3,633	429	–
– Shares and share-linked instrument	N/A	N/A	N/A	N/A
– Others	N/A	N/A	N/A	N/A
Number of beneficiaries	7	6	3	–
– Vested	–	–	–	940
– Unvested	–	–	–	–
– Awarded	–	–	–	–
– Paid out	–	–	–	–
– Reduced through performance adjustments	–	–	–	–

Remarks:

There was a transition of Chief Financial Officer ("CFO") and Chief Operating Officer ("COO") in the Group in April and May 2017. The above disclosed figures for 2017 consist of the total remuneration of the former and current CFOs & COOs of their service tenures.

as of 28 February 2019

Key Personnel	Year ended 31 December 2018 HK$'000 Non-deferred	Year ended 31 December 2018 HK$'000 Deferred	Year ended 31 December 2017 (Restate) HK$'000 Non-deferred	Year ended 31 December 2017 (Restate) HK$'000 Deferred
Fixed remuneration:	32,078	–	23,608	–
– Cash	32,078	–	23,608	–
– Shares and share-linked instrument	N/A	N/A	N/A	N/A
– Others	N/A	N/A	N/A	N/A
Number of beneficiaries	14	–	10	–
Variable remuneration:	6,855	4,199	2,621	200
– Cash	6,855	4,199	2,621	200
– Shares and share-linked instrument	N/A	N/A	N/A	N/A
– Others	N/A	N/A	N/A	N/A
Number of beneficiaries	11	9	7	1
– Vested	–	300	–	588
– Unvested	–	–	–	–
– Awarded	–	–	–	–
– Paid out	–	–	–	–
– Reduced through performance adjustments	–	–	–	–

Remarks:

There was a transition of the Head of Hong Kong Corporates Division and Head of Personal Banking Division in March and August 2018. The above disclosed figures for 2018 consist of the total remuneration of the former and current Heads of their service tenures.

	Year ended 31 December 2018	Year ended 31 December 2017 (Restate)
	HK$'000	*HK$'000*
Guaranteed Bonus	**750**	–
Number of beneficiary(ies)	**1**	–
Sign-on Awards	**200**	1,286
Number of beneficiary(ies)	**1**	2
Severance Payment/Long Service Payment	**–**	–
Number of beneficiary(ies)	**–**	–

The Remuneration Committee will continue to review and enhance the Group's Remuneration Policy in accordance with the principles and spirit of CG-1 & CG-5, with particular attention paid to risk adjustments to performance assessment; also alongside with the development of labor market, especially in the financial services sector, to evaluate and refine the remuneration provision of the Group so as to ensure that the rewards are competitive for the retention of talents.

Risk Committee

The Risk Committee currently consists of four members, including three Independent Non-executive Directors and one Non-executive Director.

Under its Terms of Reference, the Risk Committee is required, among other things, to advise the Board on the overall risk appetite/tolerance and risk management strategies of the Group, and to oversee senior management's implementation of those strategies that are established and approved by the Board and aligned with the Bank's overall business objectives. In performing its role, the Risk Committee is supported by the Bank's Risk Management Committee and its specialized sub-committees.

Four committee meetings were held in 2018 and the attendance records of the Risk Committee members are set out on page 54 of this Annual Report. The major duties performed by the Risk Committee during the year included:

(i) reviewed the overall risk management strategies and risk appetite/tolerance statement(s) of the Group and recommended to the Board for approval and received regularly the risk level rating for each risk type;

(ii) reviewed and assessed regularly the adequacy and effectiveness of the Group's risk management framework, internal control systems and risk management policies, procedures and systems, and monitored their effective operation, implementation and maintenance;

(iii) monitored the implementation progress of the risk management module under the substantial upgrade of the Bank's information technology system;

(iv) monitored the implementation progress of the rectification measures taken by the Bank in response to the findings of the thematic examinations on risk-related matters conducted by the HKMA;

(v) reviewed the governance structure of the Bank;

(vi) reviewed the Liquidity Risk Management Policy, the Capital Management Policy, the Recovery Plan and the Dividend Policy of the Bank;

(vii) reviewed the 2018 Business Continuity Planning Policy of the Bank;

(viii) received the Bank's progress for the adoption of HKFRS 9;

(ix) provided oversight on the independence of staff members responsible for implementing risk management systems and controls;

(x) reported significant risk management issues to the Board as set out in its Terms of Reference; and

(xi) reviewed and updated its Terms of Reference.

During the year under review, the Risk Committee held meetings with the risk management function and the Bank's Chief Risk Officer separately without the Executive Directors present. The Committee also met with the representatives of the HKMA to maintain a regular dialogue with the regulator and to keep posted of the HKMA's general views of its supervisory focus.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board is responsible for presenting a balanced, clear and comprehensible assessment of the Group's performance, financial results and prospects to Shareholders and other stakeholders in a timely manner. The annual and interim results and other discloseable financial information of the Bank are published in accordance with the requirements of the Listing Rules and other applicable regulations and industry best practice.

Management provides the Board with sufficient explanation and information to enable it to make an informed assessment of the Group's financial and other information put before it for approval.

The Directors also receive monthly financial and business updates with information on the Bank's latest financial performance and any material variance from its annual business plan to enable them to discharge their duties and responsibilities.

The Directors acknowledge their responsibility for preparing the Bank's consolidated financial statements and ensuring that the preparation of the Bank's consolidated financial statements is in accordance with the relevant requirements and applicable standards. As at 31 December 2018, the Directors were not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern.

The statement of the Bank's external auditor concerning its reporting responsibilities on the Bank's consolidated financial statements and the key audit matters identified in its audit are set out in the "Independent Auditor's Report" on pages 72 to 76 of this Annual Report.

Risk Management and Internal Control

The Board acknowledges that it is responsible for the Group's risk management and internal control systems and reviewing their effectiveness. Although such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and to provide reasonable but not absolute assurance against material misstatement or loss, the Bank is committed to establishing and maintaining appropriate and effective risk management and internal control systems so as to safeguard Shareholders' investment and the Bank's assets.

The Bank's risk governance framework is substantiated by the clearly defined three lines of defence which are independent from each other. In short, the first line of defence is provided by the business units where risks are taken. The second line of defence is provided by the risk management and compliance functions that are responsible for overseeing the Bank's risk-taking activities and ensuring compliance with laws and regulations. The third line of defence is provided by the Internal Audit Division which is responsible for providing assurance on the effectiveness of the Bank's risk management framework.

The risk management and internal control systems of the Group comprise comprehensive policies and standards under a well-established organisational structure:

– Policies and procedures have been designed for safeguarding assets against unauthorised use or disposition; for maintaining proper accounting records; for ensuring the reliability of financial information used within the business or for publication; and for ensuring compliance with applicable laws, rules and regulations. Systems and procedures are also in place to identify, evaluate, manage and report on the major types of risks, including credit, liquidity, market, operational, legal and reputational risks. All these policies and systems are regularly reviewed to reflect changes in markets, products and best practices.

– Areas of responsibilities of each business/functional unit are clearly defined to ensure effective checks and balances. Each unit is responsible for the assessment of individual types of risks arising under its areas of responsibilities, the management of the risks in accordance with the established risk management procedures, and the reporting on such risk management issues.

– Specialised committees are established for the oversight and monitoring of major risk areas. Regular risk management reports prepared by relevant business and functional units are submitted to the Asset and Liability Management Committee, the Risk Management Committee, the Executive Committee and the Risk Committee, and ultimately to the Board for oversight and monitoring of the respective types of risks on an ongoing basis. The Bank's risk management policies and major control limits are reviewed and recommended by the relevant specialised committees to the Board for approval, and are monitored and reviewed regularly according to established policies and procedures.

– The Internal Audit Division's role as the third line of defence is independent of the first and second lines of defence, with the Bank's Chief Auditor reporting directly to the Audit Committee. Pursuant to a risk-based approach, the Internal Audit Division conducts independent and objective assessment of the design and implementation of the risk management and control mechanisms of the Bank's business and functional units in order to identify any inadequacy. Results of audit work are reported regularly to the Audit Committee.

– The Bank has established a whistleblowing policy which encourages employees to raise concerns, in confidence, about possible improprieties in any matter related to the Bank. The Bank treats all information received confidentially and protects the identity and the interests of all whistleblowers.

The Board has, through the Audit Committee and the Risk Committee, monitored the performance of the Group's risk management and internal control systems on an ongoing basis and also completed the 2018 annual review of their effectiveness, which covered such material aspects as financial, operational and compliance controls. The Board has received a confirmation from management on the effectiveness of the Group's risk management and internal control systems and is satisfied that such systems, including the resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions, are effective and adequate.

COMMUNICATIONS WITH SHAREHOLDERS

Effective Communication

The Bank recognizes the importance of communication and undertakes to maintain an ongoing dialogue with the Shareholders through general meetings, press releases, announcements and corporate communications such as annual report, interim report and circulars. The Board is committed to the timely disclosure of information. The latest information regarding the Bank's activities, announcements, circulars, press releases and corporate communications is made available on the Bank's website at www.chbank.com in a timely manner. The Shareholders' calendar containing important dates for Shareholders is set out on page 15 of this Annual Report for the Shareholders' reference.

A Shareholders' Communication Policy was adopted by the Board and such policy will be reviewed on a regular basis to ensure its effectiveness. Shareholders and other stakeholders may at any time send their enquires and concerns to the Board by addressing them to the Chief Financial Officer by post to the Bank's registered office at Ground Floor, Chong Hing Bank Centre, 24 Des Voeux Road Central, Hong Kong or by email to info@chbank.com.

General Meetings

The Bank aims at maintaining an ongoing dialogue with the Shareholders and, in particular, using AGMs or other general meetings as a forum for effective communication with the Shareholders. The Chairman of the Board and Chairmen of the Board Committees are available to answer questions from the Shareholders in relation to the performance of the Bank at the AGMs. In addition, the external auditor of the Bank is invited to attend the AGMs to answer questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and the auditor's independence. Separate resolutions are proposed at general meetings on each substantial issue, including the election and re-election (as the case may be) of individual Directors.

The Bank held its 2018 AGM on 18 May 2018. Poll results in respect of the resolutions proposed at the 2018 AGM were published on the websites of the Stock Exchange and the Bank on the same day.

The 2019 AGM will be held on 17 May 2019, and the relevant details are set out in the circular to the Shareholders sent together with this Annual Report.

Dividend Policy

The Board has established a comprehensive Dividend Policy for the purpose of ensuring the dividend distributions of the Bank are conducted in accordance with the Articles of Association, applicable laws and regulations and also meet the expectation of relevant regulatory bodies. The Dividend Policy will be reviewed regularly in accordance with changes in regulatory requirements, economic and commercial environment. The Bank is dedicated to striking the right balance between reinvesting capital in the Bank's operations and providing returns to Shareholders.

Voting Procedures at General Meetings

All resolutions put to vote at the general meetings of the Bank (other than on procedural and administrative matters) must be taken by poll. At each general meeting, an explanation of the detailed procedures of conducting a poll will be provided to the Shareholders, and questions from the Shareholders regarding voting by poll will also be answered to ensure that Shareholders are familiar with such procedures. The poll results will be posted on the websites of the Stock Exchange and the Bank on the same day following the general meeting.

Shareholders' Rights

1. General Meeting

Shareholder(s) may request to call a general meeting. If such request is made by Shareholder(s) representing 5% of the total voting rights of all the Shareholders having a right to vote at general meetings, such general meeting must be called. Such request, either in hard copy form or in electronic form and being authenticated by the person or persons making it, must be deposited at the registered office of the Bank at Ground Floor, Chong Hing Bank Centre, 24 Des Voeux Road Central, Hong Kong or sent by email to info@chbank.com for the attention of the Company Secretary. Shareholder(s) shall make reference to the provisions under Sections 566 to 568 of the Companies Ordinance for requesting to call a general meeting.

2. *Putting Forward a Resolution at an Annual General Meeting*

Pursuant to Section 615 of the Companies Ordinance, a request to put forward a resolution which may properly be moved at an AGM may be submitted by Shareholder(s) representing at least 2.5% of the total voting rights of all the Shareholders who have a right to vote on the resolution at the AGM to which the request relates, or by at least 50 Shareholders who have a right to vote on the resolution at the AGM to which the request relates. Such request must identify the resolution of which notice is to be given, be either in hard copy form or in electronic form, be authenticated by the person or persons making it, and be received by the Bank not later than six weeks before the AGM to which the request relates or, if later, the time at which notice is given of that AGM. The request must be deposited at the registered office of the Bank at Ground Floor, Chong Hing Bank Centre, 24 Des Voeux Road Central, Hong Kong or sent by email to info@chbank.com for the attention of the Company Secretary. Shareholder(s) should make reference to Sections 580 and 615 of the Companies Ordinance for the relevant procedures to put forward a resolution at an AGM.

3. *Proposing a Person for Election as a Director*

Shareholders can propose a person (other than a retiring Director or himself/herself) for election as a director at a general meeting of the Bank. Relevant procedures are available on the Bank's website at www.chbank.com.

Investor Relations and Information Disclosure

The Bank has put in place a Disclosure Policy for the disclosure of material information (including inside information) relating to its businesses, state of affairs, profit or loss and capital adequacy ratio to its stakeholders and the public in compliance with the disclosure obligations required by the Listing Rules, the Banking Ordinance, the Securities and Futures Ordinance and other applicable laws, rules and regulations.

The Disclosure Policy sets out the procedures and internal controls for the handling and dissemination of such information in a timely manner so as to enable the stakeholders and the public to appraise the latest position of the Group. The Disclosure Policy and its effectiveness are subject to review on a regular basis according to the established procedures.

CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2018, no change was made to the Articles of Association of the Bank, the latest version of which is available on the websites of the Stock Exchange and the Bank.

By Order of the Board

Lai Wing Nga
Company Secretary

Hong Kong, 28 February 2019

TO THE MEMBERS OF CHONG HING BANK LIMITED
(Incorporated in Hong Kong with limited liability)

Opinion

What we have audited

The consolidated financial statements of Chong Hing Bank Limited (the "Bank") and its subsidiaries (the "Group") set out on pages 79 to 246, which comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

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

Key audit matter identified in our audit is summarised as follows:

- Measurement of impairment allowances of advances to customers.

Nature of the Key Audit Matter	How our audit addressed the Key Audit Matter

Measurement of impairment allowances of advances to customers

HKFRS 9 is a new accounting standard effective from 1 January 2018 and its application is considered as a highly complex process and requires considerable judgements and interpretation. The Group builds a new expected credit losses ("ECL") model for estimating impairment allowances on advances to customers measured at amortised cost which is considered to be material to the Group's consolidated financial statements. It also establishes governance process and controls for the measurement of impairment allowances of advances to customers. As at 31 December 2018, the Group recorded impairment allowances of HK$546 million, with HK$392 million as stage 1 and stage 2 impairment allowances, HK$154 million as stage 3 impairment allowances. The impairment allowances of advances to customers are detailed in note 22 to the consolidated financial statements.

The audit focused on key management judgements used in the ECL model including the following:

- Criteria for determining whether or not there was a significant increase in credit risk, or a default or impairment loss was incurred;
- Management overlay adjustments due to uncertain factors or data limitations not covered in the models;
- Selection of economic indicators for application of economic scenarios and respective probability weightings; and
- The estimated future cash flows for corporate loans and advances in stage 3.

We performed the following procedures to assess key management judgements used in the ECL model:

1. Obtained an understanding of the end-to-end process and relevant internal controls through walk-through meetings with key departments and performed testing on key controls including management's identification of significant increase in credit risk;
2. Assessed the appropriateness of the management's identification of significant increase in credit risk, defaults and credit-impaired loans by considering financial information and non-financial information of the borrowers, relevant external evidence and other factors of selected samples;
3. Performed an assessment on major modelling methodologies and assumptions including reasonableness of the portfolio segmentation and use of statistical methods with the assistance of our modelling specialists;
4. Tested the accuracy of the ECL results by recalculation using model formula and data inputs extracted from the calculation engine;
5. Tested the accuracy and completeness of key ECL model data inputs through testing the relevant key data input controls, tracing a sample population of key data to their source documents and data records maintained in various systems involved in the ECL computation;
6. Assessed management's analysis of their selection of economic indicators and economic scenarios; and performed an assessment of their sensitivity analysis of probability weightings;
7. Assessed the reasonableness in selecting uncertain factors and the analysis of data limitations, as well as their application and measurement in the management overlay adjustments;
8. Evaluated, on a sample basis, the level of stage 3 impairment allowances recorded for specific loans by challenging management on the judgement applied in the expected future cash flows estimation and re-performing the mathematical accuracy of management's discounted cash flow calculation; and
9. Discussed the reasonableness of the ECL results with management and the Audit Committee.

Based on the procedures we performed, we considered the impairment allowances were supportable.

Other Information

The directors of the Bank are responsible for the other information. The other information comprises the information included in the annual report (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the Unaudited Supplementary Financial Information and the Regulatory Disclosure for the year ended 31 December 2018, which are expected to be made available to us after the date of this auditor's report.

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

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

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, 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.

When we read the Unaudited Supplementary Financial Information and the Regulatory Disclosure for the year ended 31 December 2018, if we conclude that there is a material misstatement therein, we are required to communicate the matter to Audit Committee and take appropriate action considering our legal rights and obligations.

Responsibilities of Directors and the Audit Committee for the Consolidated Financial Statements

The directors of the Bank are responsible for the preparation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Ms. Ng, Wai Ying.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 February 2019

for the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000 (Restated)
Interest income		5,102,578	3,800,391
Interest expense		(2,222,616)	(1,483,263)
Net interest income	9	2,879,962	2,317,128
Fee and commission income		505,548	424,545
Fee and commission expenses		(121,054)	(97,074)
Net fee and commission income	10	384,494	327,471
Net income (loss) from trading and investments	11	248,155	(93,938)
Other operating income	12	173,506	158,895
Operating expenses	13	(1,548,840)	(1,353,633)
Operating profit before impairment allowances		2,137,277	1,355,923
Net impairment losses on financial assets	14	(178,254)	(372,510)
Operating profit after impairment allowances		1,959,023	983,413
Net gains on disposal of assets held for sale		–	2,878
Net (losses) gains on disposal of property and equipment		(341)	654,619
Net gains on disposal of and fair value adjustments on investment properties	25	10,250	12,632
Other non-operating income	24	116,655	–
Share of profits of associates	24	19,628	55,723
Profit before taxation		2,105,215	1,709,265
Taxation	15	(344,828)	(144,398)
Profit for the year – Attributable to equity owners of the Bank		1,760,387	1,564,867
Earnings per share – basic and diluted	17	HK$2.14	HK$2.16

The notes on pages 86 to 246 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2018

	2018 *HK$'000*	2017 *HK$'000*
Profit for the year	**1,760,387**	1,564,867
Other comprehensive income		
Items that may not be reclassified subsequently to profit or loss:		
Surplus on transfer of land and buildings to investment properties	**5,386**	–
Surplus on remeasurement of retirement benefit	**–**	5,647
Net losses on investments in equity instruments measured at FVOCI	**(3,504)**	–
Income tax effect relating to retirement benefit	**–**	(932)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation	**(179,949)**	249,271
Fair value gains of available-for-sale securities arising during the year	**–**	354,316
Amount reclassified to the profit or loss upon impairment of available-for-sale securities	**–**	290
Amount reclassified to the profit or loss upon disposal of available-for-sale securities	**–**	(113,937)
Income tax effect relating to disposal of available-for-sale securities	**–**	18,800
Income tax effect relating to fair value change of available-for-sale securities	**–**	(58,419)
Net losses on investments in debt instruments measured at FVOCI	**(495,408)**	–
Amount reclassified to profit or loss upon disposal of debt securities measured at FVOCI	**(21,460)**	–
Income tax effect relating to disposal of financial assets measured at FVOCI	**3,541**	–
Income tax effect relating to fair value change of financial assets measured at FVOCI	**86,332**	–
Share of other comprehensive income of associates	**(22,275)**	4,647
Other comprehensive income for the year (net of tax)	**(627,337)**	459,683
Total comprehensive income for the year	**1,133,050**	2,024,550
Total comprehensive income attributable to:		
Equity owners of the Bank	**1,133,050**	2,024,550

The notes on pages 86 to 246 form an integral part of these consolidated financial statements.

at 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Assets			
Cash and short-term funds	18	26,182,402	25,164,641
Placements with banks maturing between one to twelve months		7,945,726	6,359,004
Derivative financial instruments	19	896,140	556,793
Investments in securities	20	46,986,126	39,153,501
Advances and other accounts	22	106,808,471	90,949,787
Interests in associates	24	347,320	301,337
Investment properties	25	311,942	298,765
Property and equipment	26	521,330	590,746
Prepaid lease payments for land	27	2,073	2,134
Deferred tax assets	34	19,907	–
Intangible assets	36	554,201	370,406
Total assets		190,575,638	163,747,114
Liabilities			
Deposits and balances of banks		5,615,953	3,051,932
Financial assets sold under repurchase agreements	28	6,571,696	12,002,989
Deposits from customers	29	143,690,294	118,758,674
Derivative financial instruments	19	873,617	882,279
Other accounts and accruals		2,118,485	1,577,588
Current tax liabilities		240,637	434,818
Certificates of deposit	30	2,688,386	3,217,451
Debt securities issued	30	1,707,923	1,796,069
Loan capital	31	4,507,147	4,541,380
Deferred tax liabilities	34	19,171	50,136
Total liabilities		168,033,309	146,313,316
Equity attributable to owners of the Bank			
Share capital	32	9,977,060	5,435,904
Additional equity instruments	33	2,312,030	2,312,030
Reserves		10,253,239	9,685,864
Total equity		22,542,329	17,433,798
Total liabilities and equity		190,575,638	163,747,114

The notes on pages 86 to 246 form an integral part of these consolidated financial statements.

Approved and authorised for issue by the Board of Directors on 28 February 2019 and signed on its behalf by:

Zhang Zhaoxing
Chairman

Zong Jianxin
Executive Director, Deputy Chairman and Chief Executive

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2018

	Note	Share capital HK$'000	Additional equity instruments HK$'000	Goodwill HK$'000	Investment revaluation reserve HK$'000	Land and building revaluation reserve HK$'000	General reserve HK$'000	Translation reserve HK$'000	Regulatory reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2018		5,435,904	2,312,030	(182)	375,317	174,247	1,388,500	66,016	816,000	6,865,966	17,433,798
Changes on initial application of HKFRS 9 *(see note 2)*		-	-	-	84,549	-	-	-	(3,000)	(75,075)	6,474
Restated balance at 1 January 2018		5,435,904	2,312,030	(182)	459,866	174,247	1,388,500	66,016	813,000	6,790,891	17,440,272
Profit for the year		-	-	-	-	-	-	-	-	1,760,387	1,760,387
Other comprehensive income		-	-	-	(452,774)	5,386	-	(179,949)	-	-	(627,337)
Total comprehensive income for the year		-	-	-	(452,774)	5,386	-	(179,949)	-	1,760,387	1,133,050
Shares issued under General Mandate	*32*	999,997	-	-	-	-	-	-	-	-	999,997
Shares issued under Rights Issue	*32*	3,563,574	-	-	-	-	-	-	-	-	3,563,574
Transaction costs incurred in respect of the shares issued	*32*	(22,415)	-	-	-	-	-	-	-	-	(22,415)
Distribution payment for additional equity instruments		-	(152,845)	-	-	-	-	-	-	-	(152,845)
Transfer from retained profits		-	152,845	-	-	-	-	-	-	(152,845)	-
Unclaimed dividend forfeited		-	-	-	-	-	-	-	-	500	500
Interim dividend paid	*16*	-	-	-	-	-	-	-	-	(165,329)	(165,329)
Final dividend paid	*16*	-	-	-	-	-	-	-	-	(254,475)	(254,475)
Earmark of retained profits as regulatory reserve		-	-	-	-	-	-	-	99,000	(99,000)	-
At 31 December 2018		9,977,060	2,312,030	(182)	7,092	179,633	1,388,500	(113,933)	912,000	7,880,129	22,542,329

The notes on pages 86 to 246 form an integral part of these consolidated financial statements.

	Note	Share capital HK$'000	Additional equity instruments HK$'000	Goodwill HK$'000	Investment revaluation reserve HK$'000	Land and building revaluation reserve HK$'000	General reserve HK$'000	Translation reserve HK$'000	Regulatory reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2017		5,435,904	2,312,030	(182)	169,620	174,247	1,388,500	(183,255)	739,000	5,877,708	15,913,572
Profit for the year		–	–	–	–	–	–	–	–	1,564,867	1,564,867
Other comprehensive income		–	–	–	205,697	–	–	249,271	–	4,715	459,683
Total comprehensive income for the year		–	–	–	205,697	–	–	249,271	–	1,569,582	2,024,550
Distribution payment for additional equity instruments		–	(151,974)	–	–	–	–	–	–	–	(151,974)
Transfer from retained profits		–	151,974	–	–	–	–	–	–	(151,974)	–
Interim dividend paid	16	–	–	–	–	–	–	–	–	(97,875)	(97,875)
Final dividend paid	16	–	–	–	–	–	–	–	–	(254,475)	(254,475)
Earmark of retained profits as regulatory reserve		–	–	–	–	–	–	–	77,000	(77,000)	–
At 31 December 2017		5,435,904	2,312,030	(182)	375,317	174,247	1,388,500	66,016	816,000	6,865,966	17,433,798

The retained profits of the Group included retained profits of HK$159,752,000 (2017: retained profits of HK$171,372,000) retained by the associates of the Group.

The regulatory reserve is set up in compliance with the Hong Kong Monetary Authority's requirements and is distributable to shareholders of the Bank subject to consultation with the Hong Kong Monetary Authority (the "HKMA").

The general reserve comprises transfers from previous years' retained profits.

The notes on pages 86 to 246 form an integral part of these consolidated financial statements.

for the year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
OPERATING ACTIVITIES			
Profit before taxation		2,105,215	1,709,265
Adjustments for:			
Net interest income	9	(2,879,962)	(2,317,128)
Net impairment losses on financial assets		178,254	372,510
Net gains on disposal of assets held for sale		–	(2,878)
Net losses (gains) on disposal of property and equipment		341	(654,619)
Net gains on disposal of financial assets measured at FVOCI (2017: available-for-sale securities)		(21,460)	(113,937)
Net gains on disposal of and fair value adjustments on investment properties		(10,250)	(12,632)
Share of profits of associates	24	(19,628)	(55,723)
Net gains on fair value hedge		(1,779)	(1,423)
Dividend received from investments	12	(8,443)	(8,211)
Depreciation and amortisation	13	78,326	79,969
Release of prepaid lease payments for land	27	66	66
Exchange adjustments		(254,907)	376,428
Operating cash flows before movements in operating assets and liabilities		(834,227)	(628,313)
(Increase) decrease in operating assets:			
Money at call and short notice with original maturity over three months		(313,649)	232,620
Exchange fund bills with original maturity over three months		–	(256,978)
Placements with banks with original maturity over three months		(908,753)	(1,405,100)
Financial assets at fair value through profit or loss		(115,763)	(24)
Advances to customers		(15,484,520)	(15,951,609)
Advances to banks		(227,066)	388,427
Other accounts		(75,932)	(1,511,532)
Increase (decrease) in operating liabilities:			
Deposits and balances of banks		2,564,021	355,251
Financial assets sold under repurchase agreements		(5,431,293)	2,157,236
Deposits from customers		24,931,620	15,878,045
Certificates of deposit		(529,065)	2,405,122
Derivative financial instruments		(200,733)	312,004
Other accounts and accruals		170,203	39,940
Cash generated from operations		3,544,843	2,015,089
Hong Kong profits tax paid		(425,883)	(31,741)
Overseas tax paid		(59,318)	(30,857)
Interest received		3,735,317	2,691,838
Interest paid		(1,606,048)	(1,073,550)
NET CASH GENERATED FROM OPERATING ACTIVITIES		5,188,911	3,570,779

for the year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
INVESTING ACTIVITIES			
Interest received from investments in securities		1,108,862	891,566
Dividends received on investments in securities	12	8,443	8,211
Dividends received from associates		26,370	19,890
Capital investment in an associate		(75,000)	–
Purchase of investments in securities measured at amortised cost		(564,700)	–
Purchase of held-to-maturity securities		–	(19,263)
Purchase of investments in securities measured at FVOCI (2017: available-for-sale securities)		(23,318,951)	(18,997,483)
Purchase of loan and receivable securities		–	(63,432)
Purchase of property and equipment		(55,017)	(133,276)
Purchase of intangible assets		(187,192)	(155,509)
Proceeds from redemption of investments in securities measured at amortised cost (2017: held-to-maturity securities)		267,181	1,933,433
Proceeds from sale and redemption of investments in securities measured at FVOCI (2017: available-for-sale securities)		17,565,647	7,992,916
Proceeds from disposal of assets held for sale		–	2,880
Proceeds from disposal of property and equipment		40,044	753,801
NET CASH USED IN INVESTING ACTIVITIES		(5,184,313)	(7,766,266)
FINANCING ACTIVITIES			
Net proceeds from issue of loan capital	31	–	2,816,997
Net proceeds from issue of new shares		4,541,156	–
Interest paid on loan capital	31	(221,697)	(102,471)
Interest paid on debt securities issued	30	(66,791)	(58,349)
Dividends paid to ordinary shareholders		(419,304)	(352,350)
Distribution paid on additional equity instruments	33	(152,845)	(151,974)
NET CASH GENERATED FROM FINANCING ACTIVITIES		3,680,519	2,151,853
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		3,685,117	(2,043,634)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		27,009,774	29,053,408
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		30,694,891	27,009,774

The notes on pages 86 to 246 form an integral part of these consolidated financial statements.

1. GENERAL

Chong Hing Bank Limited (the "Bank") is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited.

The Bank is engaged in the provision of banking and related financial services. The address of the registered office of the Bank is Ground Floor, Chong Hing Bank Centre, 24 Des Voeux Road Central, Hong Kong.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The following new standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2018 and are relevant to the Group:

- HKFRS 9, Financial instruments
- HKFRS 15, Revenue from contracts with customers

There are also amendments to standards effective for the accounting period beginning on or after 1 January 2018 but do not have material financial impact. Therefore, these amendments are not analysed in details.

The adoption of the HKFRS 9 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the consolidated financial statements and HKFRS 15 which had no transitional impact to retained earnings. The Group did not early adopt HKFRS 9 in previous periods.

As permitted by the transitional provisions of HKFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of the financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period. The Group has also elected to continue to apply the hedging accounting requirements of HKAS 39 on the adoption of HKFRS 9.

Set out below are disclosures relating to the impact of the adoption of HKFRS 9 on the Group and details of the specific HKFRS 9 accounting policies applied in current period.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – continued

HKFRS 9 Financial instruments

(a) Classification and measurement of financial instruments

There were no changes to the classification and measurement of financial liabilities. The measurement category and the carrying amount of financial assets in accordance with HKAS 39 and HKFRS 9 at 1 January 2018 are compared as follows:

	HKAS 39		HKFRS 9	
Financial assets	Measurement category	Carrying amount *HK$'000*	Measurement category	Carrying amount *HK$'000*
Cash and short-term funds	Amortised cost (Loan and receivable)	25,164,641	Amortised cost	20,757,141
Placements with banks maturing between one to twelve months	Amortised cost (Loan and receivable)	6,359,004	Amortised cost	6,355,561
Derivative financial instruments	Fair value through profit or loss ("FVPL")	556,793	FVPL	556,793
Advances and other accounts	Amortised cost (Loan and receivable)	90,949,787	Amortised cost	90,942,435
Investments in securities	FVPL(Held for trading)	265	FVPL	265
	Fair value at other comprehensive income ("FVOCI") (Available-for-sale)	35,450,292	FVOCI	43,403,687
	Amortised cost (Held to maturity) ("HTM")	3,640,146	Amortised cost	190,780
	Amortised cost (Loan and receivable)	62,798		

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – continued

HKFRS 9 Financial instruments – continued

(b) Reconciliation of statement of financial position balances from HKAS 39 to HKFRS 9

The Group performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics.

Please refer to below for more detailed information regarding the new classification requirements of HKFRS 9.

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with HKAS 39 to their new measurement category upon transition of HKFRS 9 on 1 January 2018:

	Ref	HKAS 39 carrying amount 31 December 2017 *HK$'000*	Reclassification *HK$'000*	Remeasurements *HK$'000*	HKFRS 9 carrying amount 1 January 2018 *HK$'000*
Amortised cost					
Cash and short term funds					
Opening balance		25,164,641			
Subtraction: To FVOCI	(A)		(4,293,424)		
Subtraction: To investments in securities – amortised cost	(A)		(106,799)		
Remeasurement: Expected credit loss ("ECL") allowance				(7,277)	
Closing balance		25,164,641	(4,400,223)	(7,277)	20,757,141
Placements with banks maturing between one to twelve months					
Opening balance		6,359,004			
Remeasurement: ECL allowance				(3,443)	
Closing balance		6,359,004	–	(3,443)	6,355,561
Advances and other accounts					
Opening balance		90,949,787			
Remeasurement: ECL allowance				(7,352)	
Closing balance		90,949,787	–	(7,352)	90,942,435

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – continued

HKFRS 9 Financial instruments – continued

(b) Reconciliation of statement of financial position balances from HKAS 39 to HKFRS 9 – continued

	Ref	HKAS 39 carrying amount 31 December 2017 HK$'000	Reclassification HK$'000	Remeasurements HK$'000	HKFRS 9 carrying amount 1 January 2018 HK$'000
Amortised cost					
Investments in securities – Amortised cost					
Opening balance		–			
Addition: From HTM	(C)		21,284		
Addition: From cash and short term funds	(A)		106,799		
Addition: From loans and receivables	(C)		62,798		
Remeasurement: ECL allowance				(101)	
Closing balance		–	190,881	(101)	190,780
Investments in securities – loan and receivable					
Opening balance		62,798			
Subtraction: To investment in securities – amortised cost	(C)		(62,798)		
Closing balance		62,798	(62,798)	–	–
Investments in securities – held to maturity					
Opening balance		3,640,146			
Subtraction: To investments in securities – amortised cost	(C)		(21,284)		
Subtraction: To FVOCI	(A)		(3,618,862)		
Closing balance		3,640,146	(3,640,146)	–	–
Total financial assets measured at amortised cost		126,176,376	(7,912,286)	(18,173)	118,245,917

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – continued

HKFRS 9 Financial instruments – continued

(b) Reconciliation of statement of financial position balances from HKAS 39 to HKFRS 9 – continued

	Ref	HKAS 39 carrying amount 31 December 2017 *HK$'000*	Reclassification *HK$'000*	Remeasurements *HK$'000*	HKFRS 9 carrying amount 1 January 2018 *HK$'000*
Fair value through profit or loss (FVPL)					
Investments in securities – held for trading					
Opening balance and closing balance		265	–	–	265
Derivative financial instruments					
Opening balance and closing balance		556,793	–	–	556,793
Total financial assets measured at FVPL		557,058	–	–	557,058
Fair value through other comprehensive income (FVOCI)					
Investments in securities – FVOCI (debt instruments)					
Opening balance		–			
Addition: From cash and short term fund	(A)		4,293,424		
Addition: From held to maturity	(A)		3,618,862	41,109	
Addition: From available for sale	(C)		35,362,459		
Closing balance		–	43,274,745	41,109	43,315,854
Investments in securities – FVOCI (equity instruments)					
Opening balance		–			
Addition: From available for sale	(B)		87,833		
Closing balance		–	87,833	–	87,833

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – continued

HKFRS 9 Financial instruments – continued

(b) Reconciliation of statement of financial position balances from HKAS 39 to HKFRS 9 – continued

	Ref	HKAS 39 carrying amount 31 December 2017 HK$'000	Reclassification HK$'000	Remeasurements HK$'000	HKFRS 9 carrying amount 1 January 2018 HK$'000
Investments in securities					
– Available for sale					
Opening balance		35,450,292			
Subtraction: To FVOCI					
– debt instruments	(C)		(35,362,459)		
Subtraction: To FVOCI					
– equity instruments	(B)		(87,833)		
Closing balance		35,450,292	(35,450,292)	–	–
Total financial assets measured at FVOCI		35,450,292	7,912,286	41,109	43,403,687

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – continued

HKFRS 9 Financial instruments – continued

(b) Reconciliation of statement of financial position balances from HKAS 39 to HKFRS 9 – continued

The following explains how applying the new classification requirements of HKFRS 9 led to changes in classification of certain financial assets held by the Group as shown in the table above:

(A) Debt instruments previously classified as held to maturity/amortised cost under investments in securities/cash and short-term fund

The Group assessed its business model for certain debt securities and exchange fund bills that were previously classified as held to maturity and amortised cost respectively, which are mostly in hold to collect and sell business model for better liquidity management. Consequently, these securities which amounted to HK$7,912,286,000, are classified as FVOCI and grouped into investments in securities from the date of initial application. The remainder of these debt securities is held to collect contractual cash flows and is classified as measured at amortised cost.

(B) Designation of equity instruments at FVOCI

The Group has elected to irrevocably designate equity investments of HK$87,833,000 at FVOCI as permitted under HKFRS 9. These securities were previously classified as available for sale. The change in fair value of such securities will no longer be reclassified to profit or loss when they are disposed of.

(C) Reclassification from retired categories with no change in measurement

In addition to above, the following debt instruments have been reclassified to new categories under HKFRS 9, as their previous categories under HKAS 39 were "retired", with no changes to their measurement basis:

(i) Those previously classified as available for sale and now classified as measured at FVOCI; and

(ii) Those previously classified as held to maturity and loan and receivable and now classified as measured at amortised cost.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – continued

HKFRS 9 Financial instruments – continued

(c) Reconciliation of impairment allowance balance from HKAS 39 to HKFRS 9

The following table reconciles the prior period's closing impairment allowance measured in accordance with the HKAS 39 incurred loss model to the new impairment allowance measured in accordance with the HKFRS 9 expected loss model at 1 January 2018:

	Loss allowance under HKAS 39/ Provision under HKAS 37 *HK$'000*	Reclassification *HK$'000*	Remeasurements *HK$'000*	Loss allowance under HKFRS 9 *HK$'000*
Held to maturity and Loans and receivables (HKAS 39)/ Financial assets at amortised cost (HKFRS 9)				
Cash and short-term funds	–	–	7,277	7,277
Placements with banks maturing between one to twelve months	–	–	3,443	3,443
Advances and other accounts	724,032	–	7,352	731,384
Investments in securities	628	–	101	729
	724,660	–	18,173	742,833
Available for sale (HKAS 39)/Financial assets at FVOCI (HKFRS 9)				
Investments in securities	–	–	50,223	50,223
Loan commitments and financial guarantee contracts				
Provision				
— Loan commitment	–	–	9,624	9,624
— Financial guarantee	–	–	21,552	21,552
Total	724,660	–	99,572	824,232

The opening adjustments resulting from initial application of HKFRS 9 also included a decrease in current tax liabilities by HK$872,000, an increase in deferred tax liabilities arising from the revaluation of FVOCI securities by HK$6,783,000, an increase in deferred tax assets arising from the impairment allowance by HK$20,625,000 and a decrease in regulatory reserve by HK$3,000,000.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – continued

HKFRS 15 Revenue for contracts with customers

HKFRS 15 is effective from 1 January 2018 and replaces HKAS 18 Revenue. HKFRS 15 is conceptually similar to HKAS 18, but includes more granular guidance on how to recognise and measure revenue, and also introduces additional disclosure requirements. The Group performed an assessment of the new standard and concluded that it does not have significant impact on the consolidated financial statements.

3. NEW AND REVISED HKFRSs ISSUED BUT NOT YET EFFECTIVE

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2019, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

HKFRS 16 Leases

Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the Group's statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right-of-use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

Impact

The standard will affect primarily the accounting as a lessee of leases for the Group's operating leases. The implementation is expected to increase the right-of-use assets and financial liabilities with no effect on retained profits. The impact is not significant to the total assets and total liabilities of the Group.

Date of adoption

Application is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

4. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The principal accounting policies are set out below. These policies have been consistently applied in all years presented, except for the adoption of the HKFRS 9 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the consolidated financial statements and HKFRS 15 which had no transitional impact to retained earnings. The Group did not early adopt any of HKFRS 9 in previous periods.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank and its subsidiaries. Control is achieved when the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated income statement from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial Instruments – Accounting policies applied from 1 January 2018

Measurement methods

Amortised cost and effective interest rate

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired ("POCI") financial assets – assets that are credit-impaired at initial recognition – the Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

(a) POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset.

(b) Financial assets that are not POCI but have subsequently become credit-impaired (or "Stage 3"), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss allowance).

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial Instruments – Accounting policies applied from 1 January 2018 – continued

Measurement methods – continued

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an ECL allowance is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.

(b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial Instruments – Accounting policies applied from 1 January 2018 – continued

Financial assets

(i) Classification and subsequent measurement

From 1 January 2018, the Group has applied HKFRS 9 and classifies its financial assets in the following measurement categories:

- Fair value through profit or loss ("FVPL");
- Fair value through other comprehensive income ("FVOCI"); or
- Amortised cost.

The classification requirements for debt and equity instruments are described below:

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on:

(i) the Group's business model for managing the asset; and

(ii) the cash flow characteristics of the asset.

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ("SPPI"), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial Instruments – Accounting policies applied from 1 January 2018 – continued

Financial assets – continued

(i) Classification and subsequent measurement – continued

Debt instruments – continued

- Fair value through other comprehensive income: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Net income from trading and investments'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

- Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement within 'Net income from trading and investments' in the period in which it arises.

Business model: the business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated. For example, the Group's business model for the loan book is to hold to collect contractual cash flows. Another example is the liquidity portfolio of assets, which is held by the Group as part of liquidity management and is generally classified within the hold to collect and sell business model. Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in the 'other' business model and measured at FVPL.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial Instruments – Accounting policies applied from 1 January 2018 – continued

Financial assets – continued

(i) Classification and subsequent measurement – continued

Debt instruments – continued

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Group subsequently measures all equity investments at fair value through profit or loss, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Gains and losses on equity investments at FVPL are included in the 'Net income from trading and investments' line in the income statement.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial Instruments – Accounting policies applied from 1 January 2018 – continued

Financial assets – continued

(ii) Impairment

The Group assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

(iii) Modification of financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

(iv) Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownership, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as ‘pass through’ transfers that result in derecognition if the Group:

(i) Has no obligation to make payments unless it collects equivalent amounts from the assets;

(ii) Is prohibited from selling or pledging the assets; and

(iii) Has an obligation to remit any cash it collects from the assets without material delay.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial Instruments – Accounting policies applied from 1 January 2018 – continued

Financial assets – continued

(iv) Derecognition other than on a modification – continued

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Group retains a subordinated residual interest.

When the contractual rights to receive the cash flows from the assets have been transferred, and the Group neither transfers nor retains substantially all the risks and rewards of ownership, and the Group has retained control of the transferred assets, the Group applies continuing involvement approach.

Under this approach, the Group continues to recognise the transferred asset to the extent of its continuing involvement and recognise the associated liability, to reflect the rights and obligations retained by the Group. The net carrying amount of the transferred asset and associated liability is: (a) the amortised cost of the rights and obligations retained by the Group, if the transferred asset is measured at amortised cost; or (b) equal to the fair value of the rights and obligations retained by the Group when measured on a stand-alone basis, if the transferred asset is measured at fair value.

(v) Write off policy

The Group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indications that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Group's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

Financial liabilities

(i) Classification and subsequent measurement

In both the current and prior period, financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial Instruments – Accounting policies applied from 1 January 2018 – continued

Financial liabilities – continued

(i) Classification and subsequent measurement – continued

- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or when the continuing involvement approach applies. When the transfer of financial asset did not qualify for derecognition, a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability; when continuing involvement approach applies (see Note 4(iv)); and

- Financial guarantee contracts and loan commitments.

(ii) Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

(iii) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statements of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the financial asset and settle the financial liability simultaneously. The legal enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Bank or the counterparty.

Financial guarantee contracts and loan commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the loss allowance; and

- The premium received on initial recognition less income recognised in accordance with the principles of HKFRS 15.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial guarantee contracts and loan commitments – continued

Loan commitments provided by the Group are measured as the amount of the loss allowance. The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the Group cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognised as a provision.

Derivatives and hedging activities

The Group has elected to continue to apply the hedge accounting requirements of HKAS 39 on adoption of HKFRS 9.

The Group has not provided comparative information for periods before the date of initial application of HKFRS 9 for the new disclosures introduced by HKFRS 9 as a consequential amendment to HKFRS 7, as permitted by HKFRS 7 paragraph 44Z.

Derivatives are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives are embedded in hybrid contracts, such as the conversion option in a convertible bond. If the hybrid contract contains a host that is a financial asset, then the Group assesses the entire contract as described in the financial assets section above for classification and measurement purposes.

Otherwise, the embedded derivatives are treated as separate derivatives when:

(i) Their economic characteristics and risks are not closely related to those of the host contract;

(ii) A separate instrument with the same terms would meet the definition of a derivative; and

(iii) The hybrid contract is not measured at fair value through profit or loss.

These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in the income statement unless the Group chooses to designate the hybrid contracts at fair value through profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Investments in subsidiaries

Investments in subsidiaries are stated in the Bank's statement of financial position at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Bank on the basis of dividends received or receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

Intangible assets

Goodwill

Goodwill arising on an acquisition of a business represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment losses are allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment losses for goodwill is recognised directly in the consolidated income statement. An impairment losses recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of gain or loss on disposal.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Computer software and internally developed software

Costs associated with maintaining computer software and internally developed software are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use or sell it;
- There is an ability to use or sell the software product;
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Development costs recognised as assets are amortised over their estimated useful lives, which does not exceed fifteen years.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Interests in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Interests in associates – continued

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in the income statement in the period in which the investment is acquired.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Investments in associates are stated in the Bank's statement of financial position at cost less provision for impairment losses. The results of associates are accounted for by the Bank on the basis of dividends received or receivable.

Interest income and expenses

Interest income and expense for all interest-bearing financial instruments are recognised within "interest income" and "interest expense" in the income statement using the effective interest method.

Interest income and expenses are recognised on a time-proportion basis by reference to the principal outstanding and at the effective interest rate applicable. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability on initial recognition. The calculation includes significant fees and transaction costs that are an integral part of the effective interest rate, and premiums or discounts.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Non-interest income revenue recognition

Fees and commission income

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

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed.

Dividends

Dividend income from investments including financial assets at fair value through profit or loss is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

Service income

Service income (including safe deposit box rentals and other banking services income) is recognised when services are provided.

Property and equipment

Property and equipment including land and buildings, which mainly comprise of branches and offices are stated in the statements of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property and equipment over their estimated useful lives after taking into account their estimated residual value, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gains or losses arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Leasehold land classified as finance lease commences amortisation from the time when the land interest becomes available for its intended use. Amortisation on leasehold land classified as finance lease and depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives.

Property and equipment will be reclassified to investment property when it is evidenced by end of owner occupation and commencement of an operating to another party.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Property and equipment – continued

Depreciation is calculated on a straight-line basis at the following useful lives:

Leasehold land	Over the remaining term of the lease
Buildings	Over its estimated useful life of 50 years or over the remaining term of lease of the leasehold land, whichever is the shorter
Equipment	5-15 years

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs of disposal.

Investment properties

Investment properties are properties held to earn rentals or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values representing open market value determined at each reporting date by external valuers. Gains or losses arising from changes in the fair value of investment property are included in the income statement for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposals. Any gains or losses arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the period in which the item is derecognised.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the income statement on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the lease.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments for land" in the statements of financial position and is released over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model.

Foreign currencies

Functional and presentation currency

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. The consolidated financial statements are presented in thousands of units of Hong Kong Dollars (HK$'000), which is the Bank's functional currency and the Group's presentation currency.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Foreign currencies – continued

Transactions and balances

Foreign currency transactions that are transactions denominated, or that require settlement, in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary items denominated in foreign currency are translated with the closing rate as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at exchange rates at statement of financial position dates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

All foreign exchange gains and losses recognised in the income statement are presented net in the income statement within the corresponding item. Foreign exchange gains and losses on other comprehensive income items are presented in other comprehensive income within the corresponding item.

In the case of changes in the fair value of monetary assets denominated in foreign currency classified as FVOCI (2017: available-for-sale), a distinction is made between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in the income statement, and other changes in the carrying amount, except impairment, are recognised in other comprehensive income.

Translation differences on non-monetary financial instruments, such as equity securities classified as held for trading, are reported as part of the fair value gain or loss. Translation differences on non-monetary financial instruments, such as equity securities classified as available-for-sale securities, are included in other comprehensive income.

Group companies and oversea branches

The results and financial position of all the Group's entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

- Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

- All resulting exchange differences are recognised in other comprehensive income.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Retirement benefit costs

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

For defined retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out regularly such that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the end of reporting period.

Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained profits and will not be reclassified to the income statement. Past service cost is recognised in the income statement in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorised as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements), recognised in the income statement;
- net interest expense or income, recognised in the income statement; and
- remeasurement, recognised in the other comprehensive income.

The net retirement benefit liability/asset recognised in the statements of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

Bonus plans

Liabilities for bonus plans due wholly within twelve months after the end of the reporting period are recognised when the Group has a present or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before taxation" as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and interest in associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax liabilities and deferred tax assets for such investment properties are measured in accordance with the above general principles set out in HKAS 12 (i.e. based on the expected manner as to how the properties will be recovered).

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Taxation – continued

Current and deferred tax is recognised in the income statement, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

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

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Impairment of non-financial assets (other than goodwill)

At the end of the reporting period, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment losses, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell 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 the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised immediately in the income statement.

Where impairment losses subsequently reverse, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment losses been recognised for the asset in prior years. A reversal of impairment losses is recognised as income immediately.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and balances with central bank and banks, money at call and short notice, as well as placements with banks.

Financial instruments – Accounting policies applied prior to 1 January 2018

Financial assets and financial liabilities are recognised in the statements of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or issue of financial liabilities at fair value through profit or loss are recognised immediately in the income statement.

Financial assets

The Group's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – Accounting policies applied prior to 1 January 2018 – continued

Financial assets – continued

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss have two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition.

A financial asset is classified as held for trading if:

- it has been incurred principally for the purpose of selling in the near future; or
- on initial recognition, it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated at fair value through profit or loss.

Financial assets at fair value through profit or loss are measured at fair values, with changes in fair values arising from remeasurement recognised directly in the income statement in the period in which they arise. The net gains or losses recognised in the income statement does not include any dividends or interest earned on these assets as these are recognised in accordance with the policies set out in Dividends and Interest income and expenses, respectively.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables including cash and short-term funds, placements with and advances to banks and other financial institutions, interest receivable, bills receivable, trade bills and other advances to customers, other accounts and amounts due from subsidiaries are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – Accounting policies applied prior to 1 January 2018 – continued

Financial assets – continued

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group's management has the positive intention and ability to hold to maturity other than those that meet the definition of loans and receivables. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Equity and debt securities held by the Group that are classified as available-for-sale financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of available-for-sale monetary financial assets relating to interest income calculated using the effective interest method and dividends on available-for-sale equity investments are recognised in the income statement. Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to the income statement (see the accounting policy in respect of impairment of financial assets below).

Dividends on equity instruments classified as available-for-sale are recognised in the income statement when the Group's right to receive the dividends is established.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment of financial assets below).

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – Accounting policies applied prior to 1 January 2018 – continued

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, default or delinquency in interest or principal payments; or
- it is probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

For financial asset carried at amortised cost, such as advances to customers, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis.

Individual impairment allowances are assessed by a discounted cash flow method for loans and advances that are individually significant and have objective evidence of impairment. The individual impairment allowances are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – Accounting policies applied prior to 1 January 2018 – continued

Impairment of financial assets – continued

Individually insignificant advances or advances where no objective evidence of impairment exists for an individually assessed financial assets are assessed for collective impairment by considering the historical loss experience of advances with similar credit risk characteristics adjusted for current conditions.

For financial assets carried at amortised cost, the amount of the impairment losses recognised is the difference between the financial asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment losses is measured as the difference between the financial asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced through the use of an allowance account. When the financial assets are considered to be uncollectible, the amounts are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the income statement.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decrease and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment losses are reversed through the income statement to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

When an available-for-sale financial asset carried at fair value is considered to be impaired, cumulative losses previously recognised in other comprehensive income are reclassified to the income statement in the period in which the impairment takes place.

Impairment losses on available-for-sale equity investments carried at fair value will not be reversed through the income statement in subsequent periods. Any increase in fair value subsequent to impairment losses are recognised directly in other comprehensive income and accumulated in investment valuation reserve. For available-for-sale debt investments, impairment losses are subsequently reversed through the income statement if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment losses.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – Accounting policies applied prior to 1 January 2018 – continued

Financial liabilities and equity instruments

Financial liabilities

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or equity instruments in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

Equity instruments (including ordinary shares and additional equity instruments) are any contracts that evidence a residual interests in the assets of a group entity after deducting all of its liabilities. Equity instruments issued by the Bank are recognised at the proceeds received, net of direct issuance costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss have two subcategories, including financial liabilities held for trading and those designated at fair value through profit or loss on initial recognition.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- on initial recognition, it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial liabilities at fair value through profit or loss are measured at fair values, with changes in fair values arising from remeasurement recognised directly in the income statement in the period in which they arise. The net gains or losses exclude any interest paid on the financial liabilities and are included in interest expense in the income statement.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – Accounting policies applied prior to 1 January 2018 – continued

Financial liabilities and equity instruments – continued

Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs. Other financial liabilities, including deposits and balances of banks, financial assets sold under repurchase agreements, deposits from customers, other accounts and accruals, amounts due to subsidiaries, certificates of deposit and loan capital are subsequently measured at amortised cost using the effective interest method.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statements of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the financial asset and settle the financial liability simultaneously. The legal enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Bank or the counterparty.

Derivative financial instruments and hedging

Derivatives are initially recognised at fair values at the date derivative contracts are entered into and are subsequently remeasured to their fair values at the end of each reporting period. The resulting gains or losses are recognised in the income statement immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the income statement depends on the nature of hedge relationship.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair values with changes in fair values recognised in the income statement.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – Accounting policies applied prior to 1 January 2018 – continued

Hedge accounting

The Group designates certain derivatives as hedges of the fair value of available-for-sale securities and fixed-rate subordinated note (fair value hedges).

At the inception of the hedging relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting the changes in fair values of the hedged item.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the income statement immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the fair value of the hedged item attributable to the hedged risk are recognised in the income statement in the line item relating to the hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for losses it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of obligation under the contract, as determined in accordance with HKAS 37 "Provisions, contingent liabilities and contingent assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the revenue recognition standard.

Any increase in the liability relating to guarantees is reported in the income statement.

4. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – Accounting policies applied prior to 1 January 2018 – continued

Derecognition

The Group derecognises financial assets only when the contractual rights to the cash flows from the financial assets expire, or when it transfers the financial assets and substantially all the risks and rewards of ownership of the financial asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred financial asset, the Group continues to recognise the financial asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the financial asset's carrying amount and the sum of the consideration received and receivable and the cumulative gains or losses that had been recognised in other comprehensive income and accumulated in equity is recognised in the income statement.

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in the income statement. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

The Group derecognises financial liabilities when, and only when the Group's obligations specified in the relevant contract are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the income statement.

Repurchase agreements

Financial assets sold subject to repurchase agreements continue to be recognised and recorded in the statement of financial position. The corresponding liability is included in the financial assets sold under repurchase agreements.

The difference between purchase and sale price is recognised as interest expense in the income statement over the life of the agreements using the effective interest method.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. 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.

Key sources of estimation uncertainty

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

(a) Impairment allowances on loans and advances

The Group establishes, through charges against profit, impairment allowances in respect of expected credit losses on loans and advances. The Group measures impairment allowances for 12-month or lifetime ECL using a 3-stage approach as follows:

Stage	Description	Impairment loss
Stage 1	Performing	12-month ECL
Stage 2	Performing but with credit risk increased significantly at reporting date since its initial recognition	Lifetime ECL
Stage 3	Non-performing	Lifetime ECL

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. More details are set out in note 7.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY – continued

Key sources of estimation uncertainty – continued

(b) Fair value of derivatives and other financial instruments

The management of the Group uses its judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments and structured products with embedded derivatives, assumptions are made based on quoted market rates adjusted for specific features of the instruments.

Details of the assumptions used are disclosed in note 7.

(c) Estimated impairment of goodwill

According to HKAS 36 “Impairment of Assets”, impairment losses are made when the carrying amount of an asset exceeds its recoverable amount, which is calculated at the higher of the fair value less costs to sell and value in use.

Management has reviewed goodwill for impairment by comparing the carrying amount and fair value less cost to sell of an acquired subsidiary (the smallest cash-generating unit) to which the goodwill has been allocated. The acquired subsidiary is involved in insurance business. Details of the recoverable amount calculation are disclosed in note 36.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY – continued

Critical judgements in applying the entity's accounting policies

The following are the critical judgements, apart from those involving estimations, that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI and loan commitment and financial guarantee is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are required in applying the accounting requirements for measuring ECL, such as:

- Establishing groups of similar financial assets for the purpose of measuring ECL;
- Determining criteria for Significant Increase in Credit Risk ("SICR");
- Determining definition of default and credit-impaired assets;
- Determining appropriate models and assumptions of the measurement of ECL; and
- Incorporating forward-looking information into ECL models.

Detailed information about the judgements and estimates made by the Group in above area is set out in Note 7.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY – continued

Deferred taxation on investment properties

For the purposes of measuring deferred tax liabilities or deferred tax assets arising from investment properties that are measured using the fair value model, the directors have reviewed the Group's investment property portfolios in Hong Kong and the Government of the People's Republic of China (the "Mainland") and concluded that the Group's investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time. Therefore, in measuring the Group's deferred taxation on investment properties, the directors have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is not rebutted. As a result, the Group has not recognised any deferred taxes on changes in fair value of investment properties located in Hong Kong as the Group is not subject to any income taxes on disposal of these investment properties. As at 31 December 2018, the Group has recognised the deferred tax of HK$18,550,000 (2017: HK$13,156,000) on the change in fair value of investment property in the Mainland.

Deferred taxation in respect of temporary differences attributed to the accumulated profits of the Mainland branches

The directors have determined that the Bank is able to control the timing of the reversal of the temporary differences attributable to accumulated profits of the Mainland branches amounting to HK$749,201,000 (2017: HK$561,562,000) and that it is probable that the temporary differences will not reverse in the foreseeable future. Accordingly, deferred taxation relating to such temporary differences is not provided.

6. SEGMENT INFORMATION

(a) Operating segments

The Group's operating segments, which are also the reportable segments, based on information regularly reviewed by the chief operating decision maker (Executive Committee of the Group) for the purpose of allocating resources to segments and assessing their performance on business divisions of the Group, are as follows:

The corporate and personal banking services provided by the Group are principally lending and trade finance facilities, auto financing, consumer financing, overdraft facilities, mandatory provident fund services, provision of fixed deposits, current and savings accounts, credit cards and personal wealth management services. The Group also provides automated telephone and internet banking services to its customers. Other banking services offered include remittance and money exchange, safe deposit boxes, autopay and direct debit services.

Financial markets activities mainly comprise inter-bank placement and deposit transactions, management of overall interest rate risk and liquidity of the Group and centralised cash management. Income from foreign exchange activities is generated from services provided to customers in the form of foreign exchange trading and forward contracts, and from the Bank's cash management activities through foreign currency funding swaps.

Securities dealing activities of the Group include securities trading, stockbroking and futures broking.

Others comprise investment holding, insurance, other investment advisory services and property investments.

No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

The operating segment information allocation basis was changed for better assessment of segment's performance for the year ended 31 December 2018. The comparative figures have been restated to conform to current year's presentation.

6. SEGMENT INFORMATION – continued

(a) Operating segments – continued

(i) Operating segment information for the year ended 31 December 2018 is presented below:

Operating segment revenues and results

	Corporate and personal banking HK$'000	Financial markets activities HK$'000	Securities business HK$'000	Others HK$'000	Eliminations HK$'000	Consolidated HK$'000
Interest income from external customers	3,509,221	1,524,016	9,064	60,277	–	5,102,578
Interest expense to external customers	(1,674,358)	(257,490)	(29)	(290,739)	–	(2,222,616)
Inter-segment interest income *(Note 1)*	455,751	–	–	402,507	(858,258)	–
Inter-segment interest expense *(Note 1)*	–	(858,258)	–	–	858,258	–
Net interest income	2,290,614	408,268	9,035	172,045	–	2,879,962
Fee and commission income	367,245	653	134,916	2,734	–	505,548
Fee and commission expense	(120,610)	(249)	(195)	–	–	(121,054)
Net income (loss) from trading and investments	82,727	90,701	(65)	74,792	–	248,155
Other operating income	102,190	–	770	70,546	–	173,506
Segment revenue						
Total operating income	2,722,166	499,373	144,461	320,117	–	3,686,117
Comprising:						
– Segment revenue from external customers	2,266,415	1,357,631	144,461	(82,390)		
– Inter-segment transactions	455,751	(858,258)	–	402,507		
Operating expenses *(Note 2)*	(1,275,130)	(101,468)	(88,536)	(58,466)	–	(1,523,600)
Net impairment losses on financial assets	(157,991)	(20,263)	–	–	–	(178,254)
Net (losses) gains on disposal of property and equipment	–	–	–	(341)	–	(341)
Net gains on disposal of and fair value adjustments on investment properties	–	–	–	10,250	–	10,250
Other non-operating income	–	–	–	116,655	–	116,655
Segment profit	1,289,045	377,642	55,925	388,215	–	2,110,827
Unallocated corporate expenses						(25,240)
Share of profits of associates						19,628
Profit before taxation						2,105,215

Notes: 1. Inter-segment pricing for funding transactions is charged with reference to prevailing market interest rates.

2. The difference between the operating expenses in the consolidated income statement and the operating expenses in the operating segments is the unallocated corporate expenses.

6. SEGMENT INFORMATION – continued

(a) Operating segments – continued

(i) Operating segment information for the year ended 31 December 2018 is presented below: – continued

Operating segment assets and liabilities as at 31 December 2018

	Corporate and personal banking *HK$'000*	Financial markets activities *HK$'000*	Securities business *HK$'000*	Others *HK$'000*	Consolidated *HK$'000*
Assets					
Segment assets	113,015,885	75,302,489	203,010	478,794	189,000,178
Interests in associates					347,320
Unallocated corporate assets					1,228,140
Consolidated total assets					190,575,638
Liabilities					
Segment liabilities	144,569,731	22,438,236	97,536	137,577	167,243,080
Unallocated corporate liabilities					790,229
Consolidated total liabilities					168,033,309

6. SEGMENT INFORMATION – continued

(a) Operating segments – continued

(i) Operating segment information for the year ended 31 December 2018 is presented below: – continued

Other information – amounts included in the measure of segment results and segment assets

	Corporate and personal banking HK$'000	Financial markets activities HK$'000	Securities business HK$'000	Others HK$'000	Unallocated HK$'000	Consolidated HK$'000
Capital expenditure during the year	31,821	555	134	1,675	208,024	242,209
Depreciation and amortisation	58,377	1,818	1,961	268	20,066	82,490
Release of prepaid lease payments for land	66	–	–	–	–	66

All direct costs incurred by different segments are grouped under respective segments. Indirect costs and support functions' costs are allocated to various segments and products based on effort and time spent while segments' other operating income is allocated depending on the nature of costs incurred. Indirect costs and support functions' costs and income related to corporate activities that cannot be reasonably allocated to segments or products are grouped as unallocated corporate expenses and unallocated corporate income respectively. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of performance.

There is no operating income with a single external customer amounting to or exceeding 10% of the Group's and the Bank's total operating income.

Assets and liabilities related to corporate activities that cannot be reasonably allocated to segments, products and support functions are grouped as unallocated corporate assets and liabilities. All direct segment assets and liabilities are grouped under respective segments.

6. SEGMENT INFORMATION – continued

(a) Operating segments – continued

(ii) Operating segment information for the year ended 31 December 2017 is presented below:

Operating segment revenues and results

	Corporate and personal banking *HK$'000*	Financial markets activities *HK$'000*	Securities business *HK$'000*	Others *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
Interest income from external customers	2,559,546	1,183,769	8,429	48,647	–	3,800,391
Interest expense to external customers	(1,037,122)	(254,392)	(125)	(191,624)	–	(1,483,263)
Inter-segment interest income *(Note 1)*	267,224	–	–	248,507	(515,731)	–
Inter-segment interest expense *(Note 1)*	–	(515,731)	–	–	515,731	–
Net interest income	1,789,648	413,646	8,304	105,530	–	2,317,128
Fee and commission income	278,031	271	143,456	2,787	–	424,545
Fee and commission expenses	(96,551)	(319)	(204)	–	–	(97,074)
Net income (loss) from trading and investments	6,981	12,659	2,560	(116,138)	–	(93,938)
Other operating income	147,491	543	718	10,143	–	158,895
Segment revenue						
Total operating income	2,125,600	426,800	154,834	2,322	–	2,709,556
Comprising:						
– Segment revenue from external customers	1,858,376	942,531	154,834	(264,185)		
– Inter-segment transactions	267,224	(515,731)	–	248,507		
Operating expenses *(Note 2)*	(1,060,024)	(97,187)	(96,576)	(62,380)	–	(1,316,167)
Net impairment losses on financial assets	(372,190)	–	–	(320)	–	(372,510)
Net gains on disposal of asset held for sale	–	–	–	2,878	–	2,878
Net (losses) gains on disposal of property and equipment	(19)	–	30,350	624,288	–	654,619
Net gains on disposal of and fair value adjustments on investment properties	–	–	–	12,632	–	12,632
Segment profit	693,367	329,613	88,608	579,420	–	1,691,008
Unallocated corporate expenses						(37,466)
Share of profits of associates						55,723
Profit before taxation						1,709,265

Notes: 1. Inter-segment pricing for funding transactions is charged with reference to prevailing market interest rates.

2. The difference between the operating expenses in the consolidated income statement and the operating expenses in the operating segments is the unallocated corporate expenses.

6. SEGMENT INFORMATION – continued

(a) Operating segments – continued

(ii) Operating segment information for the year ended 31 December 2017 is presented below: – continued

Operating segment assets and liabilities as at 31 December 2017

	Corporate and personal banking *HK$'000*	Financial markets activities *HK$'000*	Securities business *HK$'000*	Others *HK$'000*	Consolidated *HK$'000*
Assets					
Segment assets	99,078,528	62,763,543	436,863	437,901	162,716,835
Interests in associates					301,337
Unallocated corporate assets					728,942
Consolidated total assets					163,747,114
Liabilities					
Segment liabilities	119,202,062	25,925,751	243,751	112,447	145,484,011
Unallocated corporate liabilities					829,305
Consolidated total liabilities					146,313,316

Other information – amounts included in the measure of segment results and segment assets

	Corporate and personal banking *HK$'000*	Financial markets activities *HK$'000*	Securities business *HK$'000*	Others *HK$'000*	Unallocated *HK$'000*	Consolidated *HK$'000*
Capital expenditure during the year	83,191	1,248	2,357	73	206,084	292,953
Depreciation	58,347	1,816	2,120	412	21,442	84,137
Release of prepaid lease payments for land	66	–	–	–	–	66

6. SEGMENT INFORMATION – continued

(b) Geographical information

Geographical information (including geographical analysis of total segment revenue) is analysed by the Group based on the locations of the principal operations of the branches and subsidiaries which are responsible for reporting the results or booking the assets. Non-current assets presented below are based on the location of the entities' country of domicile which is the same as the location of the non-current assets.

Details of geographical information are set out below:

2018	Total operating income *HK$'000*	Profit before taxation *HK$'000*	Capital expenditure during the year *HK$'000*	Total assets *HK$'000*	Total liabilities *HK$'000*	Total contingent liabilities and commitments *HK$'000*	Non-current assets *HK$'000*
Hong Kong	3,003,143	1,868,619	174,028	160,539,779	141,766,681	37,314,868	1,565,789
Macau and Mainland China	682,974	236,596	68,181	30,035,859	26,266,628	201,269	190,984
Total	3,686,117	2,105,215	242,209	190,575,638	168,033,309	37,516,137	1,756,773

2017	Total operating income *HK$'000*	Profit before taxation *HK$'000*	Capital expenditure during the year *HK$'000*	Total assets *HK$'000*	Total liabilities *HK$'000*	Total contingent liabilities and commitments *HK$'000*	Non-current assets *HK$'000*
Hong Kong	2,308,139	1,567,409	223,707	143,575,786	129,936,255	26,237,373	1,367,414
Macau and Mainland China	401,417	141,856	69,246	20,171,328	16,377,061	12,071,618	195,974
Total	2,709,556	1,709,265	292,953	163,747,114	146,313,316	38,308,991	1,563,388

Note: Total operating income consists of net interest income, net fee and commission income, net income from trading and investment and other operating income.

Non-current assets consist of interests in associates, investment properties, property and equipment, prepaid lease payments for land (non-current portion), intangible assets and deferred tax assets.

7. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to variety of financial risks and the activities involve analysis, evaluation, acceptance and management of some degree of risk or a combination of risks. The Group's aim is therefore to achieve an appropriate balance between risk and return, and to minimise potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adhere to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk management functions are carried out by the Asset and Liability Management Committee (the "ALCO") under policies approved by the Board of Directors of the Bank (the "Board") and the Risk Management Committee (the "RMC"). The ALCO identifies, evaluates and mitigates financial risks in close co-operation with the Group's operating units. The Board and the RMC provide written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment. The most important types of risks from the use of financial instruments are credit risk, market risk and liquidity risk. Market risk includes currency risk, interest rate risk and price risk.

Categories of financial instruments

	2018 *HK$'000*	2017 *HK$'000*
Financial assets		
Financial assets measured at fair value through profit or loss	1,012,168	557,058
Financial assets measured at FVOCI (2017: Available-for-sale securities)	46,378,556	35,450,292
Held-to-maturity securities	–	3,640,146
Financial assets measured at amortised cost (including cash and cash equivalents) (2017: Loans and receivables, including cash and cash equivalents)	141,428,141	122,536,230
Financial liabilities		
Fair value through profit or loss	873,617	882,279
Amortised cost *(Note)*	166,899,884	144,946,083

Note: Loan capital of HK$4,507,147,000 (2017: HK$4,541,380,000) was carried at amortised cost with adjustment of fair value hedge as at 31 December 2018 (see note 31).

7. FINANCIAL RISK MANAGEMENT – continued

Credit risk

Credit risk is the risk of suffering financial loss, should any of the Group's customers, clients or market counterparties fail to fulfill their contractual obligations to the Group. Credit risk arises mainly from interbank, commercial and consumer loans and advances, and loan commitments arising from such lending activities, but can also arise from financial guarantees, letters of credit and acceptances.

The Group is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ('trading exposures') including non-equity trading portfolio assets and derivatives as well as settlement balances with market counterparties.

Credit risk is the single largest risk for the Group's business; management therefore carefully manages its exposure to credit risk. The credit risk management and control are centralised in a credit risk management team which reports regularly to the Board of Directors and head of each business unit.

Management of credit risk

The Group's lending policies have been formulated on the basis of its own experience, the Hong Kong Banking Ordinance, the Hong Kong Monetary Authority guidelines and other statutory requirements (in the case of branches outside Hong Kong and subsidiaries, the relevant local laws and regulations).

The Group has delegated selected individuals with the credit approval authority. These individuals consist of Chief Risk Officer, Head of Credit Risk Management and experienced credit risk officers of the Group. The Chief Risk Officer has the overall responsibility for the management of credit risk through formulating credit policies, overseeing the credit quality of the Group's loan portfolio, ensuring an independent and objective assessment of credit risk, controlling exposure to selected industries, counterparties, countries and portfolio types etc. and providing advice and guidance to business units on various credit-related issues.

Credit officers perform independent reviews and approvals of credit applications by ensuring that a credit proposal meets underwriting standards of the Group and complies with relevant rules and regulations. Approval from the senior executive approvers, comprising Executive Directors and senior executives of the Group, is required as and when the requested amount of a credit application exceeds the highest delegated authority of a credit officer.

7. FINANCIAL RISK MANAGEMENT – continued

Credit risk – continued

Management of credit risk – continued

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

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

Credit risk rating

The Group uses internal credit risk rating that reflects its assessment of the likelihood of individual counterparties being default. Borrower and loan specific information, both quantitative and qualitative, such as borrower's occupation and education for personal banking exposures; profitability ratio and industry type for Corporate banking exposures, is fed into the rating model. External data such as credit bureau information on individual borrower is also supplemented into the model to estimate the default risk.

Expected credit loss measurement

HKFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition.

A financial instrument that have not had a SICR since initial recognition or that have low credit risk at the reporting date is classified in 'Stage 1' and has its credit risk continuously monitored by the Group.

If a SICR since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.

If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.

Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.

A pervasive concept in measuring ECL in accordance with HKFRS 9 is that it should consider forward looking information.

Further explanation is also provided of how the Group determines appropriate groupings when ECL is measured on a collective basis.

The key judgements and assumptions adopted by the Group in addressing the requirements of the standard are discussed below:

7. FINANCIAL RISK MANAGEMENT – continued

Credit risk – continued

Establishing groups of similar financial assets for the purpose of measuring ECL

For ECL allowance provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous. In performing this grouping, there must be sufficient information for the group to be statistically credible. Where sufficient information is not available internally, the Group has considered the product nature and geographic location, and benchmarked external data to determine groupings. The characteristics and supplementary data used to determine the groupings are outlined below:

Personal banking

For personal banking portfolios, the grouping is based on product nature. The products are segmented into Mortgage, Credit Card, Overdraft, Personal Loan and etc.

Corporate banking

For corporate banking portfolios, loans are grouped according to geographical location and loan purpose, such as lending to corporate entities, financial institutions and etc. Credit limit is also considered to further classify the corporate loans into top tier corporate loan and normal corporate loan.

Treasury

The treasury exposures are grouped basing on the issuer type - bank, corporate and sovereign.

Others

For exposures from subsidiaries and oversea branches, they are grouped individually basing on the business type of the subsidiaries and geographic location of the oversea branches.

Determining criteria for SICR

The Group assesses whether there is a significant increase in risk of a credit exposure since origination at reporting date. While determining the significant increase in credit risk, the Group considers all reasonable and supportable information that is available without undue cost or effort and that is relevant for an individual financial instrument, a portfolio, sub-group of a portfolio and groups of portfolios. The Bank's internal lending policy and other credit risk management procedures are referenced and as well as benchmarking with industry practice.

The Group adopted "Policy & Procedures for Loan Classification" based on HKMA guideline. It is required to classify loans and advances to five classification categories, namely "Pass", "Special Mention", "Substandard", "Doubtful" and "Loss". The decision to classify loans into the above five categories is based on the borrower's repayment ability and the likelihood of individual counterparties being default.

The Group also maintained an Early Warning ("EW") account name list, which exhibits risks or potential weaknesses of material nature requiring closer monitoring, supervision, or attention by management. The EW account is classified into three categories, namely Low Risk, Medium Risk and High Risk.

The Group adopted individual Probability of Default ("PD") for those loans that are material and have external credit rating; however, for the rest of the portfolio, the Group adopted portfolio PD and the quantitative measurement of comparing the lifetime PD at initial recognition with the remaining lifetime PD at reporting date is not applied. A credit exposure is considered as experiencing significant increase in credit risk if one or more of the following criteria have been met (applied to Personal banking, Corporate banking and Treasury portfolios):–

7. FINANCIAL RISK MANAGEMENT – continued

Credit risk – continued

Determining criteria for SICR – continued

– Contractual payments are more than 30 days and less than 90 days past due

– Loan is classified as Special Mention according to the "Policy & Procedures for Loan Classification"

– Significant change in external credit rating, i.e. migrating from investment grade to speculative grade, applicable to corporate banking and treasury portfolios

– Any Medium or High risk account in the EW Account Name List. High risk EW accounts present an imminent credit concern that may exhibit higher possibility of default and/or rapid material deterioration in credit quality, while medium risk EW accounts exhibit medium to low possibility of default and emerging signs of deterioration in credit quality. Low risk accounts are not included in SICR since these accounts do not present any imminent credit concern. There is no evidence of a fundamental deterioration of its creditworthiness and it is placed on early warning solely for precautionary purpose, elevated attention and closer monitoring.

The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the independent Credit Risk team.

Determining definition of default and credit-impaired assets

The Group defines a financial instrument as in default, which is aligned with definition of credit impaired, when it meets on or more of following criteria:

– A loan is classified as Substandard, Doubtful or Loss according to the "Policy & Procedures for Loan Classification"

– A financial asset is 90 days past due or larger than 90 days past due on the contractual payments

– Loan is identified as restructured

– Loan is identified as forbearance

The criteria above have been applied to all financial instruments held by the Group and are consistent with the definition of default used for the internal credit risk management purpose.

7. FINANCIAL RISK MANAGEMENT – continued

Credit risk – continued

Determining appropriate models and assumption of the measurement of ECL

The ECL is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD). PD, EAD and LGD are defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.

- EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).

- Loss Given Default (LGD) represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD).

The ECL is determined by projecting the PD, LGD and EAD for 12-month or lifetime and for each individual exposure or collective segment. These three components are multiplied together. This effectively calculates the ECL for 12-month or lifetime, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the effective interest rate or an approximation thereof.

PD is driven by observed historical data and macroeconomic variables. The relationship between PD and macroeconomic variables is developed by the statistical regression model and the lifetime PD is derived by input of forward-looking macroeconomic variables. It is assumed that the PD is to be the same across all assets within a portfolio.

The 12-month and lifetime EADs are determined based on the expected payment profile and portfolios, which varies by product type.

Loan and advances

- For non-revolving products, this is based on the contractual repayments owed by the borrower over a 12 month or lifetime basis.

- For revolving products, the exposure at default is predicted by taking current drawn balance and adding an "adjustment factor" which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilisation band, based on analysis of the Group's recent default data.

7. FINANCIAL RISK MANAGEMENT – continued

Credit risk – continued

Treasury

For treasury portfolios, the 12-month and lifetime EADs are calculated depending on the product types and book type.

Measurement of LGD

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type.

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales and time to recovery observed.
- For unsecured products, LGD are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGD are influenced by collection strategies. Historical data and Basel model requirement are analysed to derive the LGD.
- For Stage 3 account, other expected future cash flow may also take into consideration if any repayment schedule is confirmed.

The assumptions underlying the ECL calculation are monitored and reviewed regularly. If nature of a credit portfolio is changing, the monitoring and review will be performed more frequently.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

Incorporating forward-looking information into the ECL models

The calculation of ECL incorporates forward-looking information. The Group has performed historical analysis and identified a set of key economic variables impacting credit risk and expected credit loss for each portfolio. The forward-looking element is reflected through the impact on PD and LGD models.

The economic variables and their associated impact on PD and LGD vary by financial instruments. Regression analysis is applied to select the most significant economic factors impacting the PD and LGD for each portfolio and to determine their associated impact on PD and LGD. The PD and LGD models were derived. This process involved experts' judgments. The Group considered the limitation of internal data, hence the development of the ECL models leveraged external data and incorporated the internal observed default rate to have the PD specific for the Group.

The forward-looking element is reflected by applying the forecasts of the economic variables included in the PD and LGD models. Forecasts of these economic variables (base scenario) are sourced from a leading economic forecasting provider. These forward-looking macroeconomic estimates are then input into the regression model to derive the forecast PD or LGD.

7. FINANCIAL RISK MANAGEMENT – continued

Credit risk – continued

Incorporating forward-looking information into the ECL models – continued

According to the HKFRS 9 standard, expected credit loss is expected to be assessed over a range of economic scenarios and is an unbiased and probability weighted amount. As such, the Group developed three macroeconomic scenarios, namely Good, Base and Bad scenarios. In this scenario setting process, the Group considered the following factors:

- Current economic environment and market forecasts in coming years
- Historical trend of domestic GDP YoY Growth Rate, including the downturn periods, such as the financial crisis occurred in 2008/2009
- The scenarios applied in other risk analytics, such as stress testing

For Base Scenario, it was set to the same as current economic environment with consideration of the market forecast on domestic Real GDP YoY Growth Rate would maintained at the similar level in coming years. For Bad Scenario, it was assumed that the economy entered a downturn. Under Bad Scenario, domestic GDP YoY Growth Rate was considered to drop to the extent with negative growth such that a "stress" scenario could be reflected. For Good scenario, it was derived basing on the historical economic trend and consideration of the divergence from Base scenario.

The weighting of each scenario is determined by management judgement with consideration of macroeconomic environment of Hong Kong and Mainland China and the trend of global economy. The ECL for each scenario is calculated and finally the overall weighted-average ECL is derived by applying the weighing to the ECL of each corresponding scenario. There is no change in the probability weighting assigned to each scenario over the year of 2018.

Economic variable assumptions

The Group has included various economic variables in the forward-looking models to estimate the ECL for different portfolios. When assessing the significance of assumptions for the ECL estimate, the Group has considered the extent of the usage of the economic variables and the ECL impact of the corresponding portfolio.

Corporate and Treasury portfolios account for the majority of ECL. Domestic GDP YoY Growth Rate and Exchange Rate (HKD/USD) are the key economic variables impacting the PD estimation of the ECL calculation for the two portfolios. Hence, domestic GDP YoY Growth Rate and Exchange Rate (HKD/USD) are considered as significant economic variables to the ECL estimation. In additional to GDP YoY Growth Rate and Exchange Rate (HKD/USD), House Price Index is also considered as a significant variable to ECL estimation as it impacts the estimation of the value for the property or land used as collateral.

7. FINANCIAL RISK MANAGEMENT – continued

Credit risk – continued

Domestic GDP YoY Growth Rate

Domestic GDP YoY Growth Rate has significant impact on companies' performance. It is applied in all Corporate banking portfolios and Treasury portfolios.

Exchange Rate (HKD/USD)

Exchange Rate has significant impact on the value of transactions made in US dollar. The companies are exposed to foreign exchange risk.

House Price Index

House Price has significant impact on the collateral value, which impacts the ECL estimate for loans with property or land as collaterals.

The most significant period-end assumptions used for the ECL estimate as at 31 December 2018 are set out below:

	Scenario	2019	2020	2021
Domestic GDP YoY Growth %	Base	1.20%	1.20%	1.20%
	Good	6.40%	6.40%	6.40%
	Bad	(5.31%)	(5.31%)	(5.31%)
Exchange Rate (HKD/USD)	Base	7.800	7.775	7.750
	Good	7.410	7.386	7.363
	Bad	7.978	7.985	7.992
House Price Index	Base	5.02%	5.48%	3.80%
	Good	12.43%	12.43%	12.43%
	Bad	(19.01%)	(19.01%)	(19.01%)

In the table above, the exchange rate of HKD/USD for Good and Bad scenario is assumed with no boundary by the Linked Exchange Rate System.

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness on an annual basis.

Management judgement and overlay

In HKFRS 9 ECL calculation, the Group has applied management overlay above the ECL derived by the HKFRS 9 ECL model. The management overlay aims to account for constraints of model methodology, data limitations and uncertainty of economic conditions, which could not be quantified by the model and expert judgements are necessary. The management overlay items include judgments of using macroeconomic and external default information which could not be precisely reflected in Group's Stage 1 and Stage 2 portfolios. The management overlay allows reasonable and sufficient level of provision to account for the uncertainties in model factors and future environment. The methodology and amount of management overlay are subject to regular review and governance process as to assess the adequacy and appropriateness of such overlay.

As at 31 December 2018, the amount of management overlay on top of ECL model results represents approximately 0.1% of the advances to customers balance.

7. FINANCIAL RISK MANAGEMENT – continued

Credit risk – continued

Credit risk exposure

Maximum exposure to credit risk – Financial instruments subject to impairment

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognized by rating designated by regulator or agency designation at the end of the reporting period. For advances to customers and loan commitments and financial guarantee contracts, credit rating from “Policy & Procedures for loan classification” issued by Hong Kong Monetary Authority is adopted. For debt securities, short-term funds and placements with banks, credit rating from Moody’s is adopted. Debt securities not rated by Moody’s are treated as unrated ones. The gross carrying amount of financial assets below also represents the Group’s maximum exposure to credit risk on these assets.

Advances to customers

	2018			
	Stage 1 12-month ECL *HK$’000*	Stage 2 Lifetime ECL *HK$’000*	Stage 3 Lifetime ECL *HK$’000*	Total *HK$’000*
Credit rating				
Pass	100,898,880	61,804	–	100,960,684
Special mention	–	508,757	1,077	509,834
Substandard	–	2,556	147,174	149,730
Doubtful	–	–	190,553	190,553
Loss	–	–	14,426	14,426
Gross carrying amount at 31 December	100,898,880	573,117	353,230	101,825,227
Loss allowance	379,031	12,382	154,435	545,848
Carrying amount at 31 December	100,519,849	560,735	198,795	101,279,379
Gross carrying amount at 1 January	83,165,996	2,964,505	567,871	86,698,372

7. FINANCIAL RISK MANAGEMENT – continued

Credit risk – continued

Credit risk exposure – continued

Maximum exposure to credit risk – Financial instruments subject to impairment – continued

Debt securities

	2018			
	Stage 1 12-month ECL *HK'000*	Stage 2 Lifetime ECL *HK'000*	Stage 3 Lifetime ECL *HK'000*	Total *HK'000*
Credit rating				
Aaa	4,476,141	–	–	4,476,141
Aa1 to Aa3	9,708,170	–	–	9,708,170
A1 to A3	19,187,220	–	–	19,187,220
Lower than A3	9,879,897	–	–	9,879,897
Unrated	3,599,139	–	–	3,599,139
Gross carrying amount at 31 December	46,850,567	–	–	46,850,567
Loss allowance	66,047	–	–	66,047
Carrying amount at 31 December	46,784,520	–	–	46,784,520
Gross carrying amount at 1 January	43,223,613	341,457	–	43,565,070

7. FINANCIAL RISK MANAGEMENT – continued

Credit risk – continued

Credit risk exposure – continued

Maximum exposure to credit risk – Financial instruments subject to impairment – continued

Loan commitments and financial guarantee contracts

	2018			
	Stage 1 12-month ECL *HK'000*	Stage 2 Lifetime ECL *HK'000*	Stage 3 Lifetime ECL *HK'000*	Total *HK'000*
Credit rating				
Pass	14,352,225	9,261	–	14,361,486
Special mention	–	6,150	–	6,150
Substandard	–	–	–	–
Doubtful	–	–	–	–
Loss	–	–	500	500
Gross carrying amount at 31 December	14,352,225	15,411	500	14,368,136
Loss allowance	9,855	927	7	10,789
Carrying amount at 31 December	14,342,370	14,484	493	14,357,347
Gross carrying amount at 1 January	14,152,676	74,946	1,563	14,229,185

Short-term funds and placements with banks

The Group held, short-term funds and placements with banks of HK$33,665,154,000 at 31 December 2018 (31 December 2017: HK$26,687,972,000), which are rated at investment grade based on Moody's or equivalent ratings.

7. FINANCIAL RISK MANAGEMENT – continued

Credit risk – continued

Maximum exposure to credit risk – Financial instruments not subject to impairment

The following table contains an analysis of the maximum credit risk exposure from financial assets not subject to impairment (i.e. FVTPL):

	2018 Maximum exposure to credit risk *HK'000*
Financial assets at fair value through profit or loss	
– Debt securities	115,813
– Derivatives	541,933
Hedging Derivatives	354,207

Collateral and other credit enhancements

The Group employs a range of policies and practices to mitigate credit risk. The most common of these is accepting collateral for funds advanced. The Group has internal policies on the acceptability of specific classes of collateral or credit risk mitigation.

The Group prepares a valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Margin agreement for derivatives, for which the Group has also entered into master netting agreements;
- Charges over business assets such as premises, inventory and accounts receivable; and
- Charges over financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured.

7. FINANCIAL RISK MANAGEMENT – continued

Credit risk – continued

Collateral and other credit enhancements – continued

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments. Derivatives are also collateralised.

The Group's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Group since the prior period.

The Group closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Group will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

Credit-impaired assets

	2018			
	Gross exposure *HK'000*	Stage 3 ECL allowance *HK'000*	Carrying amount *HK'000*	Fair value of collateral held *HK'000*
Loans and advances to customers				
Overdrafts	7,004	(3,415)	3,589	5,657
Instalment loans	29,811	(4,423)	25,388	96,557
Term loans	135,217	(12,618)	122,599	156,068
Syndication loans	102,519	(71,362)	31,157	–
Trade finance	78,291	(62,229)	16,062	9,438
Personal loans and tax loans	227	(227)	–	–
Other	161	(161)	–	–
Total credit-impaired assets	353,230	(154,435)	198,795	267,720

7. FINANCIAL RISK MANAGEMENT – continued

Credit risk – continued

Loss allowance

The following tables explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors:

Advances to customers

	2018			
	Stage 1 12-month ECL *HK$'000*	Stage 2 Lifetime ECL *HK$'000*	Stage 3 Lifetime ECL *HK$'000*	Total *HK$'000*
Balance at 1 January	213,504	118,125	399,755	731,384
Transfers:				
Transfer from Stage 1 to Stage 2	(243)	6,547	–	6,304
Transfer from Stage 2 to Stage 1	569	(12,682)	–	(12,113)
Transfer to Stage 3	(2,452)	(1,419)	139,876	136,005
Transfer from Stage 3	40	1,116	(3,793)	(2,637)
Net new and further lending/(repayments)	170,630	(97,998)	(5,291)	67,341
Changes in PDs/LGDs/EADs	4,131	(1,092)	(11,940)	(8,901)
Amounts written off	–	–	(361,819)	(361,819)
Other movements	(7,148)	(215)	(2,353)	(9,716)
Balance at 31 December	379,031	12,382	154,435	545,848

	Total *HK$'000*
Change in ECL in income statement charge for the year	185,999
Add: Recoveries	(20,958)
Add: Others	9,560
Total ECL charge for the year	174,601

7. FINANCIAL RISK MANAGEMENT – continued

Credit risk – continued

Loss allowance – continued

Debt securities

	2018			
	Stage 1 12-month ECL *HK$'000*	Stage 2 Lifetime ECL *HK$'000*	Stage 3 Lifetime ECL *HK$'000*	Total *HK$'000*
Balance at 1 January	46,283	4,669	–	50,952
Transfers:				
Transfer from Stage 1 to Stage 2	–	–	–	–
Transfer from Stage 2 to Stage 1	–	–	–	–
Transfer to Stage 3	–	–	–	–
Transfer from Stage 3	–	–	–	–
Net purchase/(redemption) of debt securities	11,305	(4,669)	–	6,636
Changes in PDs/LGDs/EADs	8,586	–	–	8,586
Other movements	(127)	–	–	(127)
Balance at 31 December	66,047	–	–	66,047
Of which:				
For debt securities at amortised cost	89	–	–	89
For debt securities at FVOCI	65,958	–	–	65,958
	66,047	–	–	66,047

The impairment allowances of debt securities at FVOCI is not recognised in the statement of financial position as the carrying amount of debt securities at FVOCI is their fair value.

7. FINANCIAL RISK MANAGEMENT – continued

Credit risk – continued

Loss allowance – continued

Loan commitments and financial guarantee contracts

	2018			
	Stage 1 12-month ECL *HK$'000*	Stage 2 Lifetime ECL *HK$'000*	Stage 3 Lifetime ECL *HK$'000*	Total *HK$'000*
Balance at 1 January	18,118	13,058	–	31,176
Transfers:				
Transfer from Stage 1 to Stage 2	(39)	398	–	359
Transfer from Stage 2 to Stage 1	535	(9,735)	–	(9,200)
Transfer to Stage 3	–	–	–	–
Transfer from Stage 3	–	–	–	–
Net decrease of loan commitment and financial guarantee contracts	(8,190)	(2,476)	–	(10,666)
Changes in PDs/LGDs/EADs	(569)	(318)	7	(880)
Other movements	–	–	–	–
Balance at 31 December	9,855	927	7	10,789

Short-term funds and placements with banks

	2018			
	Stage 1 12-month ECL *HK$'000*	Stage 2 Lifetime ECL *HK$'000*	Stage 3 Lifetime ECL *HK$'000*	Total *HK$'000*
Balance at 1 January	10,720	–	–	10,720
Transfers:				
Transfer from Stage 1 to Stage 2	–	–	–	–
Transfer from Stage 2 to Stage 1	–	–	–	–
Transfer to Stage 3	–	–	–	–
Transfer from Stage 3	–	–	–	–
Net increase in short-term funds and placements with banks	6,736	–	–	6,736
Changes in PDs/LGDs/EADs	2,082	–	–	2,082
Other movements	(260)	–	–	(260)
Balance at 31 December	19,278	–	–	19,278

7. FINANCIAL RISK MANAGEMENT – continued

Credit risk – continued

Loss allowance – continued

The Group's gross advances to customers (including advances booked in branches outside Hong Kong and subsidiaries) are analysed and reported by industry sectors according to the usage of the loans or business activities of the borrowers as follows:

	31 December 2018				
	Gross loans and advances *HK$'000*	Stage 1 & stage 2 impairment allowances *HK$'000*	Stage 3 impairment allowances *HK$'000*	Loans and advances secured by collateral *HK$'000* *(Note 1)*	Gross impaired advances *HK$'000*
Loans for use in Hong Kong					
Industrial, commercial and financial					
– Property development	5,446,148	5,264	–	2,687,387	–
– Property investment	8,891,687	26,955	–	6,685,007	–
– Financial concerns	7,684,878	1,904	–	1,454,725	–
– Stockbrokers	1,465,644	241	–	764,000	–
– Wholesale and retail trade	1,846,350	2,981	13,662	1,722,340	17,193
– Manufacturing	593,998	818	1,738	343,919	2,726
– Transport and transport equipment	1,898,132	2,414	–	1,023,665	–
– Recreational activities	616	–	–	616	–
– Information technology	364,368	1,585	–	86,112	–
– Others *(Note 2)*	7,291,366	19,656	1,614	4,391,405	124,845
Individuals					
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	519,770	126	2	519,770	498
– Loans for the purchase of other residential properties	9,234,292	1,987	197	9,232,929	16,473
– Credit card advances	79,580	1,706	586	–	586
– Others *(Note 3)*	2,857,321	3,920	947	2,613,179	3,714
	48,174,150	69,557	18,746	31,525,054	166,035
Trade finance	4,928,803	9,292	14,151	1,038,346	16,904
Loans for use outside Hong Kong	48,722,274	312,564	121,538	11,530,276	170,291
	101,825,227	391,413	154,435	44,093,676	353,230

7. FINANCIAL RISK MANAGEMENT – CONTINUED

Credit risk – continued

Loss allowance – continued

	31 December 2017				
	Gross loans and advances *HK$'000*	Collective impairment allowances *HK$'000*	Individual impairment allowances *HK$'000*	Loans and advances secured by collateral *HK$'000* *(Note 1)*	Gross impaired advances *HK$'000*
Loans for use in Hong Kong					
Industrial, commercial and financial					
– Property development	8,655,602	16,476	–	3,868,090	–
– Property investment	8,469,377	24,066	–	7,238,359	–
– Financial concerns	6,589,728	8,562	200,000	2,302,364	200,000
– Stockbrokers	2,405,034	4,666	–	1,265,898	–
– Wholesale and retail trade	2,666,682	20,358	9,670	2,435,878	9,670
– Manufacturing	1,609,080	55,382	3,023	831,615	3,380
– Transport and transport equipment	1,207,931	17,332	–	982,816	–
– Recreational activities	1,057	–	–	1,057	–
– Information technology	393,723	3,353	–	115,636	–
– Others *(Note 2)*	8,340,225	77,001	9,165	5,387,101	9,165
Individuals					
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	528,700	63	–	528,700	–
– Loans for the purchase of other residential properties	9,038,308	–	–	9,036,821	–
– Credit card advances	104,714	969	603	–	603
– Others *(Note 3)*	2,344,531	3,681	1,102	1,993,526	1,102
	52,354,692	231,909	223,563	35,987,861	223,920
Trade finance	2,963,400	5,927	20,271	1,133,247	22,533
Loans for use outside Hong Kong	31,380,280	91,803	150,559	10,875,016	151,647
	86,698,372	329,639	394,393	47,996,124	398,100

Notes: 1. Loans and advances secured by collateral are determined as the lower of the market value of collateral or outstanding loan principal.

2. Major items mainly included loans to businesses in electricity and gas, hotels, catering, margin lending and other business purposes.

3. Major items mainly included loans to professionals and other individuals for various private purposes.

7. FINANCIAL RISK MANAGEMENT – CONTINUED

Credit risk – continued

Loss allowance – continued

Significant changes in the gross amount of financial assets that contributed to changes on the loss allowance as follows:

- The advances to customers under stage 1 increased by 21%, with a corresponding HK$168,544,000 increase in loss allowance of advances to customers measured on a 12-month basis. The advances to customers under stage 2 decreased by 81%, primarily due to repayment of stage 2 loans, which resulted in a corresponding HK$104,436,000 decrease in loss allowance of advances to customers measured on lifetime basis.

- The write-off of advances to customers with a total gross carrying amount of HK$361,819,000 resulted in the reduction of the stage 3 loss allowance of advance to customers by the same amount.

- The impaired loans after excluding the write-off increased by HK$316,949,000. This also resulted in the increase in loss allowance of advances to customers under stage 3 by HK$130,792,000.

- The debt securities that are classified as FVOCI and amortised cost under stage 1 increased by 8%, leading to an increase in loss allowance of debt securities by HK$11,305,000.

Write-off

The Group may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written off during the year ended 31 December 2018 was HK$361,819,000.

The Group still seeks to recover amounts it is legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery.

7. FINANCIAL RISK MANAGEMENT – continued

Credit risk – continued

Modification of financial assets

The Group sometimes modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximising recovery.

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. The Group monitors the subsequent performance of modified assets. The gross carrying amount of such assets held as at 31 December 2018 was HK$124,443,000.

The Group continues to monitor if there is a subsequent significant increase in credit risk in relation to such assets through the use of specific models for modified assets.

The following table includes summary information for financial assets with lifetime ECL whose cash flows were modified during the year ended 31 December 2018 and their respective effect on the Group's financial performance is considered immaterial:

	Advance to customers *HK$'000*
Amortised cost before modification	198,616

Concentration of risks of financial assets with credit risk exposure

Concentration of credit risk exists when changes in geographical or industry factors similarly affect counterparties whose aggregate credit exposure is material in relation to the Group's total exposures.

An analysis of geographical and industry sector concentration of the Group's and the Bank's financial assets that best represent the maximum exposure to credit risk is disclosed on the next page.

The geographical locations of the financial assets are determined by the locations of the counterparties with the ultimate credit exposures.

7. FINANCIAL RISK MANAGEMENT – continued

Credit risk – continued

Concentration of risks of financial assets with credit risk exposure – continued

Geographical locations

	Hong Kong HK$'000	Asia Pacific excluding Hong Kong HK$'000 (Note 1)	Others HK$'000 (Note 2)	Total HK$'000
At 31 December 2018				
Short-term funds	2,622,466	20,472,987	2,487,586	25,583,039
Placements with banks	2,360,806	5,584,920	–	7,945,726
Derivative financial instruments	180,101	135,286	580,753	896,140
Financial assets at fair value through profit or loss	–	115,813	–	115,813
Financial assets measured at FVOCI - debt securities	18,258,032	18,368,531	9,666,415	46,292,978
Financial assets measured at amortised cost	21,338	470,204	–	491,542
Advances and other accounts	79,709,506	26,001,425	1,097,540	106,808,471
	103,152,249	71,149,166	13,832,294	188,133,709
At 31 December 2017				
Short-term funds	11,467,508	12,466,310	795,373	24,729,191
Placements with banks	994,907	5,364,097	–	6,359,004
Derivative financial instruments	152,851	138,671	265,271	556,793
Available-for-sale debt securities	7,164,839	17,703,104	10,494,516	35,362,459
Held-to-maturity securities	2,213,362	759,012	667,772	3,640,146
Loan and receivable securities	–	62,798	–	62,798
Advances and other accounts	67,851,957	22,203,129	894,701	90,949,787
	89,845,424	58,697,121	13,117,633	161,660,178

Notes: 1. The countries reported in "Asia Pacific excluding Hong Kong" mainly included the Mainland China, Japan, Australia and other Asian countries.

2. The countries reported in "Others" mainly included Canada, United States and other European countries.

7. FINANCIAL RISK MANAGEMENT – continued

Credit risk – continued

Concentration of risks of financial assets with credit risk exposure – continued

Industry sectors

	Banks and other financial institutions HK$'000	Central governments and central banks HK$'000	Public sector entities HK$'000	Corporate entities HK$'000	Others HK$'000	Total HK$'000
At 31 December 2018						
Short-term funds	24,412,566	1,170,473	–	–	–	25,583,039
Placements with banks	7,559,425	–	–	386,301	–	7,945,726
Derivative financial instruments	512,533	–	1,816	381,643	148	896,140
Financial assets at fair value through profit or loss	–	115,813	–	–	–	115,813
Financial assets measured at FVOCI	10,077,289	12,203,648	–	24,012,041	–	46,292,978
Financial assets measured at amortised cost	114,051	377,491	–	–	–	491,542
Advances and other accounts	6,705,806	1,984,182	1,342,654	81,002,771	15,773,058	106,808,471
	49,381,670	15,851,607	1,344,470	105,782,756	15,773,206	188,133,709
At 31 December 2017						
Short-term funds	12,923,203	11,805,988	–	–	–	24,729,191
Placements with banks	6,359,004	–	–	–	–	6,359,004
Derivative financial instruments	359,033	–	–	197,760	–	556,793
Available-for-sale debt securities	14,571,099	4,101,191	–	16,690,169	–	35,362,459
Held-to-maturity securities	915,151	–	–	2,724,995	–	3,640,146
Loan and receivable securities	62,798	–	–	–	–	62,798
Advances and other accounts	6,094,110	1,413,256	377,100	65,840,109	17,225,212	90,949,787
	41,284,398	17,320,435	377,100	85,453,033	17,225,212	161,660,178

7. FINANCIAL RISK MANAGEMENT – continued

Credit risk – continued

Credit quality

Credit quality of loans and advances to customers, excluding interest receivable, are summarised as follows:

	2017 *HK$'000*
Neither past due nor impaired	86,096,362
Past due but not impaired	203,910
Impaired	398,100
	86,698,372
Less: Allowances for impairment	(724,032)
	85,974,340

(i) Loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Group which is also the classification system required to be adopted for reporting to the Hong Kong Monetary Authority.

	Overdrafts *HK$'000*	Instalment loans *HK$'000*	Term loans *HK$'000*	Syndication loans *HK$'000*	Foreign currency loans *HK$'000*	Trade finance *HK$'000*	Personal loans and tax loans *HK$'000*	Others *HK$'000*	Total *HK$'000*
At 31 December 2017									
GRADES:									
Pass	1,218,990	22,712,229	30,295,850	20,743,653	6,135,529	2,782,727	202,890	1,033,504	85,125,372
Special mention	39,570	64,110	81,518	703,233	–	33,940	891	–	923,262
Substandard or below	2,493	17,164	27,100	–	–	971	–	–	47,728
Total	1,261,053	22,793,503	30,404,468	21,446,886	6,135,529	2,817,638	203,781	1,033,504	86,096,362

7. FINANCIAL RISK MANAGEMENT – continued

Credit risk – continued

Credit quality – continued

(ii) Loans and advances past due but not impaired

Gross amount of loans and advances by class of customers that were past due but not impaired were as follows:

	Overdrafts	Instalment loans	Term loans	Trade finance	Personal loans and tax loans	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2017							
Past due up to 30 days	10,662	979	–	56,969	–	–	68,610
Past due from 31 to 90 days	2,387	17,229	–	6,563	295	1,724	28,198
Past due more than 90 days	8,066	9,767	80,000	9,269	–	–	107,102
Total	21,115	27,975	80,000	72,801	295	1,724	203,910
Fair value of collateral	38,941	74,845	163,050	67,372	–	–	344,208
Loans and advances secured by collateral *(Note)*	21,113	27,913	80,000	63,276	–	–	192,302

Collateral mainly consists of properties and fixed deposits.

Note: The amount of loans and advances secured by collateral is determined as the lower of the market value of collateral or outstanding loan principal.

7. FINANCIAL RISK MANAGEMENT – continued

Credit risk – continued

Credit quality – continued

(iii) Loans and advances individually impaired

Loans and advances to customers

The breakdown of the gross amount of individually impaired loans and advances by class of customers are as follows:

	Overdrafts HK$'000	Instalment loans HK$'000	Term loans HK$'000	Syndication loans HK$'000	Foreign currency loan HK$'000	Trade finance HK$'000	Personal loans and tax loans HK$'000	Others HK$'000	Total HK$'000
At 31 December 2017									
Individually impaired loans	8,446	10,538	207,949	149,859	244	20,834	112	118	398,100
Fair value of collateral	–	1,520	–	–	–	2,353	–	–	3,873
Loans and advances secured by collateral *(Note)*	–	1,520	–	–	–	2,353	–	–	3,873

Collateral mainly consists of properties and fixed deposits.

Note: The amount of loans and advances secured by collateral is determined as the lower of the market value of collateral or outstanding loan principal.

(iv) Placements with and advances to banks

As at 31 December 2018 and 31 December 2017, the advances to banks are neither past due nor impaired and unsecured.

7. FINANCIAL RISK MANAGEMENT – continued

Credit risk – continued

Debt securities

Financial investments by rating agency designation

The following tables present analysis of financial securities, other than loans and advances, held by the Group and the Bank by rating agency designation at the end of the reporting period, based on Moody's ratings. Financial securities not rated by Moody's are treated as unrated ones.

	Financial assets at fair value through profit or loss *HK$'000*	Financial assets at FVOCI (2017: available-for-sale debt securities) *HK$'000*	Held-to-maturity securities *HK$'000*	Financial assets at amortised cost (2017: Loan and receivable securities) *HK$'000*	Total *HK$'000*
At 31 December 2018					
Aaa	–	4,475,528	–	–	4,475,528
Aa1 to Aa3	–	9,535,889	–	169,828	9,705,717
A1 to A3	115,813	18,833,584	–	319,714	19,269,111
Lower than A3	–	9,859,348	–	–	9,859,348
Unrated	–	3,588,629	–	2,000	3,590,629
Total	115,813	46,292,978	–	491,542	46,900,333
At 31 December 2017					
Aaa	–	3,853,067	–	–	3,853,067
Aa1 to Aa3	–	1,066,978	61,045	–	1,128,023
A1 to A3	–	20,805,591	1,345,056	–	22,150,647
Lower than A3	–	7,048,076	1,021,854	–	8,069,930
Unrated	–	2,588,747	1,212,191	62,798	3,863,736
Total	–	35,362,459	3,640,146	62,798	39,065,403

Repossessed collateral

During the years indicated, the Group obtained assets by taking possession of collateral held as security, as follows:

	2018 *HK$'000*	2017 *HK$'000*
Types of assets		
Others	9,500	10,250

Repossessed assets are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness.

7. FINANCIAL RISK MANAGEMENT – continued

Market risk

Market risk is the risk of losses in assets, liabilities and off-balance sheet positions arising from movements in market rates and prices, including foreign exchange rates, interest rates, commodity prices, and equity prices etc.

Market risk exposures are separated into trading and non-trading portfolios. Trading portfolios comprise positions arising from market-making and warehousing of customer derived positions. Market risk arising from trading portfolio is at acceptable level, as the Group maintains controllable positions of financial instruments leading to foreign exchange and interest rate exposures.

Non-trading portfolios comprise positions that primarily arise from the interest rate management of our retail and commercial banking assets and liabilities, financial investments designated as FVOCI (2017: available-for-sale) and amortised cost (2017: held-to-maturity), and exposures arising from our daily risk management operations.

Market risk management

Market risk is measured in terms of value at risk ("VaR"), which is used to estimate potential losses on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence;

It is monitored using measures including the net interest income and the sensitivity of foreign exchange which are applied to the market risk positions within each risk type; and

It is managed using risk limits approved by the Group. These limits are allocated across business lines and to the Group's legal entities.

The Group has established standards, policies and procedures to control and monitor the market risk and Risk Management Committee provides management oversight for the risk.

The Group uses derivatives to mitigate market risk caused by price fluctuation in interest rate and foreign exchange rate.

Stress tests are carried out to provide an indication of the potential losses under extreme market conditions. The stress test results are regularly reviewed by senior management and the Board. The Bank adopts scenario-based approach in stress-testing.

7. FINANCIAL RISK MANAGEMENT – continued

Market risk – continued

Currency risk

The assets and liabilities of the Group are mainly denominated in United States dollars ("US$"), Renminbi ("RMB") and Hong Kong dollars ("HK$"). The Group adopts a policy of predominately matching the assets with liabilities in the same currency, effectively reducing the foreign currency exchange rate exposure. Limits are set to ensure that the net foreign currency exposure is kept to an acceptable level. The Group uses foreign exchange spot and forward contracts to manage its foreign currency risk.

The following tables indicate the concentration of currency risk at the end of each reporting periods:

	HK$	US$	RMB	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Note)	
At 31 December 2018					
Assets					
Cash and short-term funds	12,110,459	1,676,262	8,214,505	4,181,176	26,182,402
Placements with banks	4,433,645	–	2,597,148	914,933	7,945,726
Derivative financial instruments	493,653	370,063	–	32,424	896,140
Financial assets at fair value through profit or loss	215	–	115,813	–	116,028
Financial assets measured at FVOCI	10,217,027	28,014,175	3,624,013	4,523,341	46,378,556
Financial assets measured at amortised cost	21,347	–	300,287	169,908	491,542
Advances to customers	70,524,600	13,942,689	17,162,851	195,087	101,825,227
Advances to banks	–	–	334,895	–	334,895
Other financial assets	142,706	1,071,377	3,386,586	47,680	4,648,349
Total financial assets	97,943,652	45,074,566	35,736,098	10,064,549	188,818,865
Liabilities					
Deposits and balances of banks	1,537,737	1,796,270	1,802,505	479,441	5,615,953
Financial assets sold under repurchase agreements	–	6,571,696	–	–	6,571,696
Deposits from customers	92,335,875	15,553,191	30,268,484	5,532,744	143,690,294
Derivative financial instruments	515,937	309,697	–	47,983	873,617
Certificates of deposit	965,744	1,722,642	–	–	2,688,386
Debt securities issued	–	–	1,707,923	–	1,707,923
Loan capital	–	4,507,147	–	–	4,507,147
Other financial liabilities	1,092,671	579,822	419,297	26,695	2,118,485
Total financial liabilities	96,447,964	31,040,465	34,198,209	6,086,863	167,773,501
Net position – total financial assets and liabilities	1,495,688	14,034,101	1,537,889	3,977,686	21,045,364

Note: Currencies included in "Others" mainly represented Macau Pactaca, Australian dollars and New Zealand dollars.

7. FINANCIAL RISK MANAGEMENT – continued

Market risk – continued

Currency risk – continued

	HK$ *HK$'000*	US$ *HK$'000*	RMB *HK$'000*	Others *HK$'000* *(Note)*	Total *HK$'000*
At 31 December 2017					
Assets					
Cash and short-term funds	17,302,870	325,818	6,506,653	1,029,300	25,164,641
Placements with banks	3,179,719	–	2,711,165	468,120	6,359,004
Derivative financial instruments	294,312	188,370	743	73,368	556,793
Financial assets at fair value through profit or loss	265	–	–	–	265
Available-for-sale securities	6,886,539	21,199,681	2,855,693	4,508,379	35,450,292
Held-to-maturity securities	520,238	2,597,116	409,525	113,267	3,640,146
Loan and receivable securities	–	–	62,798	–	62,798
Advances to customers	63,524,888	13,012,439	9,483,564	677,481	86,698,372
Advances to banks	–	107,829	–	–	107,829
Other financial assets	344,217	1,202,374	2,550,707	46,288	4,143,586
Total financial assets	92,053,048	38,633,627	24,580,848	6,916,203	162,183,726
Liabilities					
Deposits and balances of banks	466,251	1,236,071	1,128,007	221,603	3,051,932
Financial assets sold under repurchase agreements	–	11,137,481	–	865,508	12,002,989
Deposits from customers	77,888,784	14,821,953	20,473,818	5,574,119	118,758,674
Derivative financial instruments	436,005	359,757	724	85,793	882,279
Certificates of deposit	985,759	1,959,397	227,772	44,523	3,217,451
Debt securities issued	–	–	1,796,069	–	1,796,069
Loan capital	–	4,541,380	–	–	4,541,380
Other financial liabilities	975,611	360,403	219,386	22,188	1,577,588
Total financial liabilities	80,752,410	34,416,442	23,845,776	6,813,734	145,828,362
Net position – total financial assets and liabilities	11,300,638	4,217,185	735,072	102,469	16,355,364

Note: Currencies included in "Others" mainly represented Macau Pactaca, Australian dollars and New Zealand dollars.

The Group entered into a number of foreign currency forward contracts to manage the currency risk exposure, details of which are set out in note 19.

7. FINANCIAL RISK MANAGEMENT – continued

Market risk – continued

Currency risk – continued

Foreign currency sensitivity analysis

The Group mainly exposes to US dollars and Renminbi. The following table illustrates sensitivity measure of the currency risk exposure given ±1 and ±5 (2017: ±1 and ±5) per cent change in exchange rate of US dollars/Renminbi against Hong Kong dollars.

	Change in currency rate			
	US Dollars		Renminbi	
	Appreciate +1%	Depreciate -1%	Appreciate + 5%	Depreciate -5%
Hong Kong dollars equivalents (HK$'000)				
2018				
Profit after tax	**123,016**	**(123,016)**	**(73,562)**	**73,562**
Other comprehensive income (after tax)	**–**	**–**	**128,450**	**(128,450)**

	Change in currency rate			
	US Dollars		Renminbi	
	Appreciate +1%	Depreciate -1%	Appreciate + 5%	Depreciate -5%
Hong Kong dollars equivalents (HK$'000)				
2017				
Profit after tax	33,527	(33,527)	(95,940)	95,940
Other comprehensive income (after tax)	–	–	134,096	(134,096)

7. FINANCIAL RISK MANAGEMENT – continued

Market risk – continued

Interest rate risk

Interest rate risk is referred to the risk to the Bank's financial condition resulting from adverse movements in interest rates. This consists of repricing risk, basis risk, option risk and yield curve risk. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movement arises.

Interest rate risks comprise those originating from both trading and non-trading portfolio. The Group's interest rate risk exposure is mainly contributed by non-trading portfolio. The Group manages interest rate risks within the limits approved by the RMC and under the monitoring of both ALCO and RMC. Limits are set on the level of mismatch of interest rate repricing that may be undertaken, which is monitored regularly. For trading portfolio, additional limits on interest rate sensitivities (also known as DV01) and stop loss are being enforced on daily basis.

The Group maintains controllable interest rate positions on its trading portfolio, in addition to certain interest rate contracts entered into for the management of Group's own risk with securities that are classified as trading. Interest rate risk arises primarily from the timing differences in the re-pricing of and the different bases of pricing interest-bearing assets, liabilities and off-balance-sheet positions. Interest rate risk is regularly monitored by regular sensitivity analysis of the net re-pricing gap and of different scenarios of pricing bases of assets and liabilities grouped with reference to their next contractual repricing date or maturity date.

The tables below summarise the Group's interest rate risk exposure by the earlier of contractual repricing or maturity dates of its assets and liabilities. For debt securities designated as FVOCI (2017: available-for-sale), the exposure shown below has considered the interest rate swaps entered by the Group to manage interest rate risk of the debt securities.

7. FINANCIAL RISK MANAGEMENT – continued

Market risk – continued

Interest rate risk – continued

	Up to 3 months HK$'000	3 – 12 months HK$'000	1 – 5 years HK$'000	Over 5 years HK$'000	Non-interest bearing HK$'000	Total HK$'000
At 31 December 2018						
Assets						
Cash and short-term funds	24,475,695	1,257,370	–	–	449,337	26,182,402
Placements with banks	7,559,425	386,301	–	–	–	7,945,726
Derivative financial instruments	358,225	55,732	–	–	482,183	896,140
Financial assets at fair value through profit or loss	–	–	115,813	–	215	116,028
Financial assets measured at FVOCI	40,272,905	5,157,725	803,635	58,713	85,578	46,378,556
Financial assets measured at amortised cost	72,816	97,092	19,347	302,287	–	491,542
Advances to customers	85,663,195	3,178,826	8,679,248	4,016,563	287,395	101,825,227
Advances to banks	334,895	–	–	–	–	334,895
Other financial assets	3,029,338	624,756	–	–	994,255	4,648,349
Total financial assets	161,766,494	10,757,802	9,618,043	4,377,563	2,298,963	188,818,865
Liabilities						
Deposits and balances of banks	4,606,624	999,435	–	–	9,894	5,615,953
Financial assets sold under repurchase agreements	6,571,696	–	–	–	–	6,571,696
Deposits from customers	120,332,181	16,535,726	6,806,973	15,414	–	143,690,294
Derivative financial instruments	185,043	184,383	–	–	504,191	873,617
Certificates of deposit	2,551,668	136,718	–	–	–	2,688,386
Debt securities issued	–	1,707,923	–	–	–	1,707,923
Loan capital	–	–	4,507,147	–	–	4,507,147
Other financial liabilities	68,859	103,026	–	–	1,946,600	2,118,485
Total financial liabilities	134,316,071	19,667,211	11,314,120	15,414	2,460,685	167,773,501
Net position – total financial assets and liabilities	27,450,423	(8,909,409)	(1,696,077)	4,362,149	(161,722)	21,045,364

7. FINANCIAL RISK MANAGEMENT – continued

Market risk – continued

Interest rate risk – continued

	Up to 3 months HK$'000	3 – 12 months HK$'000	1 – 5 years HK$'000	Over 5 years HK$'000	Non-interest bearing HK$'000	Total HK$'000
At 31 December 2017						
Assets						
Cash and short-term funds	24,198,211	386,835	–	–	579,595	25,164,641
Placements with banks	4,222,802	2,136,202	–	–	–	6,359,004
Derivative financial instruments	168,394	100,897	–	–	287,502	556,793
Financial assets at fair value through profit or loss	–	–	–	–	265	265
Available-for-sale securities	25,389,403	9,928,906	9,125	35,026	87,832	35,450,292
Held-to-maturity securities	1,873,930	1,744,932	19,284	–	2,000	3,640,146
Loan and receivable securities	–	62,798	–	–	–	62,798
Advances to customers	72,775,699	2,487,099	8,615,501	2,511,269	308,804	86,698,372
Advances to banks	–	107,829	–	–	–	107,829
Other financial assets	1,943,410	523,779	–	79	1,676,318	4,143,586
Total financial assets	130,571,849	17,479,277	8,643,910	2,546,374	2,942,316	162,183,726
Liabilities						
Deposits and balances of banks	2,387,031	629,249	–	–	35,652	3,051,932
Financial assets sold under repurchase agreements	11,078,800	924,189	–	–	–	12,002,989
Deposits from customers	102,327,247	13,008,980	3,392,480	–	29,967	118,758,674
Derivative financial instruments	187,088	264,851	–	–	430,340	882,279
Certificates of deposit	1,539,806	1,677,645	–	–	–	3,217,451
Debt securities issued	–	1,796,069	–	–	–	1,796,069
Loan capital	–	–	4,541,380	–	–	4,541,380
Other financial liabilities	119,253	81,552	–	–	1,376,783	1,577,588
Total financial liabilities	117,639,225	18,382,535	7,933,860	–	1,872,742	145,828,362
Net position – total financial assets and liabilities	12,932,624	(903,258)	710,050	2,546,374	1,069,574	16,355,364

7. FINANCIAL RISK MANAGEMENT – continued

Market risk – continued

Interest rate risk – continued

Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to floating interest rates at the end of the reporting period and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. A 100 basis points change in upwards and 10 basis points change in downwards are used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rates.

	2018		2017	
	Change in basis points		Change in basis points	
	+100	-10	+100	-10
	HK$'000	HK$'000	HK$'000	HK$'000
Profit after tax	237,931	(11,217)	91,790	(8,262)

Price risk

The Group is exposed to price risk arising from its listed investments in equity securities. Except for those classified as FVPL (2017: held for trading), the Group does not actively trade these investments. The sensitivity analysis below is determined based on 10% changes in the price of the underlying investments.

Price sensitivity

	2018		2017	
	Change in price		Change in price	
	+10%	-10%	+10%	-10%
	HK$'000	HK$'000	HK$'000	HK$'000
Profit after tax	18	(18)	22	(22)
Other comprehensive income (after tax)	3,726	(3,726)	4,434	(4,434)

7. FINANCIAL RISK MANAGEMENT – continued

Liquidity risk

Liquidity risk is the risk that the Group may not be able to fund increases in assets or meet obligations as they fall due, without incurring unacceptable losses. Liquidity problems can have an adverse impact to the Group's earnings and capital and, in extreme circumstances, may even lead to the collapse of the Group which is otherwise solvent.

Management of liquidity risk

Principal objective

The principal objective of the Group's liquidity risk management framework is to maintain a conservative level of liquid funds on a daily basis so that the Group has sufficient cash flows to meet its current obligations when they fall due in the ordinary course of business, to make new loans and investments as opportunities arise and to satisfy statutory liquidity requirements. The Group has enhanced its liquidity risk management framework by conducting cash flow analysis to ensure that the Group has adequate liquidity and funding capacity to meet its normal business operations and to withstand a prolonged period of liquidity stress in accordance with the requirements set out in the Supervisory Policy Manual LM-2 "Sound Systems and Controls for Liquidity Risk Management" ("SPM LM-2"). This also provides a foundation to other risk management tools including stress-testing and contingency funding plan.

Organisation structure

The Group adopts a liquidity risk management model that incorporates both centralised and decentralised elements based on thorough consideration of the organisational structure and major business characteristics of the Group as well as regulatory policies. The Head Office is ultimately responsible for managing the Group's overall liquidity risk, while the branches outside Hong Kong in Macau and Mainland China manage their own liquidity risk pursuant to the Head Office's policies within authorised scope through submission of monthly management accounts and daily cash flow positions to Head Office.

The management of the Group's liquidity risk is governed by the Liquidity Risk Management Policy which is reviewed by the ALCO and approved by the EXCO. Key features of liquidity position, appropriate limits and triggers are set in the Liquidity Risk Management Policy. The ALCO is delegated by the EXCO to oversee the Group's day-to-day liquidity risk management, responsible for monitoring and controlling of the Group's liquidity position through ongoing and periodic review of different liquidity metrics, including but not limited to the statutory liquidity maintenance and core funding ratios, the maturity mismatch of assets and liabilities, loan-to-deposit ratios, normal and stressed cash flow projections and inter-bank transactions. The Group uses various management information systems developed in-house to prepare and compile regular management reports to facilitate the liquidity risk management duties.

Treasury Department is responsible for the Group's intraday and day-to-day management of cash flow and liquidity positions while Finance and Capital Management Division is responsible for the identification, measurement and monitoring of liquidity risk exposures, conducting liquidity cost analysis and stress-testing, handling regulatory reporting in relation to liquidity risk and coordinating the regular forecast of loans and deposits, liquidity maintenance ratio, liquidity and funding statements. Depending on the level of severity, any breach in policies will be reported by these units to the ALCO and/or the EXCO, whilst seeking their advices or instructions on mitigating measures.

7. FINANCIAL RISK MANAGEMENT – continued

Liquidity risk – continued

Management of liquidity risk – continued

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables below have been drawn up based on the contractual maturities of the undiscounted financial liabilities including interest that will accrue, with reference to their respective contractual interest rate, and for those variable rate instruments, by using the appropriate prevailing market rates as at the end of the reporting period as stated in their contracts.

	Repayable on demand *HK$'000*	Repayable within 1 month *HK$'000*	Repayable after 1 month but within 3 months *HK$'000*	Repayable after 3 months but within 1 year *HK$'000*	Repayable after 1 year but within 5 years *HK$'000*	Repayable after 5 years *HK$'000*	Undated *HK$'000*	Total *HK$'000*
Liabilities adjusted with interest payable								
At 31 December 2018								
Deposits and balances of banks	54,679	2,894,945	1,700,422	999,435	–	–	–	5,649,481
Financial assets sold under repurchase agreement	–	2,950,102	3,646,704	–	–	–	–	6,596,806
Deposits from customers	51,784,587	33,825,209	35,571,570	16,979,486	6,798,042	–	–	144,958,894
Certificate of deposits	–	601,425	1,726,828	297,945	79,003	–	–	2,705,201
Debt securities issued	–	–	–	1,770,438	–	–	–	1,770,438
Loan capital	–	–	–	212,130	2,158,658	3,464,723	–	5,835,511
Other financial liabilities	419,078	109,459	358,589	254,057	9,743	–	255,919	1,406,845
Total undiscounted financial liabilities	52,258,344	40,381,140	43,004,113	20,513,491	9,045,446	3,464,723	255,919	168,923,176
Liabilities adjusted with interest payable								
At 31 December 2017								
Deposits and balances of banks	6,290	791,419	1,635,363	630,956	–	–	–	3,064,028
Financial assets sold under repurchase agreements	–	3,568,616	7,534,952	930,745	–	–	–	12,034,313
Deposits from customers	51,642,610	25,398,229	25,764,039	13,301,812	3,429,934	–	6,544	119,543,168
Certificates of deposit	–	983,648	326,485	1,704,199	235,822	–	–	3,250,154
Debt securities issued	–	–	–	–	1,863,401	–	–	1,863,401
Loan capital	–	–	–	211,635	2,249,254	3,572,622	–	6,033,511
Other financial liabilities	634,341	57,731	189,331	198,366	12,960	–	18,846	1,111,575
Total undiscounted financial liabilities	52,283,241	30,799,643	35,450,170	16,977,713	7,791,371	3,572,622	25,390	146,900,150

7. FINANCIAL RISK MANAGEMENT – continued

Liquidity risk – continued

Management of liquidity risk – continued

The following tables detail the Group's expected maturity for its derivative financial instruments. The tables have been drawn up based on the undiscounted net cash inflows (outflows) on the derivative financial instruments that settle on a net basis and the undiscounted gross inflows and (outflows) on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the end of the reporting period.

	Less than 1 month HK$'000	1 – 3 months HK$'000	3 months to 1 year HK$'000	1 – 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
At 31 December 2018						
Derivatives settled net						
Interest rate contracts						
– Inflows/(outflows)	–	–	39,856	(23,885)	(27,120)	(11,149)
Derivatives settled gross						
Exchange rate contracts						
– Inflows	129,583,188	56,658,619	65,625,937	4,742,555	–	256,610,299
– Outflows	(129,599,801)	(56,683,094)	(65,607,076)	(4,735,437)	–	(256,625,408)
	(16,613)	(24,475)	18,861	7,118	–	(15,109)
At 31 December 2017						
Derivatives settled net						
Interest rate contracts						
– Inflows/(outflows)	17,192	(2,897)	(173,689)	(593,358)	(368,148)	(1,120,900)
Derivatives settled gross						
Exchange rate contracts						
– Inflows	52,242,666	41,704,574	49,511,651	858,097	–	144,316,988
– Outflows	(52,326,612)	(41,765,222)	(49,513,793)	(858,519)	–	(144,464,146)
	(83,946)	(60,648)	(2,142)	(422)	–	(147,158)

7. FINANCIAL RISK MANAGEMENT – continued

Liquidity risk – continued

Management of liquidity risk – continued

The dates of the contractual amounts of the Group's commitments and contingencies unrecorded in the statements of financial position that commit them to extending credit to customers and other facilities and financial guarantees are set out in note 37 to the consolidated financial statements and summarised in the table below:

	No later than 1 year *HK$'000*
At 31 December 2018	
Direct credit substitutes	**592,606**
Trade-related contingencies	**4,528,485**
Undrawn formal standby facilities, credit lines and other commitments excluding those that are unconditionally cancellable without prior notice	**9,247,045**
	14,368,136
At 31 December 2017	
Direct credit substitutes	1,315,865
Trade-related contingencies	1,995,688
Undrawn formal standby facilities, credit lines and other commitments excluding those that are unconditionally cancellable without prior notice	10,917,633
	14,229,186

7. FINANCIAL RISK MANAGEMENT – continued

Liquidity risk – continued

Sources of liquidity risk

Liquidity risk can arise from both sides of the on-balance sheet and the off-balance sheet transactions. The major sources of liquidity risk include the maturity mismatches between the Group's assets and liabilities, withdrawal of customers' deposits and drawing of loans by customers. The Group manages liquidity risk by conducting cash flow analysis arising from on-and off-balance sheet items over an appropriate set of time horizons under normal business conditions and stress scenarios on a daily and monthly basis respectively to identify liquidity needs.

The Group's liquidity risk management process also includes the use of liquidity metrics against which statutory and internal limits are set and observed, the design and implementation of early warning indicators of which exceptions should be reported, and the allocation of liquidity costs. The last line of defense is to ensure that the Group has funding capacity supported by good reputation and liquidity cushion.

The Group also measures and manages liquidity risk arising from off-balance sheet exposures and contingent funding obligations such as loan commitments, derivatives and contingent liabilities. Such exposures are subject to the limits set and are also factored into the Group's stress-testing. The Group does not engage in any transactions, such as securitisation, which give rise to the need of providing liquidity support.

Funding strategies

The Group has strong capital base and stable customer deposits which form its main funding sources. Funding diversification is achieved internally through surveillance on large depositors and externally by maintaining its access to the interbank market, issuance of certificates of deposit and through financial assets sold under repurchase agreements and swap markets. All of these are parts of the Group's funding strategy.

The Group's branches outside Hong Kong are mainly self-funded through acquiring customer deposits and maintaining its access to the local interbank market. Nevertheless, it is the Group's policy that the Head Office is to support their liquidity needs when necessary. The funding to branches outside Hong Kong is subject to preset limits so as to encourage them to source their own funding in the local markets.

Liquidity cushion

In order to address and mitigate market liquidity risk, the Group maintains a sufficient portfolio of liquidity cushion which can be sold or used as collateral to provide liquidity even under periods of stress. The Group deploys funds in good credit quality debt securities with deep and liquid markets to ensure short term funding requirements can be covered within prudent limits. The Group periodically obtains liquidity from a proportion of the liquidity cushion through secured borrowing to test the usability of these assets. Liquidity sources and contingency funding plan are maintained to identify early warning indicators of stress conditions, provide strategic liquidity to meet unexpected and material cash outflows and to describe remedial actions to be taken under crisis scenarios.

7. FINANCIAL RISK MANAGEMENT – continued

Liquidity risk – continued

Liquidity cushion – continued

The eligible assets as liquidity cushion are mainly debt securities which are unencumbered, low risk, simple structure and traded in active and sizable market with low volatility. Structured products and concentrated positions are not allowed in order to ensure the ease and certainty of valuation. For the liquidity cushion as a whole, there is an appropriate mix of eligible assets to ensure a high degree of diversification by limiting the exposure to each single credit. The liquidity cushion also contains a significant proportion of government issued debt securities with 0% risk-weight for credit risk to minimise risks.

The size of the liquidity cushion should be sufficient for the Group to meet its intraday payment obligations and to cover the day-to-day liquidity needs under both normal and stress market conditions. The Group is not subject to particular collateral arrangements or requirements in contracts if there is a credit rating downgrade of entities within the Group.

The table below shows the estimated value (nominal amount before assumed haircuts) of the liquid assets used for the purposes of liquidity cushion.

Internal Categorisation	Basic Criteria	**At 31 December 2018** ***HK$'000***	At 31 December 2017 *HK$'000*
Tier 1	Debt Securities issued by sovereigns, central banks or public sector entities with 0% risk-weight	**11,584,320**	4,612,548
Tier 2	Other investment grade debt securities	**18,263,441**	4,437,072

The Group's liquidity framework defines the liquidity cushion that can be assessed locally as high quality and realisable within one month. ALCO approves the size and composition of the liquidity cushion in accordance with the Liquidity Risk Management Policy, in which, the eligible assets as liquidity cushion was expanded in 2018 review. Comparing to 2017, the liquidity cushion in 2018 was expanded to also include investment grade debt securities issued by financial entities and debt securities with credit rating ranged from BBB- to BBB+.

Details of liquidity cushion are set out in the Liquidity Risk Management Policy which is reviewed by the ALCO and approved by the EXCO, and reported to the Board on an annual basis.

7. FINANCIAL RISK MANAGEMENT – continued

Liquidity risk – continued

Liquid cushion – continued

Stress-testing

The Group supplements the analysis of various types of risks with stress-testing. Stress-testing is a risk management tool for estimating risk exposures under stress conditions arising from extreme but plausible market or macroeconomic movements. Finance and Capital Management Division performs stress-testing on a monthly basis in accordance with the principles stated in the supervisory policy manual LM-2 and IC-5, and when necessary, may carry out special stress-testing in accordance with regulatory requirements and changes in the external operating environment. The stress-test results are regularly reviewed by the ALCO and the RMC, approved by the EXCO and reported to the Board.

In performing the stress-testing on liquidity risk, the Group adopts the cash flow analysis which has taken into consideration of various macroscopic and microscopic factors in line with the characteristics and complexity of the Group's businesses. Both on- and off-balance sheet items with applicable hypothetical, historical and behavioral assumptions are considered to address both funding and market liquidity risks. Four stress scenarios, namely the institution-specific crisis, the general market crisis and the combined crisis are adopted with minimum survival periods defined according to SPM LM-2. With reference to the stress-testing results, the Group identifies potential vulnerabilities on its liquidity position under stress market conditions and formulates the contingency funding plan that sets out remedial actions for dealing with liquidity problems (e.g. conducting repo transactions or liquidation of assets held for liquidity risk management purpose).

The Group also performs reverse stress-testing in accordance with SPM IC-5. Reverse stress-testing is an iterative process assisting the Group to identify and assess extreme stress scenarios that can cause business failures (e.g. breaches of regulatory capital ratios, illiquidity and severe negative profitability). It is a process of working backwards from the event causing business failures and involves a mix of qualitative and quantitative analyses. The Group uses results of reverse stress-testing to strengthen resilience to liquidity stress and serve as early-warning triggers for the formulation of management actions and contingency funding plan to mitigate potential stresses and vulnerabilities which the Group might face.

Contingency funding plan

The Group distinguishes between different stages of a liquidity crisis that the Group may face, namely: Funding Stress, Liquidity Drain, Bank Run and recovery zone. The escalation is to reflect the worsening liquidity conditions. This includes the liquidity shortfalls estimated from stress- testing performed.

The Group's contingency funding plan, as stipulated in the Liquidity Risk Management Policy and the Procedures Manual for Contingency Funding Plan, details the Group's immediate action in order to react to emergency. It covers three major components: (1) Predefined conditions to activate the plan; (2) The Group's strategy and potential funding options to deal with different crisis scenarios; and (3) Practical action plans and procedures with clear responsibilities of management and its supporting teams. The ALCO would be called during liquidity crisis to ensure business continuity of the Group.

The Liquidity Risk Management Policy and the Procedures Manual for Contingency Funding Plan are reviewed and updated at least annually to cope with required changes and improvements.

To ensure the contingency funding plan remains practical and effective, drill test is conducted by the Group on an annual basis.

7. FINANCIAL RISK MANAGEMENT – continued

Liquidity risk – continued

Analysis of assets and liabilities by remaining maturity

The maturity analysis of financial assets and liabilities shown on the statements of financial position, based on the remaining period at the end of the reporting period to the contractual maturity date is shown below:

	Repayable on demand	Repayable within 1 month	Repayable after 1 month but within 3 months	Repayable after 3 months but within 1 year	Repayable after 1 year but within 5 years	Repayable after 5 years	Undated	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2018								
Assets								
Cash and short-term funds	57,517	23,292,051	2,145,014	687,820	–	–	–	26,182,402
Placements with banks	216,465	–	5,598,618	2,130,643	–	–	–	7,945,726
Derivative financial instruments	–	165,157	102,930	196,844	151,485	279,724	–	896,140
Financial assets at fair value through profit or loss	–	–	–	–	–	115,813	215	116,028
Financial assets measured at FVOCI	–	6,552,675	2,266,230	5,762,937	16,094,769	15,616,367	85,578	46,378,556
Financial assets measured at amortised cost	–	43,689	29,126	97,092	21,347	300,288	–	491,542
Advances to customers	1,397,750	7,182,043	8,985,614	19,930,337	45,649,316	18,615,641	64,526	101,825,227
Advances to banks	–	334,895	–	–	–	–	–	334,895
Other financial assets	2,528,730	358,616	941,728	806,461	9,813	3,001	–	4,648,349
Total financial assets	4,200,462	37,929,126	20,069,260	29,612,134	61,926,730	34,930,834	150,319	188,818,865

7. FINANCIAL RISK MANAGEMENT – continued

Liquidity risk – continued

Analysis of assets and liabilities by remaining maturity – continued

	Repayable on demand	Repayable within 1 month	Repayable after 1 month but within 3 months	Repayable after 3 months but within 1 year	Repayable after 1 year but within 5 years	Repayable after 5 years	Undated	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2018								
Liabilities								
Deposits and balances of banks	28,874	2,892,104	1,695,540	999,435	–	–	–	5,615,953
Financial assets sold under repurchase agreements	–	2,944,714	3,626,982	–	–	–	–	6,571,696
Deposits from customers	51,538,924	33,540,597	35,180,685	16,632,282	6,797,806	–	–	143,690,294
Derivative financial instruments	–	195,212	104,467	185,091	249,819	139,028	–	873,617
Certificates of deposit	–	600,079	1,716,574	293,494	78,239	–	–	2,688,386
Debt securities issued	–	–	–	1,707,923	–	–	–	1,707,923
Loan capital	–	–	–	–	1,592,297	2,914,850	–	4,507,147
Other financial liabilities	679,295	281,600	521,515	370,177	9,979	–	255,919	2,118,485
Total financial liabilities	52,247,093	40,454,306	42,845,763	20,188,402	8,728,140	3,053,878	255,919	167,773,501
Net position – total financial assets and liabilities	(48,046,631)	(2,525,180)	(22,776,503)	9,423,732	53,198,590	31,876,956	(105,600)	21,045,364
Of which debt securities included in :								
FVOCI	–	6,438,907	2,266,230	5,762,937	16,094,769	15,730,135	–	46,292,978
Amortised cost	–	43,601	29,126	97,092	21,347	300,376	–	491,542
	–	6,482,508	2,295,356	5,860,029	16,116,116	16,030,511	–	46,784,520

7. FINANCIAL RISK MANAGEMENT – continued

Liquidity risk – continued

Analysis of assets and liabilities by remaining maturity – continued

	Repayable on demand	Repayable within 1 month (except those repayable on demand)	Repayable after 1 month but within 3 months	Repayable after 3 months but within 1 year	Repayable after 1 year but within 5 years	Repayable after 5 years	Undated	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2017								
Assets								
Cash and short-term funds	9,184,243	12,701,567	2,891,996	386,835	–	–	–	25,164,641
Placements with banks	–	–	4,222,802	2,136,202	–	–	–	6,359,004
Derivative financial instruments	–	86,759	117,664	86,605	137,091	128,674	–	556,793
Financial assets at fair value through profit or loss	–	–	–	–	–	–	265	265
Available-for-sale securities	–	1,081,040	1,239,594	7,142,326	11,303,800	14,595,698	87,834	35,450,292
Held-to-maturity securities	–	61,045	–	124,100	3,455,001	–	–	3,640,146
Loan and receivable securities	–	–	–	62,798	–	–	–	62,798
Advances to customers	1,403,473	3,221,935	9,532,838	14,986,516	39,652,060	17,686,431	215,119	86,698,372
Advances to banks	–	–	–	107,829	–	–	–	107,829
Other financial assets	1,337,148	325,035	1,778,121	616,464	53,835	6,364	26,619	4,143,586
Total financial assets	11,924,864	17,477,381	19,783,015	25,649,675	54,601,787	32,417,167	329,837	162,183,726

7. FINANCIAL RISK MANAGEMENT – continued

Liquidity risk – continued

Analysis of assets and liabilities by remaining maturity – continued

	Repayable on demand HK$'000	Repayable within 1 month (except those repayable on demand) HK$'000	Repayable after 1 month but within 3 months HK$'000	Repayable after 3 months but within 1 year HK$'000	Repayable after 1 year but within 5 years HK$'000	Repayable after 5 years HK$'000	Undated HK$'000	Total HK$'000
At 31 December 2017								
Liabilities								
Deposits and balances of banks	6,290	790,916	1,625,477	629,249	–	–	–	3,051,932
Financial assets sold under repurchase agreements	–	3,566,353	7,512,447	924,189	–	–	–	12,002,989
Deposits from customers	51,629,989	25,194,216	25,525,257	13,016,732	3,392,480	–	–	118,758,674
Derivative financial instruments	–	164,583	187,369	82,716	186,234	261,377	–	882,279
Certificates of deposit	–	980,066	325,248	1,677,645	234,492	–	–	3,217,451
Debt securities issued	–	–	–	–	1,796,069	–	–	1,796,069
Loan capital	–	–	–	–	1,615,531	2,925,849	–	4,541,380
Other financial liabilities	644,967	201,598	320,840	334,379	50,414	–	25,390	1,577,588
Total financial liabilities	52,281,246	30,897,732	35,496,638	16,664,910	7,275,220	3,187,226	25,390	145,828,362
Net position – total financial assets and liabilities	(40,356,382)	(13,420,351)	(15,713,623)	8,984,765	47,326,567	29,229,941	304,447	16,355,364
Of which debt securities included in:								
Available-for-sale securities	–	1,081,041	1,239,594	7,142,326	11,303,800	14,595,698	–	35,362,459
Held-to-maturity securities	–	61,045	–	124,100	3,455,001	–	–	3,640,146
Loan and receivable securities	–	–	–	62,798	–	–	–	62,798
	–	1,142,086	1,239,594	7,329,224	14,758,801	14,595,698	–	39,065,403

7. FINANCIAL RISK MANAGEMENT – continued

Fair value of financial assets and financial liabilities

Except as detailed in the following tables, the directors of the Group consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

	Carrying amount		Fair value	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Financial assets				
– measured at amortised cost				
(2017: held-to-maturity securities)	**491,542**	3,640,146	**490,224**	3,681,149
Financial liabilities				
– Loan capital	**4,507,147**	4,541,380	**4,546,544**	4,667,114
– Debt securities issued	**1,707,923**	1,796,069	**1,705,198**	1,762,600

The following tables give information about financial assets and financial liabilities which are not measured at fair values at the end of each reporting period, but for which the fair values are disclosed.

	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
At 31 December 2018				
Financial assets measured at				
amortised cost	**–**	**490,224**	**–**	**490,224**
Loan capital	**–**	**4,546,544**	**–**	**4,546,544**
Debt securities issued	**–**	**1,705,198**	**–**	**1,705,198**
At 31 December 2017				
Held-to-maturity securities				
Debt securities	–	3,681,149	–	3,681,149
Loan capital	–	4,667,114	–	4,667,114
Debt securities issued	–	1,762,600	–	1,762,600

7. FINANCIAL RISK MANAGEMENT – continued

Fair value of financial assets and financial liabilities – continued

Please refer to next section for the definition of fair value hierarchy.

The fair values of listed securities are determined with reference to quoted market bid prices from relevant stock exchanges.

The fair values of debt securities classified as FVOCI (2017: available-for-sale), debt securities classified as amortised cost (2017: held-to-maturity) and loan capital are determined based on indicative prices provided by the dealers and brokers. In addition, the Group makes comparison of the indicative prices with the prices obtained from pricing service providers and other service providers and with the values calculated using valuation models such as discounted cash flows method to substantiate the indicative prices of the debt securities. The key inputs used in the valuation models are the interest rate data, which are observable at the end of the reporting period. The objective of valuation models is to arrive at a fair value estimation that reflects the price of the financial instrument at the reporting date, which would have been determined by market participants acting at arm's length.

The fair values of foreign currency forward contracts are measured by comparing the contracted forward rates and the quoted forward exchange rates, which are observable at the end of the reporting period.

The fair values of interest rate swaps and cross-currency interest rate swaps are measured by the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates, which are observable at the end of the reporting period.

There were no changes in the Group's valuation techniques during the year.

Fair value measurements recognised in the statements of financial position

Some of the Group's financial assets and financial liabilities are measured at fair values at the end of each reporting period. The following table and paragraph give information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation techniques and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

7. FINANCIAL RISK MANAGEMENT – continued

Fair value measurements recognised in the statements of financial position – continued

	Fair value hierarchy Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
At 31 December 2018				
Financial assets measured at fair value through profit or loss				
Equity securities	215	–	–	215
Debt securities	115,813	–	–	115,813
Financial assets measured at FVOCI				
Equity securities	44,624	–	40,954	85,578
Debt securities	42,424,549	3,868,429	–	46,292,978
Derivative financial assets not used for hedging	–	541,932	–	541,932
Derivative financial assets used for hedging	–	354,207	–	354,207
Derivative financial liabilities not used for hedging	–	(561,577)	–	(561,577)
Derivative financial liabilities used for hedging	–	(312,040)	–	(312,040)
Total	42,585,201	3,890,951	40,954	46,517,106
At 31 December 2017				
Financial assets at fair value through profit or loss – Held for trading	265	–	–	265
Available-for-sale securities				
Equity securities	53,098	–	277	53,375
Debt securities	–	35,362,459	–	35,362,459
Derivative financial assets not used for hedging	–	374,572	–	374,572
Derivative financial assets used for hedging	–	182,221	–	182,221
Derivative financial liabilities not used for hedging	–	(513,819)	–	(513,819)
Derivative financial liabilities used for hedging	–	(368,460)	–	(368,460)
Total	53,363	35,036,973	277	35,090,613

There were no transfers between Levels 1, 2 and 3 in both years, except for the debt securities measured at FVOCI of HK$42,424,549,000 were transferred from Level 2 to Level 1 in 2018 given the Group can access to quoted prices in active markets as at 31 December 2018. The Group's policy is to recognise transfer between levels of fair value hierarchy as at the end of the reporting period in which they occur.

7. FINANCIAL RISK MANAGEMENT – continued

Fair value measurements recognised in the statements of financial position – continued

Reconciliation of Level 3 fair value measurements of financial assets

	Financial assets measured at FVOCI (2017: Available-for-sale securities) *HK$'000*
Balance at 1 January 2017	275
Total net gains recognised in the investment revaluation reserve	2
Balance at 31 December 2017	277
Balance at 1 January 2018 (Restated)	**34,735**
Purchase	**7,718**
Exchange difference	**(1,500)**
Total net gains recognised in the investment revaluation reserve	**1**
Balance at 31 December 2018	**40,954**

The majority of the Group's investments are valued based on quoted market information or observable market data. A small percentage, less than 0.02% (2017: 0.01%), of total assets recorded at fair values, are based on estimates and recorded as Level 3 investments. If the carrying amount of these investments would be increased (decreased) by 5%, the impact on other comprehensive income would be increased (decreased) by HK$2,048,000 (2017: HK$14,000) respectively.

Of the total net gains or losses for the year included in other comprehensive income, an amount of HK$1,000 gains (2017: HK$2,000 gains) relate to financial assets measured at FVOCI (2017: available-for-sale securities) held at the end of the reporting period.

8. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING, ENFORCEABLE MASTER NETTING ARRANGEMENTS AND SIMILAR AGREEMENTS

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Group's statements of financial position; or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statements of financial position.

The Group entered into International Swaps and Derivatives Association ("ISDA") Master Agreements and Global Master Repurchase Agreements ("GMRA") for derivatives and sale and repurchase agreements.

The Group's derivative transactions that are not transacted on an exchange are entered into under ISDA Master Agreements. The Group's sale and repurchase transactions are covered by GMRA with netting terms similar to those of ISDA Master Agreements. The ISDA Master Agreements and GMRA do not meet the criteria for offsetting in the statements of financial position. However, they create a right of set off of different contracts that is enforceable only following an event of default, insolvency and bankruptcy of the Group or the counterparties. In such circumstances, all outstanding contracts under the agreements are terminated, the termination value is assessed and only a single net amount is due or payable in settlement of all contracts.

In addition, the Group received and pledged collateral in the form of cash in respect of its derivative transactions and sale and repurchase agreements. Such collateral is subject to the standard industry terms of ISDA Credit Support Annex or GMRA. Collateral received or pledged must be returned on maturity of the transactions.

Under the agreement of Continuous Net Settlement made between the Group and Hong Kong Securities Clearing Company Limited ("HKSCC"), money obligations receivable and payable with HKSCC on the same settlement date are settled on net basis.

The Group has a legally enforceable right to set off the trades receivable and payable with brokerage clients that are due to be settled on the same date and the Group intends to settle these balances on a net basis.

8. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING, ENFORCEABLE MASTER NETTING ARRANGEMENTS AND SIMILAR AGREEMENTS – continued

Types of financial assets	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities offset in the consolidated statement of financial position	Net amounts of financial assets presented in the consolidated statement of financial position	Related amounts not offset in the consolidated statement of financial position: Financial instruments	Related amounts not offset in the consolidated statement of financial position: Cash/ financial collateral received	Net amounts
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* *(Note)*	*HK$'000*
At 31 December 2018						
Derivatives – interest rate swaps	227,746	–	227,746	(216,027)	(28,008)	(16,289)
Derivatives – foreign currency forward contracts	440,489	–	440,489	(358,141)	(93,133)	(10,785)
FVOCI (2017: Available-for-sale) debt securities	7,243,924	–	7,243,924	(6,571,696)	(43,747)	628,481
Amortised cost (2017: Held-to-maturity) debt securities	–	–	–	–	–	–
Amounts due from HKSCC and brokerage clients	225,312	(31,168)	194,144	–	–	194,144
Total	8,137,471	(31,168)	8,106,303	(7,145,864)	(164,888)	795,551

8. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING, ENFORCEABLE MASTER NETTING ARRANGEMENTS AND SIMILAR AGREEMENTS – continued

Types of financial liabilities	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets offset in the consolidated statement of financial position	Net amounts of financial liabilities presented in the consolidated statement of financial position	Related amounts not offset in the consolidated statement of financial position		Net amounts
				Financial instruments	Cash/ financial collateral pledged	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* *(Note)*	*HK$'000*
At 31 December 2018						
Derivatives – interest rate swaps	253,697	–	253,697	(216,027)	(42,465)	(4,795)
Derivatives – foreign currency forward contracts	489,858	–	489,858	(358,141)	(140,431)	(8,714)
Financial assets sold under repurchase agreements	6,571,696	–	6,571,696	(6,571,696)	(18,037)	(18,037)
Amounts due to HKSCC and brokerage clients	128,704	(31,168)	97,536	–	–	97,536
Total	7,443,955	(31,168)	7,412,787	(7,145,864)	(200,933)	65,990

8. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING, ENFORCEABLE MASTER NETTING ARRANGEMENTS AND SIMILAR AGREEMENTS – continued

Types of financial assets	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities offset in the consolidated statement of financial position	Net amounts of financial assets presented in the consolidated statement of financial position	Related amounts not offset in the consolidated statement of financial position: Financial instruments	Related amounts not offset in the consolidated statement of financial position: Cash/ financial collateral received	Net amounts
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (Note)	*HK$'000*
At 31 December 2017						
Derivatives – interest rate swaps	152,612	–	152,612	(149,827)	(1,494)	1,291
Derivatives – foreign currency forward contracts	265,829	–	265,829	(231,859)	(25,901)	8,069
Available-for-sale debt securities	11,203,718	–	11,203,718	(10,500,958)	–	702,760
Held-to-maturity debt securities	1,614,402	–	1,614,402	(1,502,031)	–	112,371
Amounts due from HKSCC and brokerage clients	484,501	(63,896)	420,605	–	–	420,605
Total	13,721,062	(63,896)	13,657,166	(12,384,675)	(27,395)	1,245,096

8. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING, ENFORCEABLE MASTER NETTING ARRANGEMENTS AND SIMILAR AGREEMENTS – continued

Types of financial liabilities	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets offset in the consolidated statement of financial position	Net amounts of financial liabilities presented in the consolidated statement of financial position	Related amounts not offset in the consolidated statement of financial position		Net amounts
				Financial instruments	Cash/ financial collateral pledged	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* *(Note)*	*HK$'000*
At 31 December 2017						
Derivatives – interest rate swaps	335,482	–	335,482	(149,827)	(195,615)	(9,960)
Derivatives – foreign currency forward contracts	408,517	–	408,517	(231,859)	(194,132)	(17,474)
Financial assets sold under repurchase agreements	12,002,989	–	12,002,989	(12,002,989)	(200,171)	(200,171)
Amounts due to HKSCC and brokerage clients	307,647	(63,896)	243,751	–	–	243,751
Total	13,054,635	(63,896)	12,990,739	(12,384,675)	(589,918)	16,146

Note: The cash and financial collateral received/pledged as at 31 December 2018 and 31 December 2017 represent in fair value.

8. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING, ENFORCEABLE MASTER NETTING ARRANGEMENTS AND SIMILAR AGREEMENTS – continued

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the statements of financial position that are disclosed in the above tables are measured in the statements of financial position on the following basis:

- derivative financial assets and liabilities – fair value;
- financial assets sold under repurchase agreements – amortised cost;
- FVOCI (2017: available-for-sale) debt securities – fair value;
- amortised cost (2017: held-to-maturity) debt securities – amortised cost; and
- amounts due from or due to HKSCC and brokerage clients – amortised cost

The amounts which have been offset against the related recognised financial assets and financial liabilities in the Group's statements of financial position or subject to enforceable master netting arrangements or similar agreements are measured on the same basis as the recognised financial assets and financial liabilities except for available-for-sale debt securities, which are measured on different basis as the related financial assets sold under repurchase agreements. The directors of the Bank consider there are no material differences arising from the measuring differences.

8. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING, ENFORCEABLE MASTER NETTING ARRANGEMENTS AND SIMILAR AGREEMENTS – continued

The tables below reconcile the net amounts of financial assets and financial liabilities presented in the Group's statements of financial position, as set out above, to the line items presented in the Group's statements of financial position.

Types of financial assets	**2018** ***HK$'000***	2017 *HK$'000*
Derivatives – interest rate swaps as stated above	**227,746**	152,612
Derivatives – foreign currency forward contracts as stated above	**440,489**	265,829
	668,235	418,441
Derivative financial assets not in scope of offsetting disclosures	**227,905**	138,352
Total derivative financial assets stated in note 19	**896,140**	556,793
FVOCI (2017: Available-for-sale) debt securities as stated above	**7,243,924**	11,203,718
FVOCI (2017: Available-for-sale) securities not in scope of offsetting disclosures	**39,134,632**	24,246,574
Total FVOCI (2017: available-for-sale) securities stated in note 20	**46,378,556**	35,450,292
Amortised cost (2017: Held-to-maturity) debt securities as stated above	**–**	1,614,402
Amortised cost (2017: Held-to-maturity) securities not in scope of offsetting disclosures	**491,542**	2,025,744
Total amortised cost (2017: held-to-maturity) securities stated in note 20	**491,542**	3,640,146
Amount due from HKSCC and brokerage clients as stated above	**194,144**	420,665
Other accounts not in scope of offsetting disclosures	**4,105,038**	3,802,585
Total other accounts stated in note 22	**4,299,182**	4,223,250

8. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING, ENFORCEABLE MASTER NETTING ARRANGEMENTS AND SIMILAR AGREEMENTS – continued

Types of financial liabilities	2018 HK$'000	2017 HK$'000
Derivatives – interest rate swaps as stated above	253,697	335,482
Derivatives – foreign currency forward contracts as stated above	489,858	408,517
	743,555	743,999
Derivative financial liabilities not in scope of offsetting disclosures	130,062	138,280
Total derivative financial liabilities stated in note 19	873,617	882,279
Financial assets sold under repurchase agreements as stated above	6,571,696	12,002,989
Financial assets sold under repurchase agreements not in scope of offsetting disclosures	–	–
Financial assets sold under repurchase agreements stated in note 28	6,571,696	12,002,989
Amounts due to HKSCC and brokerage clients as stated above and included in other accounts	97,536	243,751
Total other accounts and accruals not in scope of offsetting disclosures	2,020,949	1,333,837
Total other accounts and accruals as stated in the Group's statements of financial position	2,118,485	1,577,588

9. NET INTEREST INCOME

	2018 *HK$'000*	2017 *HK$'000*
Interest income		
Balances and placements with central bank and banks	661,925	523,975
Investments in securities	1,218,849	977,210
Loans and advances	3,221,804	2,299,206
	5,102,578	3,800,391
Interest expense		
Deposits and balances of banks	(145,273)	(125,068)
Deposits from customers	(1,618,178)	(989,745)
Financial assets sold under repurchase agreements	(117,989)	(162,557)
Certificates of deposit	(56,317)	(20,243)
Debt securities issued	(66,666)	(63,161)
Loan capital in issue	(218,193)	(122,489)
	(2,222,616)	(1,483,263)
Net interest income	2,879,962	2,317,128
Included within interest income		
Interest income on impaired loans and advances	9,452	1,701

Included within interest income and interest expense are HK$5,095,245,000 (2017: HK$3,800,391,000) and HK$2,222,616,000 (2017: HK$1,483,263,000) earned and incurred from financial assets and financial liabilities that are not at fair value through profit or loss, respectively.

Included above is interest income from unlisted investments in debt securities of HK$1,218,849,000 (2017: HK$977,210,000).

10. NET FEE AND COMMISSION INCOME

	2018 *HK$'000*	2017 *HK$'000*
Fee and commission income		
Securities dealings	**136,791**	145,356
Loans, overdrafts and guarantees	**72,963**	48,282
Trade finance	**16,448**	16,261
Credit card services	**138,773**	101,567
Agency services	**107,129**	85,780
Others	**33,444**	27,299
Total fee and commission income	**505,548**	424,545
Less: Fee and commission expenses	**(121,054)**	(97,074)
Net fee and commission income	**384,494**	327,471
of which:		
Net fee and commission, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading nor designated at fair value through profit or loss		
– Fee income	**236,888**	172,967
– Fee expenses	**(117,582)**	(92,218)
	119,306	80,749

11. NET INCOME (LOSS) FROM TRADING AND INVESTMENTS

	2018 *HK$'000*	2017 *HK$'000*
Foreign exchange gains (losses)	224,337	(216,314)
Net gains on financial instruments at fair value through profit or loss	579	7,016
Net gains (losses) on fair value hedge:		
– Net losses on hedged items attributable to the hedged risk	(145,497)	(113,864)
– Net gains on hedging instruments	147,276	115,287
Net gains on disposal of FVOCI (2017: available-for-sale) securities		
– Debt securities	21,460	106,435
– Equity securities	–	7,502
	248,155	(93,938)

"Foreign exchange gains (losses)" includes gains and losses from spots and forward contracts, swaps and translated foreign currency assets and liabilities, which are not designated as qualifying hedging relationship.

The Group entered into foreign exchange swaps for its liquidity management and funding activities. It involves swapping a currency ("original currency") into another currency ("swap currency") at the spot exchange rate for short-term placement and simultaneously entering into a forward contract to convert the funds back to the original currency on maturity of the placement. The exchange difference between the spot and forward contracts as well as the corresponding interest differential between the surplus funds in the original currency and swap currency are recognised as "Foreign exchange gains (losses)".

"Net income (loss) from trading and investments – foreign exchange" also includes certain translation gains and losses reported in accordance with Hong Kong Accounting Standard 21 "The Effects of Changes in Foreign Exchange Rates" in relation to the Group's Mainland Operation. There were translation gains of approximately HK$39 million (2017: losses of HK$56 million) arising from translation of non-Renminbi net monetary assets maintained in the Mainland branches and there were translation gains of approximately HK$22 million (2017: losses of HK$139 million) arising from the translation of Renminbi net monetary liabilities at Head Office level in relation to the working capital provided to the Mainland branches. These translation gains from monetary items had been reported as "net income (loss) from trading and investments – foreign exchange" whereas the corresponding translation gains from the consolidation of the Mainland branches had been reported as part of exchange differences arising on translation under other comprehensive income.

No amortised cost securities was disposed during the year.

12. OTHER OPERATING INCOME

	2018 *HK$'000*	2017 *HK$'000*
Dividend income		
– Listed investments	1,994	2,092
– Unlisted investments	6,449	6,119
	8,443	8,211
Gross rents from investment properties	8,653	8,432
Less: Outgoings	(410)	17
Net rental income	8,243	8,449
Safe deposit box rentals	57,407	53,567
Net insurance income *(Note)*	13,297	14,269
Other banking services income	71,868	55,734
Gain on retirement benefit	–	323
Others	14,248	18,342
	173,506	158,895

12. OTHER OPERATING INCOME – continued

Note: Details of net insurance income are as follows:

	2018 *HK$'000*	2017 *HK$'000*
Gross insurance premium income	40,240	43,761
Reinsurers' share of gross insurance premium income	(11,543)	(12,838)
	28,697	30,923
Increase in gross outstanding claims	(2,964)	(12,623)
Gross claim paid	(21,688)	(16,418)
	(24,652)	(29,041)
Increase in recoverable from reinsurance of outstanding claims	4,419	7,165
Reinsurance claims recoveries	1,849	1,682
	6,268	8,847
Net insurance commission income	2,984	3,540
Net insurance income	13,297	14,269

13. OPERATING EXPENSES

	2018	2017
	HK$'000	*HK$'000*
Auditor's remuneration		
– Audit services – current year	**7,070**	6,263
– Audit services – under provision in prior year	**250**	–
– Non-audit services	**3,128**	917
Total auditor's remuneration	**10,448**	7,180
Staff costs (including directors' emoluments)		
– Salaries and other costs	**930,807**	789,341
– Retirement benefits scheme contributions	**49,944**	48,937
– Capitalised to intangible assets	**(43,450)**	(34,697)
Total staff costs	**937,301**	803,581
Depreciation of property and equipment	**78,929**	84,137
– Capitalised to intangible assets	**(4,164)**	(4,168)
	74,765	79,969
Amortisation of intangible assets	**3,561**	–
Release of prepaid lease payments for land	**66**	66
Premises and equipment expenses, excluding depreciation and release of prepaid lease payments for land		
– Rentals and rates for premises	**166,304**	147,038
– Capitalised to intangible assets	**(3,623)**	(3,623)
	162,681	143,415
– Others	**36,071**	33,987
Other operating expenses	**325,516**	287,004
– Capitalised to intangible assets	**(1,569)**	(1,569)
	323,947	285,435
	1,548,840	1,353,633

Included in the premises and equipment expenses are minimum lease payments under operating lease of HK$157,829,000 (2017: HK$138,286,000).

14. NET IMPAIRMENT LOSSES ON FINANCIAL ASSETS

	2018 *HK$'000*	2017 *HK$'000*
Loans and advances to customers	174,601	371,591
Short-term funds and placement with banks	8,818	–
Investment in securities	15,222	919
Loan commitments and financial guarantee	(20,387)	–
	178,254	372,510

15. TAXATION

	2018 *HK$'000*	2017 *HK$'000*
The tax charge comprises:		
Hong Kong Profits Tax		
– Current year	245,689	109,377
– (Over) under provision in prior years	(24,111)	312
Overseas taxation		
– Current year	69,205	34,557
– Under provision in prior years	237	–
Deferred tax *(Note 34)*		
– Current year	15,915	152
– Under provision in prior years	37,893	–
	344,828	144,398

Hong Kong Profits Tax is calculated at 16.5% (2017: 16.5%) of the estimated assessable profit for the year.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

15. TAXATION – continued

The tax charge for the year can be reconciled to the Group's profit before taxation per the consolidated income statement as follows:

	2018 *HK$'000*	2017 *HK$'000*
Profit before taxation	**2,105,215**	1,709,265
Tax at the domestic income tax rate of 16.5% (2017: 16.5%)	**347,360**	282,029
Tax effect of share of profits of associates	**(3,239)**	(9,194)
Tax effect of expenses not deductible for tax purpose	**37,601**	17,852
Tax effect of income not taxable for tax purpose	**(36,771)**	(120,921)
Under provision in prior years	**14,019**	312
Effect of different tax rates of subsidiaries and branches operating in other jurisdictions	**6,518**	3,828
Others	**(20,660)**	(29,508)
Tax charge for the year	**344,828**	144,398

Included in the "Others" is mainly the tax effect on deductibility of additional tier 1 capital distribution of HK$152,845,000 (2017: HK$151,974,000).

16. DIVIDENDS

	2018	2017
	HK$'000	*HK$'000*
Dividends recognised as distribution to ordinary shareholders during the year:		
2018 Interim – HK$0.17 (2017: Interim – HK$0.15) per share	**165,329**	97,875
2017 Final – HK$0.39 (2016: Final – HK$0.39) per share	**254,475**	254,475
	419,804	352,350

The final dividend of HK$0.41 per share, totalling HK$398,736,000, in respect of the current financial year (2017: HK$0.39 per share, totalling HK$254,475,000) has been proposed by the Board and is subject to approval by the shareholders in the forthcoming annual general meeting of the shareholders.

At the board meeting on 14 August 2018, the Board declared a total amount of interim dividend of HK$165,329,000 (2017: HK$97,875,000) at a rate of HK$0.17 (2017: HK$0.15) per share. The interim dividend was paid on 9 October 2018.

17. EARNINGS PER SHARE – BASIC AND DILUTED

The calculation of basic earnings per share is based on the profit attributable to equity owners of the Bank of HK$1,760,387,000 (2017: HK$1,564,867,000) with deduction of distribution payment for additional equity instruments of HK$152,845,000 (2017: HK$151,974,000) on 751,457,000 (2017 (restated): 653,807,000) weighted average ordinary shares in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2018	2017
	Number of shares *(thousands)*	Number of shares *(thousands)* (restated)
Issued ordinary shares at 1st January	**653,807**	653,807
Effect of shares issued under General Mandate *(Note 32 (i))*	**25,076**	–
Effect of shares issued under Rights Issue *(Note 32 (ii))*	**72,574**	–
Weighted average number of ordinary shares at 31st December	**751,457**	653,807

Basic earnings per share for 2017 has been restated to take into account the effect of the new shares issued and rights issue of the Bank completed in the year of 2018.

As at 31 December 2018 and 31 December 2017, there were no potential dilutive instrument in issue.

18. CASH AND SHORT-TERM FUNDS

	2018 HK$'000	2017 HK$'000
Cash and balances with central bank and banks	5,295,825	9,593,548
Money at call and short notice	20,886,577	11,170,870
Exchange fund bills	–	4,400,223
	26,182,402	25,164,641

Included in the "Cash and balances with central bank and banks" are surplus reserve deposits placed with People's Bank of China by the Mainland branches of HK$348,578,000 (2017: HK$378,234,000).

As a result of the adoption of HKFRS 9, exchange fund bills are included in investments in securities (see note 2(b)).

19. DERIVATIVE FINANCIAL INSTRUMENTS

	2018			2017		
	Notional amount	Fair value		Notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Derivatives held for trading						
– Foreign currency forward contracts	260,404,113	517,316	535,554	148,149,348	361,561	500,892
– Foreign currency options	344,608	887	887	4,490,336	898	898
– Interest rate swaps	15,389,236	23,730	25,136	5,314,612	12,113	12,029
Derivatives designated as hedging instruments						
– Interest rate swaps	31,200,783	354,207	312,040	24,642,872	182,221	368,460
		896,140	873,617		556,793	882,279

19. DERIVATIVE FINANCIAL INSTRUMENTS – continued

As at 31 December 2018 and 31 December 2017, all foreign currency forward contracts have settlement dates within two years (2017: four years) from the end of the reporting period.

The remaining maturity of interest rate swaps held for trading is within 10 years (2017: within 10 years).

The credit risk-weighted amounts of derivative exposures calculated based on the Banking (Capital) Rules of the Hong Kong Banking Ordinance are as follows:

	2018			2017		
	Notional amount HK$'000	Replacement cost HK$'000	Credit risk-weighted amount HK$'000	Notional amount HK$'000	Replacement cost HK$'000	Credit risk-weighted amount HK$'000
Exchange rate contracts	260,748,721	518,203	1,039,483	152,639,684	362,459	699,625
Interest rate contracts	46,590,019	377,937	201,718	29,957,484	194,334	167,938
		896,140	1,241,201		556,793	867,563

Replacement cost is the cost which would be incurred by the Group if it was required to enter into another contract to replace the existing transaction or existing contract with another counterparty with substantially the same economic consequences for the Group and is calculated by marking-to-market the existing transaction or existing contract. If the resultant value is positive for the Group, the replacement cost shall be the resultant value of the existing transaction or existing contract. If the resultant value is negative for the Group, the replacement cost shall be zero. Replacement cost is a close approximation of the credit risk for these contracts at the end of the reporting period.

The derivative financial instruments including exchange rate contracts and interest rate contracts have been recognised in the statements of financial position at fair values.

The fair values of the derivative financial instruments do not take into account the effect of any bilateral netting agreements.

19. DERIVATIVE FINANCIAL INSTRUMENTS – continued

Fair value hedge of fixed-rate bonds

The Group designates certain interest rate swaps as fair value hedges of FVOCI (2017: available-for-sale) debt securities with carrying amount of HK$25,761,758,000 (2017: HK$20,591,803,000) as at 31 December 2018. The purpose is to minimise its exposure to fair value changes of its fixed-rate bonds by swapping these fixed-rate bonds from fixed rates to floating rates. The interest rate swaps and the corresponding fixed-rate bonds have the same terms. The management of the Group considers that the interest rate swaps are highly effective hedging instruments. The remaining maturity of these interest rate swaps and debt securities ranged from 3 months to 10 years (2017: 3 months to 10 years).

During the years ended 31 December 2018 and 31 December 2017, the above fair value hedges were effective in hedging the fair value exposures to interest rate movements and as a result, both the losses in fair value of the bonds of HK$195,934,000 (2017: losses of HK$184,159,000) and gains in fair value of the interest rate swaps of HK$197,902,000 (2017: gain of HK$183,949,000) were included in the consolidated income statement.

Fair value hedge of subordinated note issued

The Group designates an interest rate swap as fair value hedge of the interest rate movement of the US$587 million (2017: US$587 million) subordinated note issued (see note 31). The purpose is to minimise its exposure to fair value changes of its fixed-rate note by swapping fixed-rate note from fixed rate to floating rate. The interest rate swap and the hedged subordinated note have the same terms and the management of the Group considers that the interest rate swap is a highly effective hedging instrument.

The hedge was effective in hedging the fair value exposure to interest rate movements and as a result, both the decrease in fair value of the note of HK$50,438,000 (2017: increase in fair value of HK$70,295,000) and losses in fair value of the interest rate swap of HK$50,626,000 (2017: gains of HK$68,662,000) were included in the consolidated income statement.

20. INVESTMENTS IN SECURITIES

	Financial assets at fair value through profit or loss HK$'000	Financial assets at FVOCI HK$'000	Financial assets at amortised cost HK$'000	Total HK$'000
2018				
Equity securities:				
Listed in Hong Kong	215	41,889	–	42,104
Listed overseas	–	2,735	–	2,735
	215	44,624	–	44,839
Unlisted	–	40,954	–	40,954
	215	85,578	–	85,793
Debt Securities:				
Certificates of deposits – unlisted	–	2,202,155	–	2,202,155
Other debt securities – unlisted	115,813	44,090,823	491,542	44,698,178
	115,813	46,292,978	491,542	46,900,333
Total:				
Listed in Hong Kong	215	41,889	–	42,104
Listed overseas	–	2,735	–	2,735
Unlisted	115,813	46,333,932	491,542	46,941,287
	116,028	46,378,556	491,542	46,986,126
As analysed by issuing entities:				
Central governments and central banks	115,813	15,061,973	470,204	15,647,990
Banks	–	14,677,763	–	14,677,763
Corporate entities	215	16,638,820	21,338	16,660,373
	116,028	46,378,556	491,542	46,986,126

20. INVESTMENTS IN SECURITIES – continued

	Financial assets at fair value through profit or loss – Held for trading *HK$'000*	Available-for-sale securities *HK$'000*	Held-to-maturity securities *HK$'000*	Loan and receivable securities *HK$'000*	Total *HK$'000*
2017					
Equity securities:					
Listed in Hong Kong	265	49,166	–	–	49,431
Listed overseas	–	3,932	–	–	3,932
	265	53,098	–	–	53,363
Unlisted	–	34,735	–	–	34,735
	265	87,833	–	–	88,098
Debt Securities:					
Certificates of deposits					
– unlisted	–	–	–	–	–
Other debt securities					
– unlisted	–	35,362,459	3,640,146	62,798	39,065,403
	–	35,362,459	3,640,146	62,798	39,065,403
Total:					
Listed in Hong Kong	265	49,166	–	–	49,431
Listed overseas	–	3,932	–	–	3,932
Unlisted	–	35,397,194	3,640,146	62,798	39,100,138
	265	35,450,292	3,640,146	62,798	39,153,501
As analysed by issuing entities:					
Central governments and central banks	–	4,101,191	–	–	4,101,191
Banks	–	13,024,732	836,787	62,798	13,924,317
Corporate entities	265	18,324,369	2,803,359	–	21,127,993
	265	35,450,292	3,640,146	62,798	39,153,501

20. INVESTMENTS IN SECURITIES – continued

Debt securities classified as FVOCI (2017: available-for-sale) amounting to HK$8,719,156,000 (2017: HK$238,061,000) were issued by the Government of Hong Kong Special Administrative Region and the Mainland.

The debt securities classified as FVOCI (2017: available-for-sale) held by the Group are mainly guaranteed or issued by corporates and financial institutions from the Mainland and Hong Kong.

Investments in equity instruments designated at FVOCI

The Group has designated at FVOCI investments in a portfolio of equity securities as follows:

	Instruments held as at 31 December 2018		Instruments disposed during the year		
	Fair value	Dividend recognised	Fair value on date of disposal	Cumulative gain on disposal	Dividend recognised
	HK$000	*HK$000*	*HK$000*	*HK$000*	*HK$000*
Type of equity instrument					
– business facilitation	40,676	6,449	–	–	–
– other	44,902	1,665	10,539	414	329
At 31 December 2018	85,578	8,114	10,539	414	329

The Group chose this presentation alternative because the investments were made for strategic purposes rather than with a view to profit on a subsequent sale, and there are no plans to dispose of these investments in the short or medium term.

21. TRANSFER OF FINANCIAL ASSETS

The following were the Group's debt securities classified as FVOCI (2017: available-for-sale and held-to-maturity) as at 31 December 2018 and 31 December 2017 that were transferred to an entity with terms to repurchase these debt securities at agreed dates and prices. As the Group has retained substantially all the risks and rewards relating to these debt securities, the full carrying amount of these debt securities continued to be recognised. The cash received on the transfer was reported as liabilities under "Financial assets sold under repurchase agreements" (see note 28). The transferred debt securities serve as collateral to secure these liabilities. During the covered period, the legal title of the debt securities are transferred to the counterparty entity and there is no restriction for the counterparty entity to sell or repledge the collateral. These debt securities are either measured at amortised cost or carried at fair value in the consolidated statement of financial position.

	31 December 2018	
	Financial assets measured at FVOCI	**Total**
	HK$'000	***HK$'000***
Carrying amount of transferred assets	**7,165,740**	**7,165,740**
Carrying amount of associated liabilities *(Note 28)*	**6,571,696**	**6,571,696**

	31 December 2017		
	Available-for-sale debt securities	Held-to-maturity debt securities	Total
	HK$'000	*HK$'000*	*HK$'000*
Carrying amount of transferred assets	11,743,378	1,929,075	13,672,453
Carrying amount of associated liabilities *(Note 28)*	10,840,377	1,162,612	12,002,989

22. ADVANCES AND OTHER ACCOUNTS

	2018 *HK$'000*	2017 *HK$'000*
Advances to customers		
Bills receivable	753,851	845,295
Trade bills	2,361,920	283,588
Other advances to customers	98,709,456	85,569,489
	101,825,227	86,698,372
Interest receivable	895,015	644,368
Impairment allowances		
– Collectively assessed	–	(329,639)
– Individually assessed	–	(394,393)
– Stage 1	(379,031)	–
– Stage 2	(12,382)	–
– Stage 3	(154,435)	–
	102,174,394	86,618,708
Advances to banks	334,895	107,829
Others	4,299,182	4,223,250
	106,808,471	90,949,787

Included in the "Others" is initial and variation margin of HK$456,206,000 (2017: HK$849,906,000) deposited in banks for certain interest rate swaps, foreign currency forward contracts and repurchase agreements and an amount of approximately HK$3,330,321,000 (2017: HK$2,657,492,000) placed as reserve funds with banks in the Mainland by the Mainland branches. Among which, HK$2,756,418,000 (2017: HK$1,776,005,000) are the mandatory reserve deposits placed with the People's Bank of China. The mandatory reserve deposits are not available for the Group's daily operation; HK$573,903,000 (2017: HK$881,487,000) are the fixed deposits placed with financial institutions in the Mainland in compliance with the requirements of Regulations Governing Foreign Financial Institutions of the Mainland.

The remaining balance of "Others" amounting to HK$512,655,000 (2017: HK$715,852,000) included account receivables from Hong Kong Securities Clearing Company Limited, Hong Kong Futures Exchange Clearing Corporation Limited and brokerage clients in relation to securities dealing of HK$194,144,000 (2017: HK$420,605,000).

22. ADVANCES AND OTHER ACCOUNTS – continued

Impairment allowances on advances:

	Individual assessment *HK$'000*	Collective assessment *HK$'000*	Total *HK$'000*
Balance 1 January 2017	39,737	251,219	290,956
– Increase in impairment allowances	366,022	74,543	440,565
– Amounts reversed	(68,974)	–	(68,974)
Net charge of impairment allowances	297,048	74,543	371,591
Amounts written off	(4,487)	–	(4,487)
Recoveries of advances written off in previous years	63,796	–	63,796
Unwinding effect of discount rate	(1,701)	–	(1,701)
Exchange difference	–	3,877	3,877
Balance 31 December 2017	394,393	329,639	724,032

For impairment loss allowance in 2018, please see Note 7.

22. ADVANCES AND OTHER ACCOUNTS – continued

Details of the impaired loans are as follows:

	2018 *HK$'000*	2017 *HK$'000*
Gross impaired loans	353,230	398,100
Less: Impairment allowances under Stage 3 (2017: individual assessment)	(154,435)	(394,393)
Net impaired loans	198,795	3,707
Gross impaired loans as a percentage of gross advances to customers	0.35%	0.46%
Market value of collateral pledged	267,720	3,873

Details of the non-performing loans are as follows:

	2018 *HK$'000*	2017 *HK$'000*
Gross non-performing loans *(Note)*	354,859	485,492
Less: Impairment allowances under Stage 3 (2017: individual assessment)	(154,435)	(394,393)
Net non-performing loans	200,424	91,099
Gross non-performing loans as a percentage of gross advances to customers	0.35%	0.56%
Market value of collateral pledged	254,310	200,716

Note: Non-performing loans represent advances which are either classified as "substandard", "doubtful" or "loss" under the Group's classification of loan quality.

23. SUBSIDIARIES

Name of company	Place of incorporation and kind of legal entity	Issued share capital	Percentage of issued share capital held by the Group	Principal activities and place of operation
Chong Hing (Nominees) Limited	Hong Kong, limited liability company	HK$ 100,000	100%	Provision of nominee services in Hong Kong
Chong Hing Finance Limited	Hong Kong, limited liability company	HK$ 25,000,000	100%	Deposit-taking and lending in Hong Kong
Chong Hing Information Technology Limited	Hong Kong, limited liability company	HK$ 100,000	100%	Provision of electronic data processing services in Hong Kong
Chong Hing Securities Limited	Hong Kong, limited liability company	HK$ 10,000,000	100%	Stockbroking in Hong Kong
Chong Hing Commodities and Futures Limited	Hong Kong, limited liability company	HK$ 5,000,000	100%	Investment holding and commodities and futures broking in Hong Kong
Gallbraith Limited	Hong Kong, limited liability company	HK$ 16,550,000	100%	Property investment in Mainland China
Top Benefit Enterprise Limited	Hong Kong, limited liability company	HK$ 100,000	100%	Property investment in Hong Kong
Card Alliance Company Limited	Hong Kong, limited liability company	HK$ 18,000,000	100%	Credit card management in Hong Kong
Chong Hing Insurance Company Limited	Hong Kong, limited liability company	HK$ 85,000,000	100%	Insurance underwriting in Hong Kong
Hero Marker Limited	Hong Kong, limited liability company	HK$ 100,000	100%	Property investment in Hong Kong

None of the subsidiaries had any debt security subsisting at the end of the year or at any time during the year.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results of the year or form a substantial portion of the net assets of the Group. In the opinion of the directors, listing details of other subsidiaries would result in particulars of excessive length.

24. INTERESTS IN ASSOCIATES

	2018 HK$'000	2017 HK$'000
Share of post-acquisition profits and other comprehensive income net of dividends received	347,320	301,337

The directors consider the Group have significant influence over these entities.

As at 31 December 2018 and 2017, the Group had interests in the following associates:

Name of company	Place of incorporation and operation	Class of share held	Ownership interest	Proportion of voting power (Note)	Nature of business
Bank Consortium Holding Limited	Hong Kong	Ordinary	13.3%	14.3%	Investment holding and provision of trustee, administration and custodian services for retirement schemes
BC Reinsurance Limited	Hong Kong	Ordinary	21.0%	21.0%	Reinsurance
Hong Kong Life Insurance Limited	Hong Kong	Ordinary	16.7%	16.7%	Life insurance underwriting
Net Alliance Co. Limited (Dissolved on 8 February 2018)	Hong Kong	Ordinary	17.6%	17.6%	Provision of internet services

Note: The Group is able to exercise significant influence over all of these entities because it has the power to appoint one out of twelve to two out of eight directors of these companies.

24. INTERESTS IN ASSOCIATES – continued

All of these associates are accounted for using the equity method in these consolidated financial statements.

The summarised financial information below represent the aggregate amount of the Group's share of its interests in associates which are not individually material:

	2018	2017
	HK$'000	*HK$'000*
Other comprehensive income	**(22,275)**	4,647
Profit after tax	**19,628**	55,723
Total comprehensive income	**(2,647)**	60,370

There are no significant restrictions on the ability of the associates to transfer funds to the Group in the form of cash dividends, except for Hong Kong Life Insurance Limited ("HKLI") which has to maintain net assets of not less than 150% of the required margin of solvency which is determined in accordance with the Hong Kong Insurance Companies (Margin of Solvency) Regulations and which may trigger restrictions to fund transfer.

On 20 March 2017, the Group entered into a Share Sale Agreement (the "Agreement") to sell the Group's stake in HKLI to First Origin International Limited (the "Purchaser") for a consideration of approximately HK$1,183,333,000 (the "Disposal"). On 15 March 2018, the Group and the Purchaser agreed to extend the long stop date to 30 September 2018. Pursuant to the Agreement, completion of the Disposal is conditional upon satisfaction of certain conditions. The Disposal has been terminated in accordance with the terms of the Agreement on the basis that the conditions have not been satisfied by the long stop date i.e. 30 September 2018. In accordance with the terms of the Agreement, an aggregate deposit of HK$118,333,000 paid by the Purchaser to the Group has been forfeited in favour of the Group. The amount of HK$116,655,000 (2017: HK$Nil), net of expenses, was recognised as other non-operating income of the Group. In view of the termination of the Disposal, the Group continues to hold our stake of ownership in HKLI.

The Group, being one of the existing shareholders of HKLI, continues with its ownership and supports the development of HKLI with proportionate subscription of its new share capital issued amounting to HK$75,000,000 to maintain the shareholding of 16.7% in December 2018.

25. INVESTMENT PROPERTIES

	2018 HK$'000	2017 HK$'000
At 1 January	298,765	282,927
Transfer from land and buildings	5,400	–
Net increase in fair value recognised in the profit or loss	10,250	12,632
Exchange adjustments	(2,473)	3,206
At 31 December	311,942	298,765

All of the Group's property interests held under operating leases to earn rentals and/or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

Investment properties owned by the Group were revalued at 31 December 2018 by adopting the direct comparison approach (2017: direct comparison approach) and with reference to the recent transactions for similar premises by Vigers Appraisal and Consulting Limited (2017: Vigers Appraisal and Consulting Limited), independent professionally qualified valuers. The fair value is mainly arrived at by reference to comparable market transactions for similar properties.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

One of the key inputs used in valuing the investment properties was the unit sale rate taking into account of time, location and individual factors such as size and levels of building, which ranged from HK$3,520 to HK$50,280 (2017: HK$3,300 to HK$49,400) per square feet. A decrease in the unit sale rate would result in decrease in fair value measurement of the investment properties by the same percentage decrease and vice versa.

25. INVESTMENT PROPERTIES – continued

In estimating the fair value of the Group's investment properties, the management of the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the management of the Group engages third party qualified valuers to perform the valuation of the Group's investment properties. At the end of each reporting period, the management of the Group works closely with the qualified external valuers to establish and determine the appropriate valuation techniques and inputs for Level 2 and Level 3 fair value measurement. The management of the Group will first consider and adopt Level 2 inputs where inputs can be derived from observable quoted prices in the active market. When Level 2 inputs are not available, the management of the Group will adopt valuation techniques that include Level 3 inputs. Where there is a material change in the fair value of the assets, the causes of the fluctuations will be reported to the directors of the Bank.

Information about the valuation techniques and inputs in determining the fair value of the Group's investment properties are disclosed above.

Investment properties are classified as Level 3 under fair value hierarchy as at 31 December 2018 and 31 December 2017. There were no transfers into or out of Level 3 during the year.

The carrying amount of investment properties of the Group comprises:

	2018 ***HK$'000***	2017 *HK$'000*
Leasehold properties		
Held in Hong Kong on long-term lease (over 50 years unexpired)	**167,500**	164,500
Held in Hong Kong on medium-term lease (10 – 50 years unexpired)	**96,600**	87,500
Held outside Hong Kong on medium-term lease (10 – 50 years unexpired)	**47,842**	46,765
	311,942	298,765

26. PROPERTY AND EQUIPMENT

	Leasehold land HK$'000	Buildings HK$'000	Equipment HK$'000	Total HK$'000
COST				
At 1 January 2018	345,257	113,217	825,184	1,283,658
Additions	–	–	55,017	55,017
Disposals	–	–	(44,047)	(44,047)
Transfer to investment properties	(32)	–	–	(32)
Exchange adjustments	–	(724)	(9,252)	(9,976)
At 31 December 2018	345,225	112,493	826,902	1,284,620
ACCUMULATED DEPRECIATION				
At 1 January 2018	83,279	32,987	576,646	692,912
Depreciation	7,827	2,771	68,331	78,929
Eliminated on disposals	–	–	(3,662)	(3,662)
Transfer to investment property	(18)	–	–	(18)
Exchange adjustments	–	90	(4,961)	(4,871)
At 31 December 2018	91,088	35,848	636,354	763,290
CARRYING AMOUNTS				
At 31 December 2018	254,137	76,645	190,548	521,330
At 1 January 2018	261,978	80,230	248,538	590,746

26. PROPERTY AND EQUIPMENT – continued

	Leasehold land *HK$'000*	Buildings *HK$'000*	Equipment *HK$'000*	Total *HK$'000*
COST				
At 1 January 2017	478,312	161,440	705,814	1,345,566
Additions	–	–	133,276	133,276
Disposals	(133,055)	(49,048)	(24,078)	(206,181)
Exchange adjustments	–	825	10,172	10,997
At 31 December 2017	345,257	113,217	825,184	1,283,658
ACCUMULATED DEPRECIATION				
At 1 January 2017	140,206	51,501	520,255	711,962
Depreciation	9,863	3,604	70,670	84,137
Eliminated on disposals	(66,790)	(22,150)	(18,059)	(106,999)
Exchange adjustments	–	32	3,780	3,812
At 31 December 2017	83,279	32,987	576,646	692,912
CARRYING AMOUNTS				
At 31 December 2017	261,978	80,230	248,538	590,746
At 1 January 2017	338,106	109,939	185,559	633,604

26. PROPERTY AND EQUIPMENT – continued

The carrying amounts of leasehold land shown above comprise:

	2018 *HK$'000*	2017 *HK$'000*
Leasehold land in Hong Kong:		
Held on long-term lease (over 50 years unexpired)	28,588	28,881
Held on medium-term lease (10 – 50 years unexpired)	224,717	232,236
Leasehold land outside Hong Kong:		
Held on medium-term lease (10 – 50 years unexpired)	832	861
	254,137	261,978

The carrying amounts of buildings shown above comprise:

	2018 *HK$'000*	2017 *HK$'000*
Building		
Held in Hong Kong on long-term lease (over 50 years unexpired)	5,238	5,493
Held in Hong Kong on medium-term lease (10-50 years unexpired)	65,737	68,334
Held outside Hong Kong on medium-term lease (10-50 years unexpired)	5,670	6,403
	76,645	80,230

27. PREPAID LEASE PAYMENTS FOR LAND

The Group's prepaid lease payments for land comprise:

	2018 *HK$'000*	2017 *HK$'000*
COST		
Outside Hong Kong held on:		
Leases of between 10-50 years	2,850	2,850
Net book value at 1 January	2,134	2,201
Release of prepaid operating lease payments	(66)	(66)
Exchange adjustments	5	(1)
Net book value at 31 December	2,073	2,134
Analysed as:		
Current portion	66	66
Non-current portion	2,007	2,068
Total	2,073	2,134

28. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	2018 *HK$'000*	2017 *HK$'000*
Analysed by collateral type:		
Debt securities classified as:		
FVOCI (2017: Available-for-sale) *(Note 21)*	6,571,696	10,840,377
Amortised cost (2017: Held-to-maturity) *(Note 21)*	–	1,162,612
	6,571,696	12,002,989

As at 31 December 2018, debt securities which are classified as FVOCI (2017: available-for-sale) and amortised cost (2017: held-to-maturity) with carrying amount of HK$7,165,740,000 (2017: HK$11,743,378,000) and HK$Nil (2017: HK$1,929,075,000) respectively were sold under repurchase agreements with other banks. All repurchase agreements are due within 12 months from the end of the reporting period.

29. DEPOSITS FROM CUSTOMERS

	2018 *HK$'000*	2017 *HK$'000*
Demand deposits and current accounts	**11,605,357**	12,624,082
Savings deposits	**37,250,772**	37,667,095
Time, call and notice deposits	**94,834,165**	68,467,497
	143,690,294	118,758,674

30. CERTIFICATES OF DEPOSIT AND DEBT SECURITIES ISSUED

The Group has issued certificates of deposit which are measured at amortised cost with a total carrying amount of HK$2,688,386,000 as at 31 December 2018 (2017: HK$3,217,451,000). Certificates of deposit bear contractual interest rates between 2.40% to 3.40% (2017: 0.95% to 4.65%) per annum and will mature within 2 years (2017: 3 years). All certificates of deposit issued are not secured by any collateral.

The Group has issued debt securities which are measured at amortised cost with a total carrying amount of HK$1,707,923,000 as at 31 December 2018 (2017: HK$1,796,069,000). The debt securities issued bear contractual interest rate at 3.6% per annum (2017: 3.6% per annum) and will mature in May 2019. The debt securities issued are not secured by any collateral.

Analysis of changes in financing cash flows of debt securities issued during the year

	2018 *HK$'000*	2017 *HK$'000*
At 1 January	**1,796,069**	1,663,774
Changes from financing cash flows:		
Interest paid on debt securities issued	**(66,791)**	(58,349)
	1,729,278	1,605,425
Exchange adjustments	**(90,000)**	130,350
Other changes		
Interest expense	**66,666**	63,161
Other non-cash movements *(Note)*	**1,979**	(2,867)
Total other changes	**68,645**	60,294
At 31 December	**1,707,923**	1,796,069

Note: Included in "other non-cash movement" mainly represents changes in interest payable.

31. LOAN CAPITAL

	2018 **HK$'000**	2017 HK$'000
Subordinated notes, at amortised cost with fair value hedge adjustments		
US$204 million fixed rate subordinated note due 2020 *(Notes (a) & (c))*	**1,592,297**	1,615,531
US$383 million fixed rate subordinated note due 2027 *(Notes (b) & (c))*	**2,914,850**	2,925,849
	4,507,147	4,541,380

Notes:

(a) This represented a subordinated note qualifying as tier 2 capital under Basel II accord with face value of US$225,000,000 issued on 5 November 2010 (the "Existing Notes"). The note will mature on 4 November 2020. If at any time on or after 1 January 2013, the note no longer fully qualifies as term subordinated debt for inclusion in Category II – Supplementary Capital of the Bank upon changes to regulatory requirements, the Bank may, at its option and subject to the prior written approval of the HKMA, exercise a change of the status of the note by serving the "Change in Status Notice" to the noteholders. Upon a "Change in Status Notice" becoming effective, the note shall thereafter constitute unsubordinated obligations and the rate of interest on the note shall be reduced from 6% per annum to 5.5% per annum. As "Change in Status Notice" has not been served, the rate of interest on the note remains at 6% per annum. Pursuant to the exchange offer by the Bank in 2017, the Bank settled and exchanged US$20,976,000 of the Existing Notes for new tier 2 subordinated note due 2027 (Note(b)). Following the settlement of the exchange offer, US$204,024,000 in aggregate principal amount of the Existing Notes remains outstanding.

(b) This represented a subordinated note qualifying as tier 2 capital under Basel III accord with face value of US$382,903,000 tier 2 subordinated notes issued on 26 July 2017 (the "New Notes"). The New Notes are 10-year non-call 5-year fixed rate notes, with a fixed coupon rate of 3.876% per annum, payable semi-annually for the first five years; the interest rate will be reset on 26 July 2022. This includes US$22,903,000 of "New Exchange Notes" (being the New Notes issued pursuant to the exchange offer by the Bank to the holders of its US$225 million 6.000% Subordinated Notes due 2020) and US$360 million of "New Money Notes". The New Notes have been listed on the Stock Exchange of Hong Kong under Stock Code of 05249 on 27 July 2017.

(c) The subordinated notes issued are not secured by any collateral.

31. LOAN CAPITAL – continued

Analysis of changes in financing cash flows of loan capital during the year

	2018 *HK$'000*	2017 *HK$'000*
At 1 January	4,541,380	1,792,267
Changes from financing cash flows:		
Net proceeds from issue of loan capital	–	2,816,997
Interest paid on loan capital	(221,697)	(102,471)
	4,319,683	4,506,793
Exchange adjustments	10,192	748
Fair value hedge adjustments	(50,438)	(70,295)
Other changes		
Interest expense	218,193	122,489
Other non-cash movements	9,517	(18,355)
Total other changes	227,710	104,134
At 31 December	4,507,147	4,541,380

32. SHARE CAPITAL

	2018		2017	
	Number of shares ***(thousands)***	**Share capital** ***HK$'000***	Number of shares *(thousands)*	Share capital *HK$'000*
Ordinary shares, issued and fully paid:				
At 1 January	**652,500**	**5,435,904**	652,500	5,435,904
Shares issued under General Mandate *(Note (i))*	**70,126**	**999,997**	–	–
Shares issued under Rights Issue *(Note (ii))*	**249,900**	**3,563,574**	–	–
Transaction costs incurred in respect of the shares issued *(Note (iii))*	**–**	**(22,415)**	–	–
At 31 December	**972,526**	**9,977,060**	652,500	5,435,904

(i) Shares issued under General Mandate

During the year ended 31 December 2018, the Bank raised gross proceeds of approximately HK$999,997,000 pursuant to the subscription agreement entered by the Bank with Guangzhou Metro Investment Finance (HK) Limited (the "Subscriber") which the Bank has agreed to allot and issue to the Subscriber 70,126,000 subscription shares at the subscription price of HK$14.26 per subscription share.

(ii) Shares issued under Rights Issue

During the year ended 31 December 2018, the Bank raised gross proceeds of approximately HK$3,563,574,000 by issuing 249,900,094 rights shares of the Bank to the qualifying shareholders of the Bank at the offer price of HK$14.26 per rights share of the Bank on the basis of one rights share of the Bank for every two then existing shares of the Bank.

(iii) Transaction costs incurred in respect of the shares issued

The related expenses incurred for the shares issued under General Mandate and Rights issue amounted to HK$22,415,000 and were deducted against the gross proceeds from shares issued.

33. ADDITIONAL EQUITY INSTRUMENTS

	2018 *HK$'000*	2017 *HK$'000*
US$300 million undated non-cumulative subordinated additional tier 1 capital securities	**2,312,030**	2,312,030

On 25 September 2014, the Bank issued undated non-cumulative subordinated additional tier 1 capital securities ("Additional Tier 1 Capital Securities") with a face value of US$300 million (equivalent to HK$2,312,030,000 net of related issuance costs). The Additional Tier 1 Capital Securities are undated and bear a 6.50% coupon until the first call date on 25 September 2019. The coupon will be reset every five years if the Additional Tier 1 Capital Securities are not redeemed to a fixed rate equivalent to the then-prevailing five-year US Treasury rate plus 4.628% per annum.

The coupon shall be payable semi-annually. The Bank has the right to cancel coupon payment (subject to the requirement as set out in the terms and conditions of the Additional Tier 1 Capital Securities) and the coupon cancelled shall not be cumulative. However, the Bank is stopped from declaring dividend to its ordinary shareholders unless the next scheduled coupon payment is paid.

The principal of the Additional Tier 1 Capital Securities will be written off up to the amount as directed or agreed with the HKMA if the HKMA notifies the Bank that in the opinion of the HKMA, the Bank would become non-viable if there is no written off of the principal.

The Bank has a call option to redeem all the outstanding capital securities from 25 September 2019 or any subsequent coupon payment date, but subject to restriction as set out in the terms and conditions.

During the year, a distribution of US$19,500,000 (2017: US$19,500,000) (equivalent to HK$152,845,000 (2017: HK$151,974,000)) was paid to the securities holders.

34. DEFERRED TAXATION

For the purpose of presentation in the statements of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2018 **HK$'000**	2017 HK$'000
Deferred tax assets	**19,907**	–
Deferred tax liabilities	**(19,171)**	(50,136)
	736	(50,136)

The following are the major deferred tax assets (liabilities) recognised and movements thereon during the current and prior reporting year:

	Accelerated tax depreciation HK$'000	Impairment allowance *(note)* HK$'000	Investment properties HK$'000	Revaluation of FVOCI (2017: available-for-sale) securities HK$'000	Remeasurement of retirement benefits HK$'000	Total HK$'000
At 1 January 2018	140	35,997	(13,156)	(68,693)	(4,424)	(50,136)
Changes on initial application of HKFRS 9	–	20,625	–	(6,783)	–	13,842
Restated balance at 1 January 2018	140	56,622	(13,156)	(75,476)	(4,424)	(36,294)
(Charge) credit to income statement for the year *(Note 15)*	(52,281)	4,832	(6,359)	–	–	(53,808)
Charge to other comprehensive income for the year	–	–	–	89,873	–	89,873
Exchange adjustments	–	–	965	–	–	965
At 31 December 2018	(52,141)	61,454	(18,550)	14,397	(4,424)	736
At 1 January 2017	(2,899)	35,365	(8,473)	(29,074)	(3,492)	(8,573)
Credit (charge) to income statement for the year *(Note 15)*	3,039	632	(3,823)	–	–	(152)
Charge to other comprehensive income for the year	–	–	–	(39,619)	(932)	(40,551)
Exchange adjustments	–	–	(860)	–	–	(860)
At 31 December 2017	140	35,997	(13,156)	(68,693)	(4,424)	(50,136)

Note: Upon the initial application of HKFRS 9, the Group has recognised deferred tax assets on the additional impairment losses recognised under the ECL model as well as deferred tax liabilities arising on revaluation of financial assets that reclassified to FVOCI securities.

34. DEFERRED TAXATION – continued

Under the Enterprise Income Tax Law of the People's Republic of China, withholding tax is imposed on profits distributed by the Bank's Mainland branches from 1 January 2008 onwards. Deferred taxation has not been provided in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the Mainland branches amounting to HK$749,201,000 (2017: HK$561,562,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

35. SHARE OPTION SCHEME

The Bank adopted a share option scheme (the "Scheme") pursuant to a resolution passed on 9 May 2012 for the primary purpose of providing incentives to directors and eligible employees and to replace the share option scheme (the "Expired Scheme") which expired on 24 April 2012. The terms of the Scheme are similar to those of the Expired Scheme. Under the Scheme, the Board of Directors of the Bank may grant options to eligible persons, including directors and employees of the Bank and its subsidiaries, to subscribe for shares in the Bank.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Bank in issue at the date of approval of the Scheme, without prior approval from the Bank's shareholders. No option may be granted to any person which, if exercised in full, would result in the total number of shares issued and to be issued upon exercise of the option already granted and to be granted to such person (including exercised, cancelled and outstanding options but excluding lapsed options) in the 12-month period up to and including the date of such new grant exceeding 1% of the shares in issue as at the date of such new grant, provided that options may be issued in excess of such limit if, among other things, such grant shall have been separately approved by shareholders of the Bank in a general meeting at which that proposed grantee and his associates (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) shall have abstained for voting.

Options granted must be taken up within 28 days of the date of offer, upon payment of HK$10 per option, and the exercise period shall not in any event be longer than 10 years from the date of grant of the relevant options. The exercise price is determined by the Board of Directors of the Bank, and will be the highest of the closing price of the Bank's shares on the date of offer, the average closing price of the shares for the five business days immediately preceding the date of offer and the nominal value of the shares.

No options have been granted under the Scheme since it was adopted.

36. INTANGIBLE ASSETS

	Club Membership HK$'000	Goodwill HK$'000	Software HK$'000	Internally developed software HK$'000	Total HK$'000
COST					
At 1 January 2018	–	110,606	–	330,800	441,406
Addition	9,920	–	12,876	–	22,796
Transfer	4,170	–	–	–	4,170
Addition through internal development	–	–	–	164,396	164,396
Exchange adjustment	–	–	(867)	(3,270)	(4,137)
At 31 December 2018	14,090	110,606	12,009	491,926	628,631
ACCUMULATED AMORTISATION					
At 1 January 2018	–	–	–	–	–
Charge for the year	–	–	1,078	2,483	3,561
Exchange adjustment	–	–	(62)	(69)	(131)
At 31 December 2018	–	–	1,016	2,414	3,430
ACCUMULATED IMPAIRMENT					
At 1 January and 31 December 2018	–	71,000	–	–	71,000
NET BOOK VALUE					
At 31 December 2018	14,090	39,606	10,993	489,512	554,201
COST					
At 1 January 2017	–	110,606	–	171,123	281,729
Addition through internal development	–	–	–	159,677	159,677
At 31 January 2017	–	110,606	–	330,800	441,406
ACCUMULATED AMORTISATION					
At 1 January and 31 December 2017	–	–	–	–	–
ACCUMULATED IMPAIRMENT					
At 1 January and 31 December 2017	–	71,000	–	–	71,000
NET BOOK VALUE					
At 31 December 2017	–	39,606	–	330,800	370,406

36. INTANGIBLE ASSETS – continued

The Group acquired 100% of issued share capital of Chong Hing Insurance Company Limited ("CHI"). The amount of goodwill arising as a result of acquisition was HK$110,606,000.

For the year ended 31 December 2018, the management has reviewed goodwill for impairment testing purpose. The review comprised a comparison of the carrying amount and the fair value less cost to sell, of an acquired subsidiary (the smallest cash-generating unit) to which the goodwill has been allocated. The acquired subsidiary is involved in insurance business. The fair value of CHI as at 31 December 2018 was estimated by applying market approach based on a price-to-book ratio of 1 (2017: 1).

The management of the Group determines no impairment loss on the goodwill for the year ended 31 December 2018 (2017: Nil).

During the year, there was an addition of HK$164,396,000 to internally developed software, which is a computer software currently under internal development. Included in the balance as at 31 December 2018, HK$138,889,000 (2017: HK$86,083,000) is capitalised from expenditures that directly attributable to the development of the software.

37. CONTINGENT LIABILITIES AND COMMITMENTS

	2018	2017
	HK$'000	*HK$'000*
Contingent liabilities and commitments – contractual amounts		
Direct credit substitutes	**592,606**	1,315,865
Trade-related contingencies	**4,528,485**	1,995,688
Forward asset purchases	**86,125**	82,323
Undrawn formal standby facilities, credit lines and other commitments		
Which are unconditionally cancellable without prior notice	**22,860,607**	23,797,922
With an original maturity of one year and under	**3,011,346**	3,738,747
With an original maturity of over one year	**6,235,699**	7,178,886
Lease commitments	**201,269**	199,560
	37,516,137	38,308,991

The credit risk-weighted amount of contingent liabilities and commitments is HK$4,441,022,000 (2017: HK$5,604,792,000).

The credit risk-weighted amount is calculated based on "standardised approach". The risk-weights used in the computation of credit risk-weighted amounts range from 0% to 100% (2017: 0% to 100%) which is assessed in accordance with the Banking (Capital) Rules.

Direct credit substitutes include financial guarantees given by the Group.

Most of the contingent liabilities and commitments are denominated in Hong Kong dollars.

37. CONTINGENT LIABILITIES AND COMMITMENTS – continued

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018	2017
	HK$'000	*HK$'000*
Within one year	**91,364**	128,470
In the second to fifth years, inclusive	**109,905**	71,090
	201,269	199,560

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of three years and rentals are fixed.

Capital commitments outstanding at the end of the reporting period are as follows:

	2018	2017
	HK$'000	*HK$'000*
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of property and equipment	**86,125**	82,323

At the end of the reporting period, the Group as lessor had contracted with tenants for the following future minimum lease payments:

	2018	2017
	HK$'000	*HK$'000*
Within one year	**6,578**	5,312
In the second to fifth years, inclusive	**8,812**	6,853
	15,390	12,165

38. RETIREMENT BENEFITS SCHEME

At the end of the reporting period, the Group had two retirement schemes in operation including a defined benefit scheme (the "ORSO Scheme"), which was registered under the Occupational Retirement Scheme Ordinance in 1995, and a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance in December 2000. Employees who were members of the ORSO Scheme in defined contribution segment prior to the establishment of the MPF Scheme could stay within the ORSO Scheme or switch to the MPF Scheme, whereas all new employees joining the Group on or after December 2000 are required to join the MPF Scheme. Most of the employees enrolled in the MPF Scheme in replacement of the ORSO Scheme (the "participating members"). The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Under the MPF Scheme, the employee contributes 5% of the relevant payroll to the MPF Scheme while the Group contributes from 5% to 10% of the relevant payroll to the MPF Scheme depending on the years of service completed.

The Group operates the ORSO Scheme for qualifying employees. Under the ORSO Scheme, the employees are entitled to retirement benefits varying between 0 and 100 percent of total contributions on attainment of a retirement age of 60. Upon retirement, the employees are entitled to monthly pension until death varying between 0 and 100 percent of final salary depending on years of service completed at the time of retirement.

The most recent actuarial valuation of the defined benefit segment of the ORSO Scheme was carried out as at 31 December 2017 by the qualified actuaries of Towers Watson Hong Kong Limited. The actuarial valuation is carried out periodically, but at least triennially. The present value of the defined benefit obligation and the current service cost have been measured using the Projected Unit Credit method. At the date of the latest formal independent actuarial valuation made on 31 December 2017, the net retirement asset of the defined benefit segment was HK$27,696,000.

38. RETIREMENT BENEFITS SCHEME – continued

	2017 *HK$'000*
Amounts recognised in the consolidated income statement in respect of the defined benefit plans are as follow:	
Interest cost on benefit obligation	(403)
Interest income on plan assets	815
Net interest income	412
Current service cost	(89)
	323
Amount recognised in the consolidated income statement and other comprehensive income in respect of the defined benefit plans is as follow:	
Difference between actual return on plan assets and interest, and actuarial losses	5,647

The amount included in the consolidated statement of financial position arising from the Group's defined benefit retirement benefit plan is as follows:

	2017 *HK$'000*
Present value of defined benefit obligation	(17,682)
Fair value of plan assets	45,378
	27,696

Changes in the present value of the defined benefit obligation are as follow:

	2017 *HK$'000*
Opening defined benefit obligation	22,221
Interest cost	403
Current service cost	89
Actuarial gain	(3,377)
Benefits paid	(1,654)
Closing defined benefit obligation	17,682

38. RETIREMENT BENEFITS SCHEME – continued

Changes in fair value of plan assets are as follow:

	2017
	HK$'000
Opening fair value of plan assets	43,947
Interest income	815
Return on plan assets	2,270
Benefits paid	(1,654)
Closing fair value of plan assets	45,378

The major categories of plan assets as a percentage of the fair value of total plan assets are as follow:

	2017
	%
Cash	32
Equities *(Note)*	68

Note: The equities represented investments in three equity securities which are securities of The Hong Kong & China Gas Limited, Liu Chong Hing Investment Limited and Chong Hing Bank Limited which are all listed on the Hong Kong Stock Exchange.

The fair value of the plan assets as at 31 December 2017 for each category, are as follow:

	2017
	HK$'000
Deposits with the Bank	14,661
Interest receivable	25
Equity securities listed in Hong Kong:	
The Hong Kong & China Gas Limited	22,684
Liu Chong Hing Investment Limited	6,750
Chong Hing Bank Limited	1,258
	45,378

The fair values of the equity instruments are determined based on quoted market prices in active markets.

38. RETIREMENT BENEFITS SCHEME – continued

The amounts of assets of the ORSO Scheme's defined benefit segment invested in the Bank's own deposit account as at 31 December 2017 were:

	2017 *HK$'000*
Deposits with the Bank	14,661

The ORSO Scheme's defined benefit segment exposes the Group to the interest rate risk, longevity risk and price risk as at 31 December 2017.

Interest rate risk

The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to the yields of the Hong Kong Government Exchange Fund Notes. A decrease in the discount rate would increase the plan liability.

Longevity risk

The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of qualifying employees both during and after their employment. An increase in the life expectancy of the qualifying employees will increase the plan's liability.

Price risk

As stated above, 68% of the assets were invested into three equity securities as at 31 December 2017. Such high concentration may expose to the Group to price risk when the equity prices fluctuate.

The significant assumptions used in determining the defined benefit obligations are shown below:

	2017 %
Discount rate (per annum)	1.8
Expected rate of salary increase (per annum)	4.0
Expected rate of pension increase (per annum)	0.0

38. RETIREMENT BENEFITS SCHEME – continued

The table below indicates the potential effect of change of the significant assumptions on the defined benefit obligation:

	2017	
	Change in assumption	
	+0.25%	-0.25%
	HK$'000	*HK$'000*
Discount rate	(401)	420
Expected rate of salary increase	51	(50)

	Age +1 year	Age -1 year
	HK$'000	*HK$'000*
Pensioner mortality	(709)	724

As at 31 December 2017, the weighted average duration of the defined benefit obligation is approximately 8.7 years.

The costs for providing benefits to the members of the ORSO Scheme's defined benefit segment are funded by the Group. The contributions required by the Group to fund the costs are determined by periodic funding valuations in accordance with the Occupational Retirement Scheme Ordinance.

As of 31 December 2017, the Group is not required to contribute to the ORSO Scheme's defined benefit segment with respect to the members of the ORSO Scheme's defined benefit segment according to the results of the last statutory funding valuation of the ORSO Scheme's defined benefit segment as at 31 December 2017. The Group's contribution rate may be subject to change when the results of the next statutory funding valuation of the ORSO Scheme's defined benefit segment as at 31 December 2020 become available.

39. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following material transactions with related parties:

	Interest, commission and rental income		Interest, rental and other operating expenses	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Ultimate holding company	**131**	12	**22,561**	18,285
Intermediate holding company	**13,626**	7,526	**2,159**	13,953
Fellow subsidiaries	**35,348**	4,784	**82,979**	47,555
Associates	**71,577**	48,848	**14,876**	1,783
Key management personnel *(Note)*	**1,080**	1,962	**3,402**	1,644

During the year, the Group had net trading income with intermediate holding company and fellow subsidiary of HK$42,373,000 (2017: HK$6,674,000).

At the end of reporting period, the Group had the following material outstanding balances with related parties:

	Amounts due from related parties		Amounts due to related parties	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Ultimate holding company	**–**	–	**1,047,143**	426,430
Intermediate holding company	**798,887**	298,008	**742,263**	53,704
Fellow subsidiaries	**1,008,537**	835,733	**2,824,204**	1,766,326
Associates	**–**	–	**234,260**	213,367
Key management personnel *(Note)*	**59,118**	572,376	**238,139**	201,155

Note: Includes key management personnel, close family members of key management personnel and entities that are controlled or jointly controlled, directly or indirectly, by key management personnel.

The above outstanding balances bear interest at rates similar to those made available to non-related parties. A portion of the loans to related parties are secured with properties, securities and fixed deposits.

39. RELATED PARTY TRANSACTIONS – continued

As at 31 December 2018, the Group had operating lease commitments with fellow subsidiaries of HK$36,560,000 (31 December 2017: HK$18,411,000).

Amounts due from related parties are included in advances and other accounts on the statements of financial position.

Amounts due to related parties are included in deposits from customers on the statements of financial position.

Compensation of key management personnel

The remuneration of directors and other members of the key management during the year was as follows:

	2018 *HK$'000*	2017 *HK$'000*
Short-term benefits	180,014	160,161
Post employment benefits	10,415	10,015
	190,429	170,176

The remuneration of directors and key management is reviewed by the Remuneration Committee having regard to the performance of individuals and market trends.

As of 31 December 2018, the Group accrued a bonus for the Group's senior management and employees. The accrued bonus was approved by the Remuneration Committee on 27 February 2019. The Group has not completed the allocation of the bonus to individual senior management. The allocation of accrued bonus included under short-term benefits above represents the best estimate of management for the bonus to be distributed to key management personnel as of the date of approval of the financial statements.

40. CAPITAL MANAGEMENT

The Group's policy is to maintain a strong capital base to support the development of the Group's business and to ensure compliance with the statutory capital adequacy ratio requirement, a requirement used to assess the capital adequacy of banks. Capital is allocated to the various activities of the Group depending on the risk taken by each business division. Where the subsidiaries or branches are directly regulated by other regulators, they are required to maintain capital according to the rules of those regulators.

The Group's objective when managing capital are:

- comply with the capital requirements under the Banking (Capital) Rules of the Hong Kong Banking Ordinance; and

- support the Group's stability and business growth so as to provide reasonable returns for shareholders.

Capital adequacy and the use of regulatory capital are monitored regularly by the Group's management, employing techniques based on the Banking (Capital) Rules of the Hong Kong Banking Ordinance. The required information is filed with the Hong Kong Monetary Authority (the "HKMA") on a quarterly basis.

The HKMA requires each bank or banking group to maintain a ratio of total regulatory capital to the risk-weighted asset (the capital adequacy ratio) at or above the minimum as stipulated in the Banking (Capital) Rules. In addition, branches outside Hong Kong of the Bank are also directly regulated and supervised by their local banking supervisors, which may differ from country to country. Subsidiaries of the Group are also subject to statutory capital requirements from other regulatory authorities, such as the Securities and Futures Commission and the Insurance Authority.

The capital adequacy ratios are computed on the consolidated basis, which includes the Bank and certain of its subsidiaries as specified by the HKMA for its regulatory purposes, and are in accordance with the Banking (Capital) Rules of the Hong Kong Banking Ordinance.

The Group has established a capital planning process to assess the adequacy of its capital to support current and future activities and to set the Group's capital adequacy goals in relation to risk, taking into account its strategic focus and business plan. Key factors to consider in this process including additional capital required for future expansion, results of the stress test programme regularly conducted, dividend policy, income recognition and provisioning policies.

41. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE BANK

	2018 HK$'000	2017 HK$'000
Assets		
Cash and short-term funds	26,158,476	25,156,970
Placements with banks maturing between one to twelve months	7,945,726	6,347,359
Derivative financial instruments	896,140	556,793
Investments in securities	46,928,487	39,088,758
Advances and other accounts	106,562,798	90,500,982
Investments in subsidiaries	250,984	250,984
Amounts due from subsidiaries	212,363	404,600
Interests in associates	20,000	20,000
Investment properties	264,100	252,000
Property and equipment	377,790	385,386
Prepaid lease payments for land	2,073	2,134
Deferred tax assets	19,907	–
Intangible assets	460,406	330,800
Total assets	190,099,250	163,296,766
Liabilities		
Deposits and balances of banks	5,615,953	3,051,932
Financial assets sold under repurchase agreements	6,571,696	12,002,989
Deposits from customers	143,768,023	118,841,329
Amounts due to subsidiaries	518,801	623,285
Derivative financial instruments	873,617	882,279
Other accounts and accruals	1,858,552	1,081,427
Current tax liabilities	242,406	429,098
Certificates of deposit	2,688,386	3,217,451
Debt securities issued	1,707,923	1,796,069
Loan capital	4,507,147	4,541,380
Deferred tax liabilities	–	35,232
Total liabilities	168,352,504	146,502,471
Equity attributable to owners of the Bank		
Share capital	9,977,060	5,435,904
Additional equity instruments	2,312,030	2,312,030
Reserves *(Note (a))*	9,457,656	9,046,361
Total equity	21,746,746	16,794,295
Total liabilities and equity	190,099,250	163,296,766

Approved and authorised for issue by the Board of Directors on 28 February 2019 and signed on its behalf by:

Zhang Zhaoxing
Chairman

Zong Jianxin
Executive Director, Deputy Chairman and Chief Executive

41. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE BANK – continued

Note (a):

	Investment revaluation reserve *HK$'000*	Land and building revaluation reserve *HK$'000*	General reserve *HK$'000*	Translation reserve *HK$'000*	Regulatory reserve *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
THE BANK							
At 1 January 2018	336,045	174,247	1,378,500	61,120	816,000	6,280,449	9,046,361
Change on initial application of HKFRS 9	84,549	–	–	–	(3,000)	(75,051)	6,498
Restated balance at 1 January 2018	420,594	174,247	1,378,500	61,120	813,000	6,205,398	9,052,859
Profit for the year	–	–	–	–	–	1,578,529	1,578,529
Exchange differences arising on translation	–	–	–	(177,848)	–	–	(177,848)
Surplus on transfer of land and buildings to investment properties	–	5,386	–	–	–	–	5,386
Net loss on investments in equity instruments measured at FVOCI	(1,768)	–	–	–	–	–	(1,768)
Net loss on investments in debt instruments measured at FVOCI	(495,411)	–	–	–	–	–	(495,411)
Amount reclassified to the profit or loss upon disposal of FVOCI debt securities	(21,460)	–	–	–	–	–	(21,460)
Income tax effect relating to disposal of financial assets measured at FVOCI	3,541	–	–	–	–	–	3,541
Income tax effect relating to fair value change of financial assets measured at FVOCI	85,977	–	–	–	–	–	85,977
Other comprehensive income	(429,121)	5,386	–	(177,848)	–	–	(601,583)
Total comprehensive income for the year	(429,121)	5,386	–	(177,848)	–	1,578,529	976,946
Distribution payment for additional equity instruments	–	–	–	–	–	(152,845)	(152,845)
Unclaimed dividend forfeited	–	–	–	–	–	500	500
Interim dividend paid	–	–	–	–	–	(165,329)	(165,329)
Final dividend paid	–	–	–	–	–	(254,475)	(254,475)
Earmark of retained profits as regulatory reserve	–	–	–	–	99,000	(99,000)	–
At 31 December 2018	(8,527)	179,633	1,378,500	(116,728)	912,000	7,112,778	9,457,656

41. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE BANK – continued

Note (a): – continued

	Investment revaluation reserve *HK$'000*	Land and building revaluation reserve *HK$'000*	General reserve *HK$'000*	Translation reserve *HK$'000*	Regulatory reserve *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
THE BANK							
At 1 January 2017	136,530	174,247	1,378,500	(185,204)	739,000	5,065,205	7,308,278
Profit for the year	–	–	–	–	–	1,791,853	1,791,853
Exchange differences arising on translation	–	–	–	246,324	–	–	246,324
Surplus on remeasurement of retirement benefit	–	–	–	–	–	5,647	5,647
Income tax charge relating to retirement benefit	–	–	–	–	–	(932)	(932)
Fair value gains of available-for-sale securities arising during the year	345,265	–	–	–	–	–	345,265
Amount reclassified to the profit or loss upon disposal of available-for-sale securities	(106,435)	–	–	–	–	–	(106,435)
Income tax effect relating to disposal of available-for-sale securities	17,562	–	–	–	–	–	17,562
Income tax effect relating to fair value change of available-for-sale securities	(56,877)	–	–	–	–	–	(56,877)
Other comprehensive income	199,515	–	–	246,324	–	4,715	450,554
Total comprehensive income for the year	199,515	–	–	246,324	–	1,796,568	2,242,407
Distribution payment for additional equity instruments	–	–	–	–	–	(151,974)	(151,974)
Interim dividend paid	–	–	–	–	–	(97,875)	(97,875)
Final dividend paid	–	–	–	–	–	(254,475)	(254,475)
Earmark of retained profits as regulatory reserve	–	–	–	–	77,000	(77,000)	–
At 31 December 2017	336,045	174,247	1,378,500	61,120	816,000	6,280,449	9,046,361

41. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE BANK – continued

Note (a): – continued

The Bank's reserves available for distribution to owners as at 31 December 2018 comprised retained profits of HK$6,863,185,000 (2017: HK$6,066,080,000) and general reserve of HK$1,378,500,000 (2017: HK$1,378,500,000).

The regulatory reserve is set up in compliance with the HKMA's requirements and is distributable to owners of the Bank subject to consultation with the HKMA.

The general reserve is comprised of transfers from previous years' retained profits.

The investment revaluation reserve represents cumulative gains and losses arising on the revaluation of FVOCI (2017: available-for-sale) investments that have been recognised in other comprehensive income, net of amounts reclassified to the income statement when those FVOCI (2017: available-for sale) debt securities are disposed of.

The land and building revaluation reserve represents difference between fair value and carrying value of the properties transferred from owner-occupied properties to investment properties during the year.

Exchange differences relating to the translation of the net assets of the Bank's foreign operations from their functional currencies to the Bank's presentation currency (i.e. Hong Kong dollars) are recognised directly in other comprehensive income and accumulated in the translation reserve. Such exchange differences accumulated in the translation reserve are reclassified to the income statement on the disposal of the foreign operations.

42. BENEFITS AND INTERESTS OF DIRECTORS

(Disclosures required by section 383 of the Hong Kong Companies Ordinance (Cap 622) and Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap 622G)) and Listing Rules

The emoluments of the Directors and the Chief Executive of the Bank were as follows:

(A) Directors' emoluments

	2018						
	Fees *HK$'000*	Salaries *HK$'000*	Bonus *HK$'000*	Housing allowance *HK$'000*	Estimated value of other benefits *HK$'000*	Employer's contribution to retirement benefits scheme *HK$'000*	Total *HK$'000*
Executive Directors and Chief Executive							
Leung Ko May Yee Margaret *(Note 1)*	68	10,302	1,220	–	–	337	11,927
Zong Jianxin *(Note 2)*	180	8,981	3,780	–	–	573	13,514
Lau Wai Man	180	5,286	1,630	–	–	528	7,624
Total Executive Directors' and Chief Executive's emoluments	428	24,569	6,630	–	–	1,438	33,065
Non-executive Directors							
Zhang Zhaoxing	490	–	–	–	–	–	490
Chow Cheuk Yu Alfred	510	–	–	–	–	–	510
Li Feng	440	–	–	–	–	–	440
Wang Shuhui *(Note 3)*	159	–	–	–	–	–	159
Zhu Chunxiu *(Note 4)*	272	–	–	–	–	–	272
Chen Jing *(Note 5)*	160	–	–	–	–	–	160
Total Non-executive Directors' emoluments	2,031	–	–	–	–	–	2,031
Independent Non-executive Directors							
Cheng Yuk Wo	610	–	–	–	–	–	610
Lee Ka Lun	620	–	–	–	–	–	620
Ma Chiu Cheung Andrew	570	–	–	–	–	–	570
Yu Lup Fat Joseph	600	–	–	–	–	–	600
Total Independent Non-executive Directors' emoluments	2,400	–	–	–	–	–	2,400
Total	4,859	24,569	6,630	–	–	1,438	37,496

42. BENEFITS AND INTERESTS OF DIRECTORS – continued

(Disclosures required by section 383 of the Hong Kong Companies Ordinance (Cap 622) and Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap 622G)) and Listing Rules – continued

The emoluments of the Directors and the Chief Executive of the Bank were as follows: – continued

(A) Directors' emoluments – continued

	2017						
	Fees *HK$'000*	Salaries *HK$'000*	Bonus *HK$'000*	Housing allowance *HK$'000*	Estimated value of other benefits *HK$'000*	Employer's contribution to retirement benefits scheme *HK$'000*	Total *HK$'000*
Executive Directors and Chief Executive							
Leung Ko May Yee Margaret *(Note 1)*	180	12,661	–	–	–	818	13,659
Zong Jianxin *(Note 2)*	180	7,235	–	–	–	422	7,837
Lau Wai Man	180	5,282	–	–	–	528	5,990
Total Executive Directors' and Chief Executive's emoluments	540	25,178	–	–	–	1,768	27,486
Non-executive Directors							
Zhang Zhaoxing	450	–	–	–	–	–	450
Chow Cheuk Yu Alfred	450	–	–	–	–	–	450
Li Feng	400	–	–	–	–	–	400
Wang Shuhui	400	–	–	–	–	–	400
Zhu Chunxiu	400	–	–	–	–	–	400
Total Non-executive Directors' emoluments	2,100	–	–	–	–	–	2,100
Independent Non-executive Directors							
Cheng Yuk Wo	515	–	–	–	–	–	515
Lee Ka Lun	515	–	–	–	–	–	515
Chiranakhorn Wanchai *(Note 6)*	18	–	–	–	–	–	18
Ma Chiu Cheung Andrew	435	–	–	–	–	–	435
Yu Lup Fat Joseph	475	–	–	–	–	–	475
Total Independent Non-executive Directors' emoluments	1,958	–	–	–	–	–	1,958
Total	4,598	25,178	–	–	–	1,768	31,544

42. BENEFITS AND INTERESTS OF DIRECTORS – continued

(Disclosures required by section 383 of the Hong Kong Companies Ordinance (Cap 622) and Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap 622G)) and Listing Rules – continued

(A) Directors' emoluments – continued

Notes:

1. Retired as an Executive Director and the Chairman of the Executive Committee with effect from the conclusion of the Annual General Meeting held on 18 May 2018.
2. Being an Executive Director and Chief Executive of the Bank and assumed the role of Deputy Chairman of the Bank with effect from 18 May 2018.
3. Resigned as a Non-executive Director and a member of the Audit Committee with effect from the conclusion of the Annual General Meeting held on 18 May 2018.
4. Resigned as a Non-executive Director and a member of the Nomination Committee and the Risk Committee of the Bank with effect from 15 August 2018.
5. Appointed as a Non-executive Director and a member of the Audit Committee with effect from 15 August 2018.
6. Passed away on 23 January 2017.
7. For the year ended 31 December 2018, no directors have waived any emoluments (2017: Nil).

(B) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

The information about loans, quasi-loans and other dealings entered into by the company or subsidiary undertaking of the company, where applicable, in favour of directors is as follows:

	Aggregate balance of all relevant loans outstanding		Maximum aggregate balance of relevant loans during the year
	at January 1	at December 31	
	HK$'000	*HK$'000*	*HK$'000*
2018	**3,560**	**4,089**	**6,132**
2017	3,703	3,560	5,879

The loans bear interest at rates ranging from 0% to prime rate plus 10%. Included in the loans to officers are loans of HK$4,037,000 (2017: HK$3,510,000) secured by collateral. The collateral consists mainly of properties, securities and fixed deposits.

42. BENEFITS AND INTERESTS OF DIRECTORS – continued

(Disclosures required by section 383 of the Hong Kong Companies Ordinance (Cap 622) and Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap 622G)) and Listing Rules – continued

(C) Five Highest Paid Individuals

The five highest paid individuals in the Group in 2018 included three (2017: three) directors whose emoluments are set out in note 42(A) above. The emoluments of the remaining two (2017: two) highest paid individuals are as follows:

	2018 *HK$'M*	2017 *HK$'M*
Salary and other emoluments	10.1	9.0
Contributions to pension scheme	0.3	0.2
Discretionary bonuses	4.2	1.3
	14.6	10.5

Their emoluments are within the following bands:

HK$	2018 Number of individuals	2017 Number of individuals
3,500,001 – 4,000,000	–	1
4,000,001 – 4,500,000	–	–
6,500,001 – 7,000,000	1	1
7,500,001 – 8,000,000	1	–

43. IMMEDIATE AND ULTIMATE HOLDING COMPANIES

As at 31 December 2018 and 31 December 2017, the immediate holding company of the Bank was Yuexiu Financial Holdings Limited, which is incorporated in Hong Kong. Its ultimate holding company was Guangzhou Yue Xiu Holdings Limited, which is incorporated in the People's Republic of China.

The following information is disclosed as part of the accompanying information to the financial statements and does not form part of the audited financial statements.

The preparation of supplementary financial information is in accordance with the Banking (Disclosure) Rules and consolidated supervision arrangement approved by the HKMA.

1. MAJOR SPECIALISED COMMITTEES

The Board is constituted in accordance with the Bank's Articles of Association and is ultimately responsible for the sustainable performance of the Group. The Board has established the following specialised committees and delegated its authorities and power to enable them to operate under defined terms of reference. The Board reviews and updates the committees' Terms of Reference on a regular basis.

These specialised committees are:

(i) Audit Committee

(ii) Connected Party Transactions Committee

(iii) Executive Committee

(iv) Nomination Committee

(v) Remuneration Committee

(vi) Risk Committee

The Terms of Reference and the composition of each of the above committees are set out in the "Corporate Governance Report" of this Annual Report.

The Executive Committee has established the Asset and Liability Management Committee (the "ALCO") and the Risk Management Committee (the "RMC"). The roles and functions of these committees are as follows:

(vii) ALCO

Members of the ALCO are appointed by the Executive Committee, comprising senior executives of the Bank.

The ALCO is established to facilitate the oversight of the Board in the management of the assets liabilities and capital of the Group from the perspective of containing the pertinent capital funding and liquidity, interest rate, foreign exchange and other market risks. The assessment of the impact of the current economic and business climate on the Group's statement of financial position, and the formulation of the corresponding strategies and plans also come under other key functions of the ALCO.

(viii) RMC

Members of the RMC are appointed by the Executive Committee. It comprises the Chief Risk Officer with other senior executives who are responsible for risk management, compliance issues and daily operations of the Bank.

The RMC is responsible for the oversight of risk management of the Group, within the framework of the Group's policies, its Terms of Reference and such other directives as the Executive Committee may determine from time to time.

2. MANAGEMENT OF RISKS

The Group has established policies, procedures, and controls for measuring, monitoring and controlling risks arising from the banking and related financial services business. These policies, procedures, and controls are implemented by various committees, divisions and departments of the Group and are regularly reviewed by the Board. Internal auditors also play an important role in risk management process by performing regular, as well as conducting sporadic compliance audits.

The management of assets and liabilities of the Group is conducted under guidance of the ALCO. The ALCO holds meetings every two weeks, and more frequent meetings when required, to review and direct the relevant policies, the business strategies and to monitor the bank-wide positions. The day-to-day management of the funding and liquidity, foreign exchange, interest rate and other market risks, and the compliance with the ALCO and the RMC policies are monitored by the Finance and Capital Management Division, the Financial Markets Division and the Market Risk Management Department with the assistance of various qualitative and quantitative analyses.

Complementing with the ALCO in its management of assets and liabilities, the RMC also oversees the implementation of the policies and procedures established for managing the Group's credit, strategic, operational, legal, and reputation risks and compliance requirements.

(i) Operational and legal risk

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

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

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

(ii) Reputation risk

Reputation risk is the risk that the Group's reputation is damaged by one or more than one reputation event that results in negative publicity about the Group's business practices, conduct or financial condition.

Reputation risk is managed by every member of staff ensuring proper and adequate communications and public relation efforts to foster the reputation of the Group. A reputation risk management mechanism guided by the senior management including executive directors has been established to manage including, without limitation, media exposure, handle customers' and other stakeholders' complaints and suggestions, and to ensure that business activities and agents and/or bodies acting on the Group's behalf do not jeopardise its reputation.

Details of the Group's capital management, credit risk, liquidity risk, market risk, foreign exchange risk, interest rate risk management policies and measures are set out in note 7 to the consolidated financial statements.

3. CAPITAL ADEQUACY RATIOS, LEVERAGE RATIO AND LIQUIDITY RATIOS

	2018	2017
	%	%
Total capital ratio	**19.01**	17.60
Tier 1 capital ratio	**15.19**	13.30
Common Equity Tier 1 ("CET 1") capital ratio	**13.44**	11.30

	31 December 2018	31 December 2017
	%	%
Capital buffers (as a percentage of risk-weighted assets)		
Capital conservation buffer ratio	**1.875**	1.25
Countercyclical capital buffer ratio	**1.368**	0.91
	3.243	2.16

	2018	2017
	%	%
Leverage ratio	**10.03**	8.85

	Year ended 31 December 2018	Year ended 31 December 2017
	%	%
Average liquidity maintenance ratio for the year	**44.49**	40.73

3. CAPITAL ADEQUACY RATIOS, LEVERAGE RATIO AND LIQUIDITY RATIOS – continued

Capital adequacy ratios are compiled in accordance with the Banking (Capital) Rules under Hong Kong Banking Ordinance for the implementation of the "Basel III" capital accord, which became effective on 1 January 2013. In accordance with the Banking (Capital) Rules, the Bank has adopted the "standardised approach" for the calculation of the risk-weighted assets for credit risk, "standardised (market risk) approach" for the calculation of market risk and "basic indicator approach" for the calculation of operational risk. The capital adequacy ratio is consolidated, under the Banking (Capital) Rules, with reference to the financial information of the Bank, Chong Hing Finance Limited, Right Way Investments Limited, Gallbraith Limited, Chong Hing Information Technology Limited, Card Alliance Company Limited, Top Benefit Enterprise Limited and Hero Marker Limited.

Leverage ratio is disclosed in accordance with the Banking (Disclosure) Rules under Hong Kong Banking Ordinance. The leverage ratio is consolidated with reference to the financial information of the Bank, Chong Hing Finance Limited, Right Way Investments Limited, Gallbraith Limited, Chong Hing Information Technology Limited, Card Alliance Company Limited, Top Benefit Enterprise Limited and Hero Marker Limited.

Liquidity maintenance ratio ("LMR") is compiled in accordance with the Banking (Liquidity) Rules under Hong Kong Banking Ordinance, which became effective on 1 January 2015. The LMR is calculated on an unconsolidated basis. The average liquidity maintenance ratio is calculated based on the arithmetic mean of the average value of the LMR of the Bank reported in the liquidity position return of the Bank for each month during the reporting period.

4. OTHER FINANCIAL INFORMATION

The Bank has set up a "Regulatory Disclosure" section on its website to house all of information relating to the disclosure of regulatory capital to comply with Banking (Disclosure) Rules.

The "Regulatory Disclosure" will be available on the Bank's website: www.chbank.com/en/regulatory-disclosures/index.shtml in the "Regulatory Disclosure" section in accordance with the Banking (Disclosure) Rules.

5. SEGMENTAL INFORMATION

The Group's information concerning geographical analysis has been classified by the location of the principal operations of the branches and subsidiary companies responsible for reporting the results or booking the assets. Details are set out in note 6 to the consolidated financial statements.

6. ADVANCES TO CUSTOMERS – BY INDUSTRY SECTORS

The Group's gross advances to customers (including advances booked in branches outside Hong Kong and subsidiaries) are analysed and reported by industry sectors according to the usage of the loans or business activities of the borrowers. Details are set out in note 7 (credit risk) to the consolidated financial statements.

The Group's advances to customers overdue for over three months, and new impairment allowances and advances written off during the year ended 31 December 2018 and 2017 in respect of industry sectors which constitute not less than 10 per cent of gross advances to customers are analysed as follows:

	2018		
	Advances overdue for over three months as at 31 December	**New impairment allowances during the year**	**Advances written-off during the year**
	HK$'000	***HK$'000***	***HK$'000***
Loans for use in Hong Kong			
Individuals			
– Loans for the purchase of other residential properties	**4,209**	**–**	**–**
Loans for use outside Hong Kong	**164,907**	**119,792**	**142,563**

	2017		
	Advances overdue for over three months as at 31 December	New impairment allowances during the year	Advances written-off during the year
	HK$'000	*HK$'000*	*HK$'000*
Loans for use in Hong Kong			
Individuals			
– Loans for the purchase of other residential properties	5,780	–	–
Loans for use outside Hong Kong	151,647	150,579	–

7. ADVANCES TO CUSTOMERS – BY GEOGRAPHICAL AREAS

The Group's gross advances to customers by countries or geographical areas after taking into account any risk transfers are as follows:

	2018				
	Total advances	Advances overdue for over three months	Impaired advances	Stage 3 impairment allowance	Stage 1 & stage 2 impairment allowance
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong	78,976,168	94,668	246,847	82,847	222,518
Mainland China	18,488,068	102,519	102,519	71,362	166,028
Macau	4,049,389	–	3,864	226	2,867
Others	311,602	–	–	–	–
	101,825,227	197,187	353,230	154,435	391,413

	2017				
	Total advances	Advances overdue for over three months	Impaired advances	Individual impairment allowance	Collective impairment allowance
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong	66,635,650	347,802	246,453	243,834	241,053
Mainland China	16,697,292	149,859	149,859	149,859	77,567
Macau	3,342,965	1,788	1,788	700	11,019
Others	22,465	–	–	–	–
	86,698,372	499,449	398,100	394,393	329,639

8. INTERNATIONAL CLAIMS

The Group's international claims by countries or geographical areas which constitute 10% or more of the relevant disclosure items after taking into account any risk transfers are as follows:

	At 31 December 2018				
			Non-bank private sector		
	Banks	**Official sector**	**Non-bank financial institutions**	**Non-financial private sector**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Offshore centres	**2,805,110**	**2,956**	**21,426,035**	**20,593,448**	**44,827,549**
of which					
– Hong Kong	**2,564,499**	**2,956**	**5,877,939**	**7,884,211**	**16,329,605**
Developing Asia-Pacific	**13,730,662**	**225,919**	**545,151**	**6,223,604**	**20,725,336**
of which					
– Mainland China	**12,030,286**	**225,919**	**545,151**	**6,213,926**	**19,015,282**
Developed countries	**8,088,759**	**4,490,938**	**1,485,559**	**813,334**	**14,878,590**

	At 31 December 2017				
			Non-bank private sector		
	Banks	Official sector	Non-bank financial institutions	Non-financial private sector	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Offshore centres	1,531,449	4,200	16,666,358	15,301,720	33,503,727
of which					
– Hong Kong	1,531,206	4,200	4,403,559	8,026,365	13,965,330
Developing Asia-Pacific	13,510,809	233,157	948,894	7,437,270	22,130,130
of which					
– Mainland China	12,534,009	233,157	948,894	7,431,108	21,147,168
Developed countries	6,192,052	3,860,788	1,435,606	107,354	11,595,800

9. CURRENCY RISK

The Group's foreign currency exposures arising from non-trading and structural position which constitute 10% or more of the total net position in all foreign currencies are as follows:

		2018	
	US$	**RMB**	**Total**
Equivalent in thousand of HK$			
Spot assets	**44,960,622**	**37,086,928**	**82,047,550**
Spot liabilities	**(44,262,308)**	**(37,865,617)**	**(82,127,925)**
Forward purchases	**132,417,175**	**14,560,418**	**146,977,593**
Forward sales	**(129,376,565)**	**(13,229,032)**	**(142,605,597)**
Net long position	**3,738,924**	**552,697**	**4,291,621**

	MOP	**RMB**	**Total**
Net structural position	**48,544**	**2,164,290**	**2,212,834**

		2017	
	US$	RMB	Total
Equivalent in thousand of HK$			
Spot assets	38,794,996	27,732,363	66,527,359
Spot liabilities	(37,371,492)	(27,256,003)	(64,627,495)
Forward purchases	70,397,765	4,855,330	75,253,095
Forward sales	(71,262,225)	(4,859,242)	(76,121,467)
Net long position	559,044	472,448	1,031,492

	MOP	RMB	Total
Net structural position	48,545	351,377	399,922

10. OVERDUE AND RESCHEDULED ASSETS

	2018 Gross amount of advances *HK$'000*	2018 Percentage to total advances *%*
Advances overdue for		
– 6 months or less but over 3 months	**146,838**	**0.1**
– 1 year or less but over 6 months	**34,208**	**0.0**
– Over 1 year	**16,141**	**0.0**
Total overdue advances	**197,187**	**0.1**
Rescheduled advances	**124,443**	**0.1**
Stage 3 impairment allowances made in respect of overdue loans and advances	**139,619**	

	2017 Gross amount of advances *HK$'000*	2017 Percentage to total advances *%*
Advances overdue for		
– 6 months or less but over 3 months	12,656	0.0
– 1 year or less but over 6 months	432,113	0.5
– Over 1 year	54,680	0.1
Total overdue advances	499,449	0.6
Rescheduled advances	18,353	0.0
Individual impairment allowances made in respect of overdue loans and advances	388,641	

10. OVERDUE AND RESCHEDULED ASSETS – continued

The value of the security of the above overdue advances is analysed as follows:

	2018	2017
	HK$'000	*HK$'000*
Covered portion of overdue loans and advances	**23,668**	110,975
Uncovered portion of overdue loans and advances	**173,519**	388,474
	197,187	499,449
Market value of collateral held against covered portion of overdue loans and advances	**38,097**	229,255

There were no advances to banks or other assets which were overdue for over three months as at 31 December 2018 and 31 December 2017, nor were there any rescheduled advances to banks and other financial institutions.

Repossessed assets held by the Group as at 31 December 2018 amounted to HK$9,500,000 (2017: HK$10,250,000).

11. MAINLAND ACTIVITIES EXPOSURES

The table below summaries the non-bank Mainland China exposures of the Bank's Hong Kong banking operations and the Bank's Mainland branches and sub-branches categorized by types of counterparties:

	31 December 2018		
	On-balance sheet exposure *HK$'000*	Off-balance sheet exposure *HK$'000*	Total *HK$'000*
Type by counterparties			
1. Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	23,257,752	2,859,722	26,117,474
2. Local government, local government-owned entities and their subsidiaries and JVs	5,007,396	2,597,854	7,605,250
3. Mainland China nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	20,975,633	7,561,415	28,537,048
4. Other entities of central government not reported in item 1 above	4,487,871	1,752,436	6,240,307
5. Other entities of local government not reported in item 2 above	1,054,338	358,172	1,412,510
6. Mainland China nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	8,688,010	1,667,797	10,355,807
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	7,653,238	871,864	8,525,102
Total	71,124,238	17,669,260	88,793,498
Total assets after provision *(Note)*	189,347,701		
On-balance sheet exposures as percentage of total assets *(Note)*	37.56%		

11. MAINLAND ACTIVITIES EXPOSURES – continued

	31 December 2017		
	On-balance sheet exposure *HK$'000*	Off-balance sheet exposure *HK$'000*	Total *HK$'000*
Type by counterparties			
1. Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	16,733,076	1,928,809	18,661,885
2. Local government, local government-owned entities and their subsidiaries and JVs	2,226,715	1,252,874	3,479,589
3. Mainland China nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	14,510,630	3,229,129	17,739,759
4. Other entities of central government not reported in item 1 above	5,739,266	1,006,372	6,745,638
5. Other entities of local government not reported in item 2 above	474,243	45,000	519,243
6. Mainland China nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	9,719,331	1,546,041	11,265,372
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	6,585,223	2,432,079	9,017,302
Total	55,988,484	11,440,304	67,428,788
Total assets after provision *(Note)*	162,810,827		
On-balance sheet exposures as percentage of total assets *(Note)*	34%		

The categories of non-bank counterparties and type of direct exposures are disclosed in accordance with Banking (Disclosure) Rules with reference to the Return of Mainland Activities of the HKMA.

Note: Include total assets after provisions of the Bank's Hong Kong banking operations and the Bank's Mainland branches and sub-branches.

12. CAPITAL CHARGE FOR CREDIT, MARKET AND OPERATIONAL RISKS

The capital requirements for each class of exposures are summarised below. This disclosure is made by multiplying the Group's risk-weighted amount derived from the relevant computation method by 8%, not the Group's actual regulatory capital.

(i) Capital charge for credit risk

	Capital requirement	
	2018	2017
	HK$'000	*HK$'000*
Sovereign exposures	**76**	43,950
Public sector entity exposures	**17,309**	8,548
Bank exposures	**957,303**	975,386
Securities firm exposures	**30,967**	87,017
Corporate exposures	**7,181,189**	5,999,273
Collective investment scheme exposures	**–**	5,075
Cash items	**57,481**	29,068
Regulatory retail exposures	**16,723**	20,118
Residential mortgage loans	**417,278**	431,414
Other exposures which are not past due exposures	**573,059**	576,441
Past due exposures	**19,342**	10,252
Total capital charge for on-balance sheet exposures	**9,270,727**	8,186,542
Direct credit substitutes	**36,151**	94,557
Trade-related contingencies	**28,916**	16,149
Forward asset purchases	**6,890**	7,585
Other commitments	**283,325**	331,092
Exchange rate contracts	**83,159**	55,970
Interest rate contracts	**15,224**	12,828
Securities financing transaction	**12,328**	26,141
Total capital charge for off-balance sheet exposures	**465,993**	544,322
Total capital charge for securitisation exposures	**–**	–
Total central counterparty default risk exposures	**914**	607
Total capital charge for credit valuation adjustment	**51,196**	35,579
Total capital charge for credit risk	**9,788,830**	8,767,050

12. CAPITAL CHARGE FOR CREDIT, MARKET AND OPERATIONAL RISKS – continued

(ii) Capital charge for market risk

The market risk capital charge set out below relates to interest rate risk and foreign exchange risk. The net open positions of the Group's foreign exchange exposures amounted to HK$2,812,442,000 as at 31 December 2018 (2017: HK$915,675,000). There are no other market risk exposures as at that date.

	Capital charge	
	2018	2017
	HK$'000	*HK$'000*
		(Restated)
Interest rate risk exposures	**102,037**	72,358
Foreign exchange exposures (including gold and options)	**224,995**	73,254
Capital charge for market risk	**327,032**	145,612

The Group uses the standardised (market risk) approach for calculating market risk.

(iii) Capital charge for operational risk

	Capital charge	
	2018	2017
	HK$'000	*HK$'000*
Capital charge for operational risk	**455,367**	387,173

The Group uses the basic indicator approach for calculating operational risk.

13. RISK MANAGEMENT

(i) Credit risk

(a) Credit risk exposures

Moody's Investors Service is the external credit assessment institution (the "ECAI") that the Group has used in relation to each class of exposures set out below. The process used to map ECAI issuer ratings to exposures booked in the banking book is a process as prescribed in Part 4 of the Banking (Capital) Rules.

	2018 Class of credit risk exposures								
	Total exposures HK$'000	Exposures after recognised credit risk mitigation Rated HK$'000	Unrated HK$'000	Total HK$'000	Risk-weighted amounts Rated HK$'000	Unrated HK$'000	Total HK$'000	Total exposures covered by recognised collateral HK$'000	Total exposures covered by recognised guarantees HK$'000
A. On-balance Sheet									
1. Sovereign	17,879,288	17,879,288	–	17,879,288	944	–	944	–	–
2. Public sector entity	546,051	546,051	535,769	1,081,820	109,210	107,154	216,364	–	–
3. Bank	44,218,095	40,772,106	3,493,052	44,265,158	11,048,108	918,175	11,966,283	–	–
4. Securities firm	774,167	–	774,167	774,167	–	387,084	387,084	–	–
5. Corporate	102,980,213	24,665,466	71,923,422	96,588,888	17,842,678	71,922,182	89,764,860	6,349,225	747,539
6. Collective Investment Scheme	–	–	–	–	–	–	–	–	–
7. Cash items	463,276	–	7,462,278	7,462,278	–	718,508	718,508	–	–
8. Regulatory retail	294,817	–	278,724	278,724	–	209,043	209,043	16,093	–
9. Residential mortgage loan	13,637,446	–	13,060,403	13,060,403	–	5,215,973	5,215,973	41,274	535,769
10. Other exposures which are not past due exposures	7,439,505	113,910	6,728,224	6,842,134	113,910	7,049,327	7,163,237	594,890	–
11. Past due exposures	184,005	–	184,005	184,005	–	241,769	241,769	66,023	–
B. Off-balance Sheet									
Direct credit substitutes	592,606	5,720	586,886	592,606	2,860	449,031	451,891	135,367	5,410
Trade-related contingencies	905,697	–	905,697	905,697	–	361,445	361,445	2,724,308	–
Forward asset purchases	86,125	–	86,125	86,125	–	86,125	86,125	–	–
Undrawn formal standby facilities credit lines and other commitments:	3,720,118	302,673	3,417,445	3,720,118	158,253	3,383,308	3,541,561	61	774,510
Which are unconditionally cancellable without prior notice	–	–	–	–	–	–	–	61	46,029
With an original maturity of one year and under	602,269	53,880	548,389	602,269	26,940	514,252	541,192	–	258,561
With an original maturity of over one year	3,117,849	248,793	2,869,056	3,117,849	131,313	2,869,056	3,000,369	–	469,920
1. Off-balance sheet exposures other than OTC derivative transactions or credit derivative contracts	5,304,546	308,393	4,996,153	5,304,546	161,113	4,279,909	4,441,022	2,859,736	779,920
Exchange rate contracts	3,425,921	3,419,273	6,648	3,425,921	1,032,836	6,648	1,039,484	–	–
Interest rate contracts	430,209	426,248	3,961	430,209	186,334	3,961	190,295	–	–
2. OTC derivative transactions	3,856,130	3,845,521	10,609	3,856,130	1,219,170	10,609	1,229,779	–	–
3. Securities financing transactions	7,652,584	1,061,226	6,591,358	7,652,584	154,096	–	154,096	6,927,076	–
	205,230,123	89,191,961	116,038,164	205,230,125	30,649,229	91,059,733	121,708,962	16,854,317	2,063,228
C. Securitisation Exposures	–	–	–	–	–	–	–	–	–
D. Credit Valuation Adjustment	3,856,130	–	3,856,130	3,856,130	–	639,950	639,950	–	–
E. Central Counterparties (CCP) – Default Risk Exposures	571,145	292,134	279,011	571,145	5,843	5,580	11,423	–	–

13. RISK MANAGEMENT – continued

(i) Credit risk – continued

(a) Credit risk exposures – continued

2017

Class of credit risk exposures

	Total exposures *HK$'000*	Exposures after recognised credit Rated *HK$'000*	Exposures after recognised credit Unrated *HK$'000*	Risk-weighted amounts Rated *HK$'000*	Risk-weighted amounts Unrated *HK$'000*	Total risk-weighted amounts *HK$'000*	Total exposures covered by recognised collateral *HK$'000*	Total exposures covered by recognised guarantees *HK$'000*
A. On-balance Sheet								
1. Sovereign	18,020,797	18,020,797	–	549,377	–	549,377	–	–
2. Public sector entity	–	–	534,270	–	106,854	106,854	–	–
3. Bank	36,405,780	35,192,822	1,526,492	11,887,021	305,299	12,192,320	–	–
4. Securities firm	2,177,115	468,847	1,706,569	234,423	853,285	1,087,708	1,699	–
5. Corporate	84,098,144	20,670,959	59,828,146	15,180,274	59,810,633	74,990,907	3,285,506	761,851
6. Collective Investment Scheme	63,432	–	63,432	–	63,432	63,432	–	–
7. Cash items	435,870	–	3,855,081	–	363,351	363,351	–	–
8. Regulatory retail	354,944	–	335,306	–	251,479	251,479	19,638	–
9. Residential mortgage loan	13,818,820	–	13,252,249	–	5,392,679	5,392,679	32,301	534,270
10. Other exposures which are not past due exposures	6,964,477	–	6,884,409	–	7,205,512	7,205,512	80,068	–
11. Past due exposures	122,218	–	122,218	–	128,156	128,156	108,491	–
B. Off-balance Sheet								
1. Off-balance sheet exposures other than OTC derivative transactions or credit derivative contracts	6,147,013	440,629	5,706,384	275,720	5,341,567	5,617,287	1,128,735	504,851
2. OTC derivative transactions	2,357,824	2,312,158	45,666	814,305	45,667	859,972	–	–
3. Securities financing transactions	12,916,553	939,415	11,977,138	326,767	–	326,767	11,977,137	–
	183,882,987	78,045,627	105,837,360	29,267,887	79,867,914	109,135,801	16,633,575	1,800,972
C. Securitisation Exposures	–	–	–	–	–	–	–	–
D. Credit Valuation Adjustment	2,357,824	–	2,357,824	–	444,738	444,738	–	–
E. Central Counterparties Default Risk Exposure	379,546	379,546	–	7,591	–	7,591	–	–

13. RISK MANAGEMENT – continued

(i) Credit risk – continued

(a) Credit risk exposures – continued

Properties and cash deposits are recognised collateral for past due exposures and other exposures respectively. Recognised guarantees are guarantees issued by banks, corporates and the Government of the HKSAR. The Group has also taken properties and listed shares as collateral pledged as security against loans totalling HK$167,644,626,000 (2017: HK$36,176,683,000) and HK$1,041,522,000 (2017: HK$1,714,823,000) respectively.

(b) Counterparty credit risk exposures

The Group enters into Over-The-Counter ("OTC") derivative transactions, mainly exchange and interest rate contracts, for hedging customers' and own positions. The methodology used to assign internal capital and credit limits for counterparty credit exposures is based on Banking (Capital) Rules. Counterparties of these OTC derivative transactions are reputable banks and security firms and collateral is not normally required.

The following table summarises the Group's credit exposures arising from OTC derivative transactions. There is no credit derivative contract outstanding as at 31 December 2018 and 31 December 2017.

	OTC derivative transactions	
	2018	2017
	HK$'000	*HK$'000*
OTC derivative		
Gross total positive fair value	**896,137**	556,793
Credit equivalent amounts	**4,427,276**	2,357,824
Risk-weighted amounts	**1,241,201**	867,563

13. RISK MANAGEMENT – continued

(i) Credit risk – continued

(b) Counterparty credit risk exposures – continued

The breakdown of the credit equivalent amounts and the risk- weighted amount is summarised as follows:

	OTC derivative transactions	
	2018	2017
	HK$'000	*HK$'000*
Notional amounts:		
– Banks	**264,132,116**	159,356,785
– Corporates	**43,036,274**	23,222,060
– Public Sector	**92,475**	18,323
– Other	**77,875**	–
	307,338,740	182,597,168
Credit equivalent amounts:		
– Banks	**3,596,475**	1,998,836
– Corporates	**827,133**	358,805
– Public Sector	**2,741**	183
– Other	**927**	–
	4,427,276	2,357,824
Risk-weighted amounts:		
– Banks	**842,764**	600,369
– Corporates	**396,962**	267,157
– Public Sector	**548**	37
– Other	**927**	–
	1,241,201	867,563

(c) Credit risk mitigation

The Group generally accepts collateral pledged as security and financial guarantees to support loans and advances made to customers. However, on-balance sheet and off-balance sheet netting and credit derivative contracts are not used for credit risk mitigation purposes.

Main types of recognised collateral include cash deposits and properties, whereas main types of recognised guarantees include financial guarantees issued by banks, corporates and the Government of the HKSAR.

13. RISK MANAGEMENT – continued

(i) Credit risk – continued

(c) Credit risk mitigation – continued

The Group only accepts collateral pledged as security:

- when it is readily realisable;
- when it has stable value that can be quantified or supported by valuation; and
- the title of which can be verified and legally assigned to the Group.

Loan to value (collateral value) ratios are prescribed by the Lending Policy of the Group for various types of loan. At loan inception and renewal, collateral to be pledged as security is valued by reference to its market value. Collateral is subject to re-valuation on a regular basis and at times of significant price fluctuations of the underlying assets. Physical custody of title documents such as title deeds of properties and deposit certificates of cash deposits are required to be placed with the Group. Completion of registration of charges on the collateral pledged as security with the relevant authorities is a condition precedent for granting secured loans.

(ii) Securitisation exposures

There was no securitisation exposures as at 31 December 2018 (2017: Nil).

(iii) Equity exposures in banking book

The Group adopts a policy of holding equity securities for long-term investment purposes. Equity holdings taken for strategic reasons are primarily associate operations that complement directly the Group's banking business. Equity securities are accounted for as investments in securities measured at fair value through other comprehensive income (FVOCI) (2017: available-for-sale financial assets), the accounting policy of which is set out in note 4 to the consolidated financial statements.

	2018 ***HK$'000***	2017 *HK$'000*
Net realised gains from sales	**–**	7,502
Net unrealised revaluation gains:		
– Amount included in investments in securities measured at FVOCI (2017: available-for-sale securities)	**1,135**	8,292
– Amount included in disclosed reserves	**1,144**	7,374

13. RISK MANAGEMENT – continued

(iv) Interest rate exposures in banking book

Note 7 to the consolidated financial statements sets out the nature and the frequency of measurement of the interest rate risk. In measuring the interest rate exposures, the Group assumes that past contractual re-pricing behaviour will continue in the same manner over the next 12 months.

Variations in earnings for significant upward and downward interest rate movements in accordance with the method the Group uses for stress-testing, broken down by major currencies are set out below:

	2018			
	Currency			
	HK$	**US$**	**Others**	**Total**
Interest rate risk shock				
Equivalents of HK$'000				
– Variations in earnings (+100 basis points)	**129,915**	**88,852**	**19,164**	**237,931**
– Variations in earnings (-10 basis points)	**(6,014)**	**(8,872)**	**3,669**	**(11,217)**

	2017			
	Currency			
	HK$	US$	Others	Total
Interest rate risk shock				
Equivalents of HK$'000				
– Variations in earnings (+100 basis points)	108,542	(2,824)	(13,928)	91,790
– Variations in earnings (-10 basis points)	(9,650)	293	1,095	(8,262)

14. BASIS OF CONSOLIDATION

The consolidated financial statements cover the consolidated financial information of the Bank and all its subsidiaries and include the attributable share of interest in the Group's associates.

In preparing the capital adequacy ratio and liquidity ratio of the Group, they are prepared according to the basis of consolidation determined by the Hong Kong Monetary Authority for regulatory purposes. The main difference between the consolidation basis for accounting and regulatory purposes is that the former includes the Bank, all its subsidiaries and the attributable share of interests in the Group's associates whereas the latter includes the Bank and only some of the Group's subsidiaries which mainly conduct banking business or other business incidental to banking business. The LMR is prepared on an unconsolidated basis which includes the Bank only.

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

		Total assets		Total equity	
		2018	2017	2018	2017
Name of company	**Principal activities**	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Chong Hing (Nominees) Limited	Provision of nominee services	100	100	100	100
Chong Hing Securities Limited	Stockbroking	545,871	780,812	443,443	376,854
Chong Hing Commodities and Futures Limited	Investment holding and commodities and futures broking	70,908	68,652	64,405	65,186
Chong Hing Insurance Company Limited	Insurance underwriting	378,307	445,869	262,974	133,824
Chong Hing (Management) Limited	Provision of management services	105	273	92	99

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		Telephone
HONG KONG MAIN BRANCH	Chong Hing Bank Centre 24 Des Voeux Road Central	3768 1111
HONG KONG ISLAND BRANCHES		
Aberdeen	166-168 Aberdeen Main Road	3768 6210
Causeway Bay	488 Jaffe Road	3768 6290
North Point	376 King's Road	3768 6200
Sai Ying Pun	81-85 Des Voeux Road West	3768 6340
Shau Kei Wan	203-205 Shau Kei Wan Road	3768 6330
Sheung Wan	163 Wing Lok Street	3768 6220
Wan Chai	265-267 Hennessy Road	3768 6350
Western	347-349 Des Voeux Road West	3768 6280
KOWLOON BRANCHES		
Castle Peak Road	285-287 Castle Peak Road, Cheung Sha Wan	3768 6320
How Ming Street	114 How Ming Street, Kwun Tong	3768 6480
Jordan	G/F, No. 120 Woosung Street	3768 6720
Kowloon Bay	Shop Unit 8, G/F, Chevalier Commercial Centre No. 8 Wang Hoi Road	3768 6740
Kowloon City	31-33 Nga Tsin Wai Road	3768 6300
Kwun Tong	31-33 Mut Wah Street	3768 6410
Lai Chi Kok Road	139 Lai Chi Kok Road, Tai Kok Tsui	3768 6380
Lei Yue Mun	Shop No. LG1, Lower Ground Floor Lei Yue Mun Plaza, Yau Tong	3768 6530

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		Telephone
KOWLOON BRANCHES – continued		
Mongkok	591 Nathan Road	3768 0001
San Po Kong	55-57 Yin Hing Street	3768 6360
Sham Shui Po	144-148 Tai Po Road	3768 6310
Shun Lee Estate	Lee Yat House, Shun Lee Estate	3768 6420
Tak Tin Estate	No. 207, Tak Tin Plaza, Tak Tin Estate, Lam Tin	3768 6470
To Kwa Wan	34-34A Tam Kung Road	3768 6370
Tsim Sha Tsui	16 Granville Road	3768 6240
Tsz Wan Shan	60-64 Sheung Fung Street	3768 6390
NEW TERRITORIES BRANCHES		
Cheung Fat Estate	Shop No. 206A, 2/F Cheung Fat Plaza, Cheung Fat Estate, Tsing Yi	3768 6560
Cho Yiu Chuen	G/F, Block C, King Cho Road, Cho Yiu Chuen, Lai King	3768 6250
Fanling	2 Wo Lung Street, Luen Wo Market	3768 6260
Glorious Garden	Shop No. 82, Glorious Garden, 45 Lung Mun Road Tuen Mun	3768 6520
Heng On Estate	Level 3, Commercial Centre, Heng On Estate Ma On Shan, Shatin	3768 6450
Lek Yuen Estate	Shop No. 212, Lek Yuen Plaza, Lek Yuen Estate, Shatin	3768 6400
Sheung Shui	71 San Fung Avenue	3768 6270

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		Telephone
NEW TERRITORIES BRANCHES – continued		
Sheung Tak Estate	Shop No. 237, Sheung Tak Plaza, Sheung Tak Estate, Tseung Kwan O	3768 6510
Tai Wo Plaza	Shop No. 101 I, Level 1, Tai Wo Plaza No. 12 Tai Wo Road, Tai Po	3768 6900
Tin Chak Estate	Shop No. 218, 2/F, Tin Chak Shopping Centre Tin Chak Estate, Tin Shui Wai	3768 6570
Tsuen Wan	298 Sha Tsui Road	3768 6440
Tuen Mun Hong Lai Garden	G/F, Hong Lai Garden, 117 Heung Sze Wui Road Tuen Mun	3768 6580
Yat Tung Estate	Shop Nos. 1 & 2, G/F, Yat Tung Shopping Centre Yat Tung Estate, Tung Chung	3768 6710
Yuen Long	99-109 Castle Peak Road	3768 6230
GUANGZHOU BRANCH		
Guangzhou	50/F, Yuexiu Financial Tower, No. 28 Zhujiang East Road, Tianhe District, Guangzhou, Guangdong, China	(86-20) 2213 7988
SHENZHEN BRANCH		
Shenzhen	Unit 17, 18 & 19 of 1 Floor Unit 39 of 2 Floor & 13 Floor, T2 Tower, Ali Center No. 3331 Keyuan South Road (Shenzhen Bay) Nanshan District, Shenzhen, China	(86-755) 3352 9099
SHANTOU BRANCH		
Shantou	Lanbao International Mansion No. 103-105, Block One, Fengzezhuang No. 162 Jinsha Road, Shantou, Guangdong, China	(86-754) 8890 3224
GUANGZHOU TIANHE SUB-BRANCH		
Guangzhou Tianhe	Units 102-01, 201 and 301 No. 28 Zhujiang East Road, Tianhe District Guangzhou, Guangdong, China	(86-20) 2213 7988

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		Telephone

GUANGDONG PILOT FREE TRADE ZONE NANSHA SUB-BRANCH

Nansha	Room 801-805, Building No. 1 No. 106 Fengze Road East, Nansha District Guangzhou, Guangdong, China	(86-20) 3226 0620

FOSHAN SUB-BRANCH

Foshan	P6, P7, Part of P27, G/F No. 127 North Lingnan Avenue Chancheng District, Foshan, Guangdong, China	(86-757) 6352 2888

GUANGDONG PILOT FREE TRADE ZONE HENGQIN SUB-BRANCH

Hengqin	Area B, Block 10, Hengqin Financial Industry Service Base, Shizimen Central Business District Hengqin New Area, Zhuhai, Guangdong, China	(86-756) 3833 039

SHANGHAI REPRESENTATIVE OFFICE

Shanghai	Room 1807, Yue Xiu Tower, No. 388 Fushan Road Pudong, Shanghai, China	(86-21) 6031 0138

MACAU BRANCH

Macau	No. 693, Avenida da Praia Grande Edificio Tai Wah, R/C, Macau	(853) 2833 9982

SAN FRANCISCO REPRESENTATIVE OFFICE

San Francisco	Suite 810, 601 California Street, San Francisco California 94108-2823, USA	(1-415) 433 6404

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PRINCIPAL SUBSIDIARIES

Card Alliance Company Limited

Chong Hing Commodities and Futures Limited

Chong Hing Finance Limited

Chong Hing Information Technology Limited

Chong Hing Insurance Company Limited

Chong Hing (Management) Limited

Chong Hing (Nominees) Limited

Chong Hing Securities Limited

Gallbraith Limited

Hero Marker Limited

Top Benefit Enterprise Limited

ASSOCIATES

Bank Consortium Holding Limited

BC Reinsurance Limited

Hong Kong Life Insurance Limited

創興銀行有限公司
Chong Hing Bank Limited

創造富強 興盛未來

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