



# 2019 ANNUAL REPORT

 **創興銀行有限公司**  
Chong Hing Bank Limited

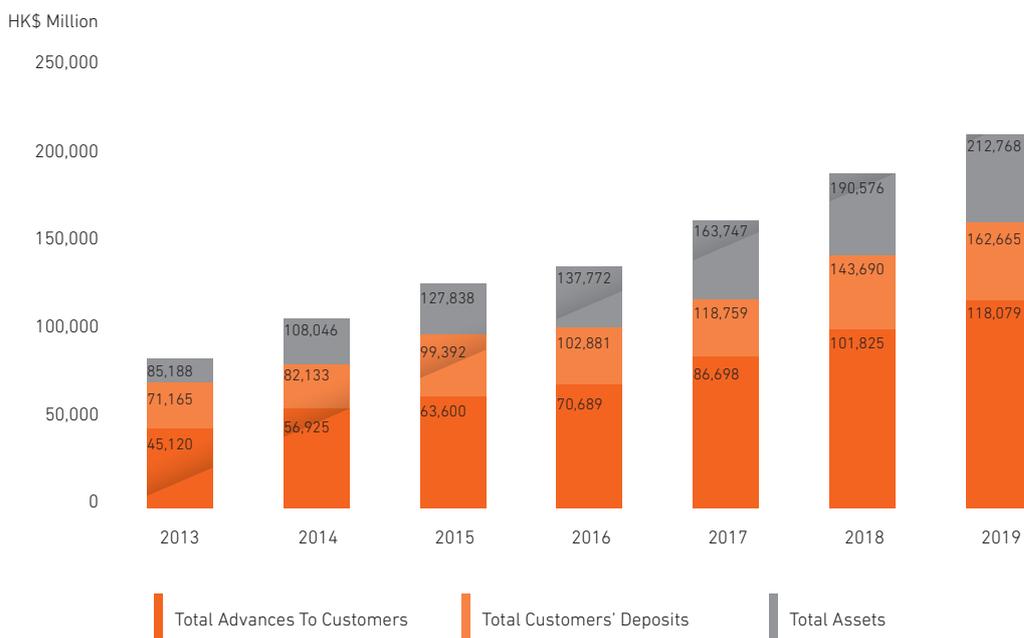
Stock Code : 1111

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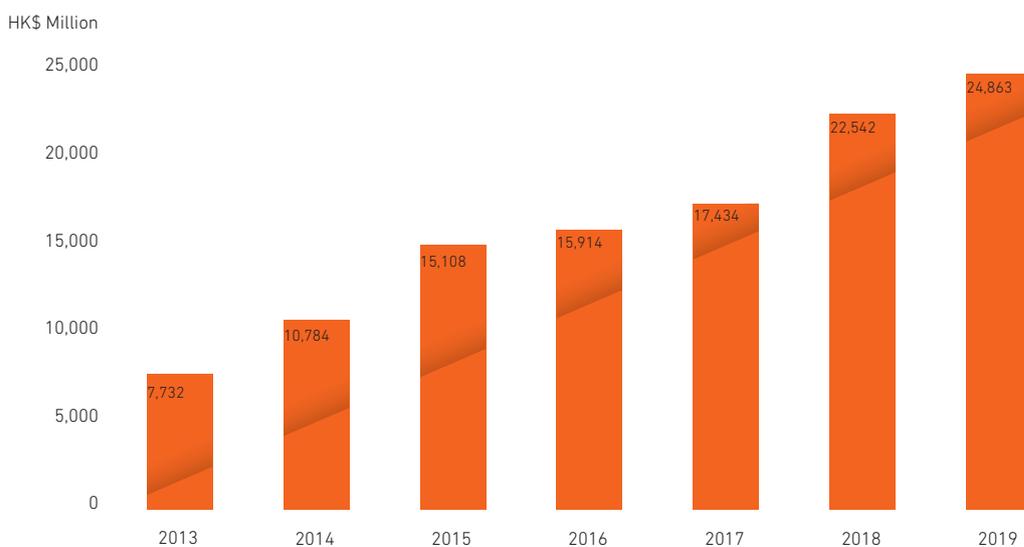
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# FINANCIAL SUMMARY

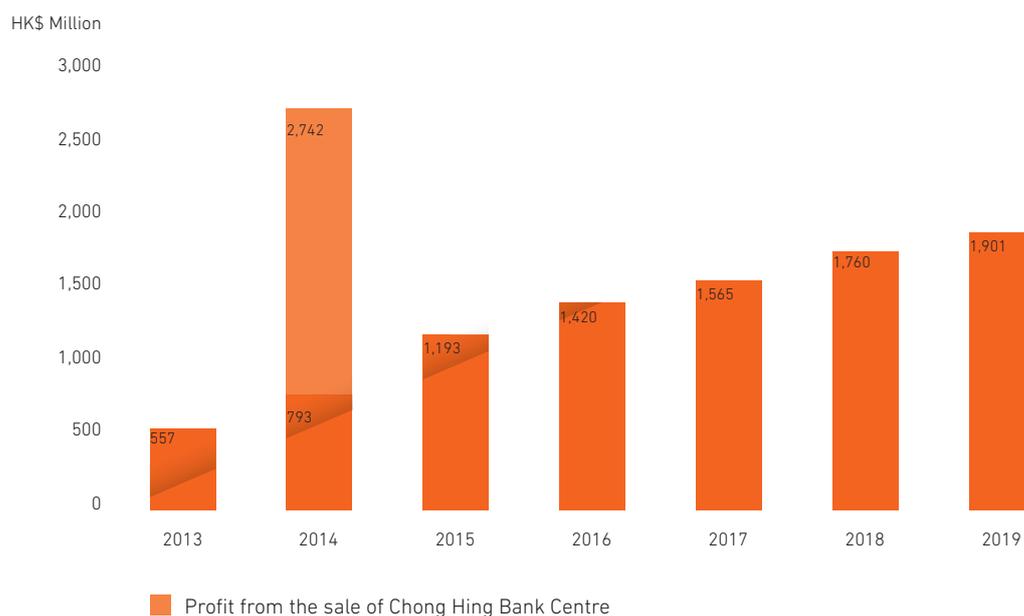
## TOTAL ADVANCES TO CUSTOMERS / TOTAL CUSTOMERS' DEPOSITS / TOTAL ASSETS



## TOTAL EQUITY



## PROFIT ATTRIBUTABLE TO EQUITY OWNERS



## FINANCIAL SUMMARY

	2013	2014	2015	2016	2017	2018	2019
	HK\$ Million						
Advances to customers	45,120	56,925	63,600	70,689	86,698	101,825	118,079
Total customers deposits	71,165	82,133	99,392	102,881	118,759	143,690	162,665
Total assets	85,188	108,046	127,838	137,772	163,747	190,576	212,768
Total liabilities	77,456	97,262	112,730	121,858	146,313	168,033	187,905
Total equity	7,732	10,784	15,108	15,914	17,434	22,542	24,863
Profit attributable to equity owners <i>(Note)</i>	557	2,742	1,193	1,420	1,565	1,760	1,901

*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 27 February 2020

## 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 WOO Pak Kin Clement (*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 TANG Xianqing (*Deputy Chief Executive*)  
Mr CHIU Tak Wah Edward (*Chief Operating Officer and Alternate Chief Executive*)  
Mr CHAN Kam Ki Vincent (*Chief Financial Officer*)  
Mr WOO Pak Kin Clement (*Chief Risk Officer*)  
Mr CHUNG Siu Kuen (*Head of Personal Banking Division*)  
Ms CHAN Yun Ling (*Head of Financial Markets Division*)  
Mr SIN Tat Wo (*Head of Mainland Corporates Division and Acting Head of Hong Kong Corporates Division*)  
Ms LAM Pik Ha Eliza (*Head of Financial Institutions Division*)  
Mr YIP Kui Yin Frederick (*Chief Credit Officer*)  
Mr WONG Kwok Leung Arthur (*Chief Information Officer*)  
Ms CHAN Oi Hung Blanche (*Head of Human Resources Division*)  
Ms LAI Wing Nga (*Company Secretary*)

## CORPORATE INFORMATION

as of 27 February 2020

### 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



Chong Hing Bank's website access code

### PRINCIPAL LEGAL ADVISERS

Deacons  
Kwan & Chow  
Mayer Brown JSM  
Robertsons

### AUDITOR

PricewaterhouseCoopers  
*Certified Public Accountants and Registered PIE Auditors*

### 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) tier 2 subordinated notes due 2027 and (4) US\$400,000,000 5.70 per cent. undated non-cumulative subordinated additional tier 1 capital securities are (1) 01111 (CHONG HING BANK), (2) 04327 (CH BANK N2011), (3) 05249 (CH BANK N2707) and (4) 04419 (CH BANK NCSCS) respectively.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

as of 27 February 2020

## 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 53, was appointed Deputy Managing Director and Head of Mainland Business Division 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. Mr Zong holds a Master Degree in Business Administration awarded by Shanghai Jiao Tong University.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

as of 27 February 2020

### Mr LAU Wai Man

aged 61, 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 and Chong Hing Finance Limited (a wholly-owned subsidiary of the Bank). He has been an Executive Director and Alternate Chief Executive of Yuexiu Financial Holdings Limited (the immediate holding company of the Bank) since February 2014 and appointed as Deputy Chief Executive since May 2018. Mr Lau is also a Director of various 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<sup>CM</sup> 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 56, has been appointed the Chairman and a Non-executive Director of the Bank since February 2014. Mr Zhang is the Chairman of 廣州越秀集團股份有限公司 (formerly known as 廣州越秀集團有限公司) (Guangzhou Yue Xiu Holdings Limited\*) 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) 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 51, has been a Non-executive Director of the Bank since February 2014. Mr Li is the Chief Capital Officer of 廣州越秀集團股份有限公司 (formerly known as 廣州越秀集團有限公司) (Guangzhou Yue Xiu Holdings Limited\* ("GZYX Holdings")) and Yue Xiu Enterprises (Holdings) Limited ("YX Enterprises"), managing the Capital Department, Customer Resource Management and Synergy Department and Information Centre of GZYX Holdings and YX Enterprises. Mr Li is mainly responsible for formulating and implementing major capital management plans, organizing and coordinating the investor relationship of listed companies, optimizing and synergizing the customer resources, and enhancing the development of information technology system, etc. Mr Li is also the Chairman and a Non-executive Director of Yuexiu Financial Holdings Limited (the immediate holding company of the Bank) and a Director of Guangzhou City Construction & Development Co., Ltd. He is an Executive Director of Yuexiu Property Company Limited (listed on Stock Exchange, Stock Code: 00123) and the Chairman and Executive Director of Yuexiu Transport Infrastructure Limited (Stock Code: 01052), 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. (廣州越秀金融控股集團股份有限公司), 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

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

as of 27 February 2020

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 69, 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 Limited (the immediate holding company of the Bank) since February 2014. He is also the Chairman and a Non-executive Director of Chong Hing Insurance Company Limited, 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 48, 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 廣州越秀集團股份有限公司 (formerly known as 廣州越秀集團有限公司) (Guangzhou Yue Xiu Holdings Limited\* ("GZYX Holdings")) and Yue Xiu Enterprises (Holdings) Limited ("YX Enterprises"). Ms Chen is an Executive Director and Chief Financial Officer of Yuexiu Property Company Limited (listed on Stock Exchange, Stock Code: 00123), a company listed on the Stock Exchange, and an Executive Director of Yuexiu Transport Infrastructure Limited (Stock Code: 01052), a company listed on the Stock Exchange. She is also a Non-executive Director of Yuexiu Financial Holdings Limited (the immediate holding company of the Bank).

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 systems to monitor the major risks and finance of GZYX Holdings. Ms Chen is well versed in risk management and internal control management, financial management of listed companies and has extensive experience in establishing a sound system for risk management and internal control, financial management 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.

### INDEPENDENT NON-EXECUTIVE DIRECTORS

#### Mr CHENG Yuk Wo

aged 59, 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 Limited (the immediate holding company of the Bank) since February 2014. He has been an Independent Non-executive Director of Chong Hing Insurance Company Limited, a wholly-owned subsidiary of the Bank, 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, the Hong Kong Institute of Certified Public Accountants and 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), 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), Kidsland International Holdings Limited (Stock Code: 02122) and C.P. Pokphand Co. Ltd. (Stock Code: 00043). Besides, Mr Cheng was an Independent Non-executive Director of C.P. Lotus Corporation (previous stock code: 00121) from September 2004 to October 2019, and the withdrawal of listing of its shares on the Stock Exchange became effective from 28 October 2019.

#### Mr MA Chiu Cheung Andrew

aged 78, 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 Limited (the immediate holding company of the Bank) since February 2014. He has been an Independent Non-executive Director of Chong Hing Insurance Company Limited, a wholly-owned subsidiary of the Bank, 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 China Resources Power Holdings Company Limited (Stock Code: 00836), C.P. Pokphand Co. Ltd. (Stock Code: 00043), Asiaray Media Group Limited (Stock Code: 01993), C-MER Eye Care Holdings Limited (Stock Code: 03309) and S.A.I. Leisure Group Company Limited (Stock Code: 01832). In addition, he was an Independent Non-executive Director of Asia Financial Holdings Limited (Stock Code: 00662), a company listed on the Stock Exchange, from September 2004 to May 2019.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

as of 27 February 2020

### Mr LEE Ka Lun

aged 64, 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 Limited (the immediate holding company of the Bank) since November 2013. He is also an Independent Non-executive Director of Yuexiu Property Company Limited (Stock Code: 00123), 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 72, 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 Limited (the immediate holding company of the Bank) since August 2015. He is also an Independent Non-executive Director of Yuexiu Property Company Limited (Stock Code: 00123), a company listed on the Stock Exchange. 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.

\* *for identification purpose only*

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/personal/footer/about-ch-bank/investor-relations/directors-list/index.shtml](http://www.chbank.com/en/personal/footer/about-ch-bank/investor-relations/directors-list/index.shtml)).

## SENIOR MANAGEMENT

### Mr TANG Xianqing

aged 55, has been the Deputy Chief Executive of the Bank since November 2019. Mr Tang graduated from the Hunan University of Science and Engineering and obtained a Master Degree in Economics (with research focus on International Finance) from Sichuan University. Mr Tang has 21 years of experience in business operations and management of Mainland commercial banks. He held senior positions in the head office and branches of three Mainland banks and possesses extensive experience in business operations, marketing, risk control, strategic planning and other aspects of the banking sector in Mainland China. Prior to joining the Bank, Mr Tang was a senior executive of a Hong Kong subsidiary of a state-owned enterprise, which is listed among Fortune Global 500 Enterprises.

### Mr CHIU Tak Wah Edward

aged 57, Executive Vice President, has been the Chief Operating Officer of the Bank since May 2017 and Alternate Chief Executive of the Bank, Yuexiu Financial Holdings Limited (the immediate holding company of the Bank) and Chong Hing Finance Limited (a wholly-owned subsidiary of the Bank) since December 2019. He is also a Director of various subsidiaries of the Bank. Mr Chiu holds a Bachelor of Science degree at the King's College London, University of London and a Master of Science degree at The London School of Economics and Political Science, University of London. Mr Chiu has more than 30 years of 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.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

as of 27 February 2020

### **Mr CHAN Kam Ki Vincent**

aged 57, 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 was 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 WOO Pak Kin Clement**

aged 44, Executive Vice President, has been the Chief Risk Officer of the Bank since September 2019. Mr Woo holds a Bachelor Degree in Business Administration from The Chinese University of Hong Kong and a Bachelor Degree in Applied Accounting from Oxford Brookes University. He is a Fellow Chartered and Certified Accountant and a Chartered Financial Analyst. Mr Woo has more than 20 years of experience in the banking industry covering enterprise risk, credit risk, market risk and operational risk management, and possesses sound knowledge in formulating bank-wide risk management framework. Prior to joining the Bank, he was the Risk Management Director and Head of Risk Management of a leading Chinese bank.

### **Mr CHUNG Siu Kuen**

aged 56, Executive Vice President, has been the Head of Personal Banking Division since 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 over 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 53, 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 United Kingdom. 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.

### **Mr SIN Tat Wo**

aged 49, Executive Vice President, Head of Mainland Corporates Division and Acting Head of Hong Kong Corporates Division. Mr Sin graduated from Hong Kong Baptist University with a Bachelor degree in Business Administration. He has over 25 years of experience in the banking industry in Hong Kong and Mainland. 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.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

as of 27 February 2020

### **Ms LAM Pik Ha Eliza**

aged 58, Executive Vice President, has been the Head of Financial Institutions Division since September 2018. 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.).

### **Mr YIP Kui Yin Frederick**

aged 50, Executive Vice President, has been the Chief Credit Officer of the Bank since May 2019. Mr Yip joined the Bank in September 2014 as Co-head of Credit Risk Management and has been appointed as Head of Credit Risk Management since January 2016. Mr Yip holds a Bachelor Degree of Arts in Business Studies and a Master Degree of Corporate Finance from The Hong Kong Polytechnic University and completed Oxford Strategic Leadership Programme from the Saïd Business School of the University of Oxford. He is also a Certified Senior Treasury Management Professional (CSTMP). Mr Yip has held managerial positions in a number of major international and Chinese banks. Mr Yip has more than 20 years of experience in risk management and more than 18 years of credit approval authority.

### **Mr WONG Kowk Leung Arthur**

aged 53, Executive Vice President, has been the Chief Information Officer of the Bank since September 2019. Mr Wong graduated and obtained a Master Degree in Business Administration from The University of Warwick (UK). Mr Wong has more than 30 years of experience in the banking and technology industry in Hong Kong. Prior to joining the Bank, Mr Wong was the Chief Information Officer/Head of Information Technology of Hong Kong Interbank Clearing Limited, as well as a number of major Chinese banks and financial institutions.

### **Ms CHAN Oi Hung Blanche**

aged 55, 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.

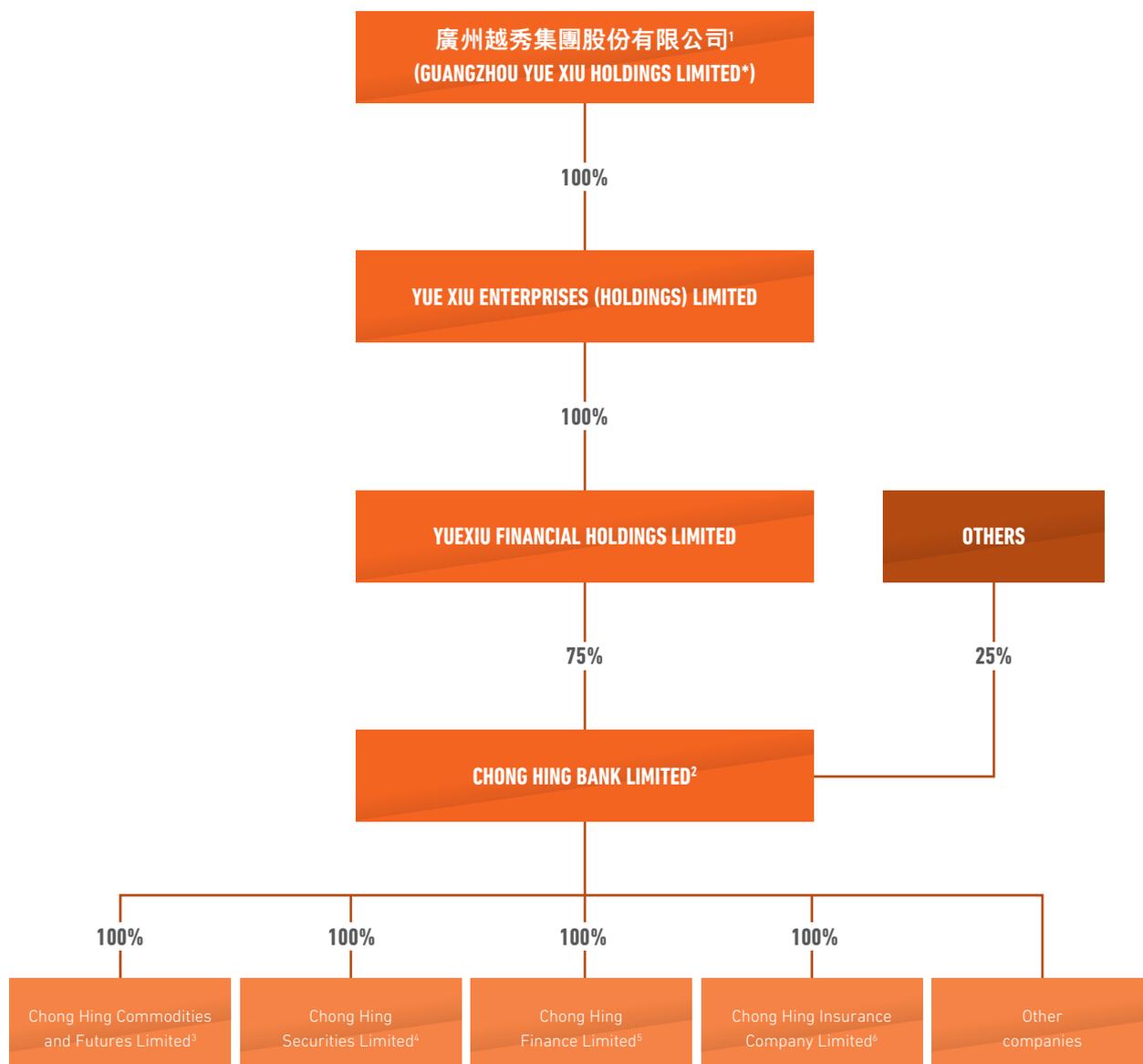
### **Ms LAI Wing Nga**

aged 55, Executive Vice President, has been appointed the Company Secretary of the Bank since August 2015. Ms Lai has 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 group 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/personal/footer/about-ch-bank/investor-relations/directors-list/index.shtml](http://www.chbank.com/en/personal/footer/about-ch-bank/investor-relations/directors-list/index.shtml)).

# ABRIDGED CORPORATE STRUCTURE

as of 27 February 2020



<sup>1</sup> State-owned enterprise under the supervision of the State-owned Assets Supervision and Administration Commission of the Guangzhou Municipal People's Government

<sup>2</sup> Listed on The Stock Exchange of Hong Kong Limited

<sup>3</sup> Registered with The Hong Kong Futures Exchange Limited as a participant

<sup>4</sup> Registered with The Stock Exchange of Hong Kong Limited as a participant

<sup>5</sup> Licensed under the Hong Kong Banking Ordinance as a deposit-taking company

<sup>6</sup> Licensed under the Insurance Ordinance as an insurance company

\* for identification purpose only

# SHAREHOLDERS' CALENDAR

as of 27 February 2020

 <b>AUGUST</b> <b>22</b> 2019	Interim results for the first half of 2019 announced
 <b>OCTOBER</b> <b>11</b> 2019	Interim cash dividend for 2019 of HK\$0.17 per share paid
 <b>FEBRUARY</b> <b>27</b> 2020	Final results for the year of 2019 announced
 <b>MAY</b> <b>11-14</b> 2020 <small>(both days inclusive)</small>	Register of Members will be closed for the purpose of ascertaining entitlements to attend and vote at the 2020 Annual General Meeting
 <b>MAY</b> <b>15</b> 2020	2020 Annual General Meeting will be held
 <b>MAY</b> <b>22-26</b> 2020 <small>(both days inclusive)</small>	Register of Members will be closed for the purpose of ascertaining entitlements to receive the final cash dividend for 2019
 <b>JUNE</b> <b>2</b> 2020	If approved by Shareholders at the 2020 Annual General Meeting, the final cash dividend for 2019 of HK\$0.41 per share will be payable to Shareholders whose names appear on the Register of Members of the Bank on 26 May 2020

# CHAIRMAN'S STATEMENT



Mr Zhang Zhaoxing  
*Chairman*

In 2019, Chong Hing Bank Limited (the "Bank" or "Chong Hing Bank") maintained its prudent operations and innovative development amidst the complicated and changeable environment. The Bank continued to enhance its risk control and operating capacity while adhering to its positioning as a cross-border financial services provider and fully boosting the Bank's digital transformation and accelerating its strategic nationwide operations.

In the "Top 1000 World Banks" listing released by the British magazine "The Banker" in 2019, Chong Hing Bank ranked among the top 400 for the first time, a recognition of the constant improvement in the Bank's all-round strength.

I am pleased to announce that in 2019 Chong Hing Bank's core businesses and overall financial position remained strong, with sound asset quality and enhanced profitability of its core businesses. Operating profit after impairment allowances amounted to HK\$2,249 million, an increase of 14.80% compared to the previous year. Profit attributable to equity owners amounted to HK\$1,901 million, an improvement of 7.97% from the previous year, and earnings per share were HK\$1.80. To properly maintain the balance between the sharing of our success and preserving capital for future growth, the Board of Directors of the Bank (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 32.42% (2018: 39.08%).

## CHAIRMAN'S STATEMENT

The major financial ratios for 2019 are as follows:

- | Return on shareholders' equity: 8.31%
- | Average liquidity maintenance ratio: 46.27%
- | Total capital ratio as of 31 December 2019: 17.51%
- | Tier 1 capital ratio as of 31 December 2019: 14.32%
- | Loan to deposit ratio as of 31 December 2019: 69.46%

In view of the slowing economic growth worldwide, the unresolved trade and economic relationship between China and the US, the geopolitical tensions as well as the postponed Brexit date, a shadow loomed over the global economy in 2019. The growth in the Mainland's Gross Domestic Product (GDP) for the year slowed to 6.1% although the economy maintained an overall stable and positive growth trend. Guangdong Province's GDP reached RMB10.5 trillion in 2019, becoming the first province in China to exceed RMB10 trillion. The rapid growth of its high-tech industry is expected to drive the development of the Guangdong-Hong Kong-Macao Greater Bay Area (the "Greater Bay Area") further forward. Despite the economic shocks occurring in 2019, Hong Kong has maintained its status and strengths as an international financial hub. It will achieve stability in its economic recovery and continue to play a unique role by making full use of the advantages of the Greater Bay Area development plan.

In the past year, Chong Hing Bank steadily expanded its Hong Kong market, accelerated the Mainland business and continuously nurtured the unique qualities of the cross-border business. Along with the stable implementation of the development of the Greater Bay Area, the state introduced numerous measures to benefit the region's citizens and enterprises. Actively seizing this opportunity, the Bank focused on cross-border finance, and made good use of resources made available by its controlling shareholder Yuexiu Group and strategic shareholder Guangzhou Metro to launch a number of distinctive cross-border products and services. The Bank also dedicated itself to serving enterprises and residents in the Greater Bay Area and strengthened its financial connectivity, endeavouring to be among the region's leading financial institutions through its competitiveness and outstanding business features.

At the same time, the Bank proactively promoted its nationwide operations, and achieved a breakthrough in its expansion of Mainland outlets. The Chong Hing Bank Shanghai Branch, the Bank's first branch outside Guangdong Province, opened in November 2019. This marked a milestone in the Bank's development of a new network across the Pearl River Delta and Yangtze River Delta regions. It was also a key step forward in its nationwide operations after being a member of Yuexiu Group for six years. The Shanghai Branch will act as a critical strategic support point for the Bank's business expansion in the Yangtze River Delta region and play an essential role in deepening financial cooperation between Guangdong, Hong Kong, Macau and Shanghai.

On the other hand, the Bank continued to step up its digital transformation and improve the service quality and customer experience of digital banking. The trends in Fintech provided a boost for the Bank, which kept itself customer-centric and demand-oriented and launched a series of optimised services for internet banking and mobile banking. These moves were successful in achieving a substantial enhancement of the customer experience of the Bank's digital services. Meanwhile, the Bank has devoted a major effort to rolling out a new core system under which technology professionals are brought together to promote the Bank's digital capabilities and realise close integration of traditional business, Fintech and inclusive finance services.

The year 2020 will bring both challenges and opportunities. Chong Hing Bank has full confidence that it can overcome all difficulties that may arise and grow onwards and upwards. It will achieve this thanks to the steady accumulation of its sound operations and strengthened risk prevention and controls, while at the same time committing itself to transformation and innovation. The Bank is also confident of sustaining its competitive advantage in cross-border operations, being able to fully expand the Mainland market and proactively advance preparations for establishing a Mainland-incorporated bank. Through its well-organised operations in major economically developed regions, the Bank will strive to establish itself as an integrated commercial bank with the Greater Bay Area as the core of its nationwide operations.

Finally, I would like to express my heartfelt gratitude to all Directors and shareholders for their valuable guidance and unwavering support, also to the management team and the entire Bank staff for their dedication, and to our customers and business partners for their loyalty and trust. With the concerted efforts of our colleagues at Chong Hing Bank, we will continue to forge ahead and to exceed and excel.

**Zhang Zhaoxing**

*Chairman*

Hong Kong, 27 February 2020

# CHIEF EXECUTIVE'S STATEMENT



Mr Zong Jianxin  
*Chief Executive*

## ECONOMIC ENVIRONMENT

The year 2019 witnessed slowing growth in the global economy mainly due to trade disputes between China and the US and escalated geopolitical tensions. The US economy maintained moderate growth with a year-on-year increase of 2.1% in its third quarter Gross Domestic Product (GDP). The Federal Reserve cut interest rates on federal funds three times in 2019, reversing the interest rate cycle for the US dollar. China and the US officially signed the phase one trade agreement in January 2020 after an 18-month deadlock, thereby making small progress. The European Central Bank adopted quantitative easing in a bid to stimulate the ailing economy, given sluggish economic growth, weakened external demand and shrinking manufacturing over a long period as well as a tiny increase of 1.2% in its annual GDP. The Eurozone also suffered economic uncertainty as the UK withdrew from the European Union in January this year. The UK has yet to agree on trade matters with the European Union.

The economy of Mainland China maintained a stable development trend as a whole, with annual GDP growth of 6.1%, in line with market expectations. Per capita GDP exceeded US\$10,000 for the first time. In view of the complicated and changing external political and economic situation, the Central Economic Work Conference in the Mainland proposed continuing to uphold the "Six Stabilities" (employment, financial, foreign trade, foreign capital, investment, and expectation) to support the structural supply-side reform, driving the economy to high-quality development with innovative technology. The People's Bank of China emphasised making prudent monetary policy flexible and appropriate in order to maintain reasonable and adequate liquidity. At the same time, it encouraged the deepening of market-based reform on interest rates on a continuous basis in order to keep the RMB exchange rate at a reasonable and balanced level consistently. However, the performance of the RMB exchange rate was influenced by the Sino-US trade situation, with the trend falling

after a previous rise. The onshore price (CNY) of RMB and offshore price (CNH) of RMB fell by 1.43% and 1.2% respectively during the year. In 2019, Chong Hing Bank continuously maintained a steady and progressive development momentum in the main business areas of the Mainland. Guangzhou continued to record high growth in social investment, with annual GDP growth of 6.8%; Shenzhen constantly optimised its economic structure and improved quality efficiency, with annual GDP growth of 6.7%; Shanghai developed emerging industries to support the steady progress of the economy, with an annual GDP increase of 6%.

Hong Kong's annual GDP fell 1.2% year-on-year in real terms on account of adverse global factors and social events, the first annual decline since 2009. Influenced by the critical external environment and reduced trade activities, exports of goods and services decreased by 4.7% and 10.4% respectively in the year. Private consumption dropped 1.1% year-on-year prompted by a weak growth in internal demand and the economic downturn that undermined consumption. Deteriorating economic conditions caused unemployment to rise to 3.3% in the fourth quarter. With the US interest rate cuts in October, major banks in Hong Kong reduced their prime rates for the first time in 11 years. In the property market, the private residential price index rebounded in November after the government eased the mortgage insurance scheme in October, ending a five-month decline. Hong Kong stocks experienced ups and downs in response to the Sino-US trade negotiations, fluctuating by 5,383 points during the year and closing at 28,189 points on the last trading day of 2019, an accumulated increase of 9.1% for the year.

## RESULTS ANNOUNCEMENT AND PROFIT ANALYSIS

The results for the financial year of 2019 of the Bank, on a consolidated basis, are summarised below:

### KEY FINANCIAL DATA

		31 December (12 months)		
		2019	2018	
		HK\$'000	HK\$'000	Variance
1.	Operating profit after impairment allowances	2,248,961	1,959,023	+14.80%
2.	Profit attributable to equity owners	1,900,642	1,760,387	+7.97%
3.	Net interest income	3,259,860	2,879,962	+13.19%
4.	Net fee and commission income	336,591	384,494	-12.46%
5.	Net income from trading and investments	241,293	248,155	-2.77%
6.	Other operating income	184,461	173,506	+6.31%
7.	Operating expenses	1,635,363	1,548,840	+5.59%
8.	Net impairment losses on financial assets	137,881	178,254	-22.65%

		As of	As of	
		31 December	31 December	
		2019	2018	
		HK\$'000	HK\$'000	Variance
9.	Loans and advances to customers	118,078,914	101,825,227	+15.96%
10.	Deposits from customers	162,664,648	143,690,294	+13.21%
11.	Investments in securities	57,534,593	46,986,126	+22.45%
12.	Total assets	212,768,034	190,575,638	+11.64%

## CHIEF EXECUTIVE'S STATEMENT

### KEY FINANCIAL DATA

		31 December (12 months)		Variance
		2019	2018	(Note (3))
13.	Return on shareholders' equity (Note (1))	8.31%	9.47%	-1.16p.p.
14.	Earnings per share (Note (2))	HK\$1.80	HK\$2.14	-15.89%
15.	Net interest margin	1.62%	1.73%	-0.11p.p.
16.	Cost to income ratio	40.66%	42.02%	-1.36p.p.
17.	Average liquidity maintenance ratio	46.27%	44.49%	+1.78p.p.

		As of	As of	Variance
		31 December	31 December	
		2019	2018	
18.	Non-performing loan ratio	0.33%	0.35%	-0.02p.p.
19.	Loan to deposit ratio	69.46%	67.95%	+1.51p.p.
20.	Net assets value per share (excluding additional equity instruments and before the final dividend)	HK\$22.37	HK\$20.80	+7.55%
21.	Total capital ratio	17.51%	19.01%	-1.50p.p.
22.	Tier 1 capital ratio	14.32%	15.19%	-0.87p.p.
23.	Common Equity Tier 1 capital ratio	12.28%	13.44%	-1.16p.p.

#### 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 were calculated after deducting the distribution paid on the additional equity instruments in the relevant year.
- (3) p.p. means percentage point.

### ANALYSIS OF KEY FINANCIAL DATA

In 2019, profit attributable to equity owners of the Bank amounted to HK\$1,901 million, representing an increase of 7.97% compared to 2018. The operating profit after impairment allowances amounted to HK\$2,249 million, an increase of 14.80% from 2018.

The increase in consolidated profit for the year was mainly attributable to the increase in net interest income and effective control over costs as well as sound asset quality. Net interest income was HK\$3,260 million, an increase of 13.19% over the same period last year, which was driven mainly by loan growth.

Net fee and commission income decreased by 12.46% to HK\$337 million mainly due to the gloomy investment market environment, and fewer securities dealings and income from agency services.

Foreign exchange and other treasury customer activities remained stable. Net income from trading and investments recorded a gain of HK\$241 million, which was mainly derived from trading income, foreign currency funding swap activities and foreign currency transactions with customers.

The Bank prudently managed costs and strived for optimised procedures and efficiency gains and at the same time invested in talents and technology systems to support business growth in Hong Kong and the Mainland.

Loans and advances to customers recorded a marked increase of 15.96% to HK\$118.1 billion. Given the rapid increase in loans and advances, the Bank continued to maintain prudent management of credit risk exposure with sound asset quality of loans and advances.

Deposits from customers grew by 13.21% to HK\$162.7 billion. The stable deposit base achieved by the Bank allowed it to balance loan growth, wealth management and cross-border financial business needs.

Total assets increased by 11.64% to HK\$212.8 billion. As at 31 December 2019, 78.66% of the Bank's assets were based in Hong Kong.

Due to the proactive management of its assets as well as the maturity and structure of its liabilities, the Bank's liquidity remained stable. The loan to deposit ratio was at 69.46%, and the average liquidity maintenance ratio was 46.27%.

Total capital ratio was at 17.51%, the Tier 1 capital ratio was at 14.32% and the Common Equity Tier 1 capital ratio was at 12.28%.

Overall, in the face of the adverse business environment in 2019, 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 maintain the balance between sharing our success and 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 2019 (2018 final cash dividend: HK\$0.41 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, 2 June 2020 to the shareholders whose names appear on the register of members of the Bank on Tuesday, 26 May 2020. Total dividends for the financial year of 2019, including the interim cash dividend of HK\$0.17 per share paid on Friday, 11 October 2019 (2018 interim cash dividend: HK\$0.17 per share), amounted to HK\$0.58 per share (2018 total dividends: HK\$0.58 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 32.42% (2018: 39.08%).

### **SUCCESSFUL ISSUANCE OF US\$400 MILLION ADDITIONAL TIER 1 CAPITAL SECURITIES**

Chong Hing Bank successfully issued US\$400 million 5.7% Undated Non-Cumulative Subordinated Additional Tier 1 Capital Securities (the "Securities") on 15 July 2019, which was completed under the US\$2 billion Medium Term Note and Perpetual Capital Securities Programme of the Bank. The Securities are qualified as Basel III-compliant additional tier 1 capital. The proceeds from the offering enabled the Bank to strengthen its capital base and are being used to support its operations and business development.

The aggregate principal amount of the Securities is US\$400 million. The offering received very positive feedback and drew a total order of US\$2.9 billion, representing a subscription of 7.5 times. Once again, the Bank achieved success on its securities offering in the international capital market, after its issuance of additional tier 1 capital securities in 2014, indicating the capital market's high recognition of the Bank.

### BUSINESS REVIEW

#### CORPORATE BANKING

Chong Hing Bank endeavoured to provide a full range of banking products and professional services to its corporate customers in Hong Kong and the Mainland, including lending, trade finance, cash management, cross-border business demands and financial markets solutions.

The Bank continued to expand its target customer base, paying special attention to provide diversified and comprehensive financial services to customers in the Guangdong-Hong Kong-Macao Greater Bay Area (the "Greater Bay Area"). With regard to assistance for SMEs, the Bank fully supports the "SME Financing Guarantee Scheme" offered by HKMC Insurance Limited, in addition to our earlier participation in the "SME Loan Guarantee Scheme" of the HKSAR Government. Moreover, the Bank strengthened its internal cross marketing and further offered corporate customers value-added services such as financial management for employees, MPF services and wealth management. This was in a bid to create convenient use of the Bank's one-stop banking services platform in order to meet customers' needs for comprehensive financial services.

In 2019, our remarkable performance in the syndication loan business enabled the Bank to gain brand credibility and reputation in the syndication market. For the full year, the Bank transacted 28 syndicated loans and acted as a lead arranger among 8 of them. In addition, the Bank proactively enhanced the quality of the loan asset portfolio and improved relevant returns via secondary market transactions. Moreover, the Bank continued to leverage on its home base strength in Guangdong, Hong Kong and Macau, seizing cross-border business opportunities arising from the Greater Bay Area development. For the year 2019, the Bank successfully executed seven cross-border structured finance transactions to offer professional cross-border financial services to worldwide customers.

Meanwhile, the Bank's non-bank financial institution business made good progress, particularly in servicing asset management, insurance, financing and leasing companies. Adhering to its development strategies in the Greater Bay Area and leveraging the enhanced cooperation with its Mainland branches and sub-branches, the Bank effectively promoted the cross-selling of products to non-bank financial institutions. In the fourth quarter of the year, the Bank resumed the Initial Public Offering (IPO) financing services for stockbrokers, and considerable revenue was generated for the Bank through its participation in a number of IPO financing projects in 2019.

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 provided various cross-border financial products and services to accommodate customers' funding requirements in the Greater Bay Area, and effectively managed their interest rate and exchange rate risks through its treasury product portfolio.

**PERSONAL BANKING**

In this year, the business development of retail banking was impacted by the sluggish global economy and Hong Kong's entry into a technical recession in the third quarter. Under such difficult operating circumstances, the Bank's Personal Banking Division continued to promote a business model characterised by customer-centric all-round wealth management, aiming at providing one-stop banking services to customers in Hong Kong and the Greater Bay Area.

In 2019, the personal banking business continued to record steady growth:

- I** Total deposits recorded a steady increase this year because of the optimisation of customer segment management in order to introduce preferential interest rate offers considerably, and the promotion of foreign currency exchange and foreign exchange forward contracts. In addition, through the strategy of actively expanding the high-value customer base, the number of wealth management customers increased by 21% year-on-year in 2019, while premium and private banking customers saw a remarkable rise of 470%. The Bank also proactively supported high-end customers in optimising their currency portfolio and by providing them with personalised financial management solutions. The total value of US dollar deposits and investment assets respectively recorded annual growth of approximately 15% and 27%, further strengthening the sound foundation of the Bank's wealth management business. In terms of retail loans, the Bank was committed to encouraging premium financing and policy financing businesses and offering a full range of secured loan products to develop the wealth management business relevant to product financing as well as to increase the Bank's consolidated income.
- I** The Bank grasped the new opportunities arising from the financial market and vigorously persevered in encouraging the transformation strategy of "Finance + Technology" along with the promotion of different financial management services and the process of optimisation. Since the launch of the Internet Banking and Mobile Banking fund trading services in the fourth quarter of 2018, the number of fund subscription transactions carried out through electronic channels, compared with the total number of fund transactions, leaped from 10% in 2018, to approximately 50% in 2019, and even soared to approximately 76% in the fourth quarter of 2019. For the year, the number of fund transactions and the total value of investment assets also increased by approximately 35% and 27% respectively over 2018.
- I** For the life insurance business, business development opportunities increased owing to changes in external environmental factors and in the industry's regulatory system. The Bank strived to satisfy customer needs, enrich agency products of life insurance and carry out policy financing services in order to meet customer demand for a full range of wealth management services.
- I** The Bank rolled out an incentive scheme in 2019 to drive customers' credit card spending effectively, thereby easing the unfavourable effect on businesses caused by the economic gloom. The Bank engaged in negotiations and collaborations with third-party companies to realise the two goals of increasing the number of acquired merchants and also revenue. Additionally, the Bank planned to work with e-commerce payment promoters to develop local and global online payment services, diversifying its business.

## CHIEF EXECUTIVE'S STATEMENT

Looking to the future, personal banking will continuously optimise channels for online transaction to improve the customer experience. Meanwhile to appeal to new customers, it will vigorously spur the wealth management business to provide customers with more efficient and outstanding financial management services.

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- ▶ 儲蓄投資賬戶及完成「投資風險評估書」可獲額外港幣100元(僅限卡銀客戶)
- ▶ 成功綁定定期理財服務，並存入全額獎賞可獲額外港幣100元(僅限卡銀客戶)

\*詳情請參閱本行網頁

The Bank optimises a number of digital financial management channels and provides all-round wealth management services to enhance customer experience.

## FINANCIAL MARKETS BUSINESS

The Bank is committed to developing its financial markets business as an essential profit hub and has seen significant growth during the year in areas such as treasury, customer business and product development. The Bank has established its proprietary trading business, and while closely monitoring the risks involved, enhanced its ability to provide quotations and expanded its market share, thereby continuing to increase 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 leverage on its dynamic investment strategy and capture potential treasury business opportunities in order to diversify revenue sources.

In accordance with the strategic set-up of the product and marketing team, the Bank tactically acquires financial talents, enriches its financial products and offers appropriate advice and services catering to the needs of different customer segments, thereby increasing its market competitiveness and fee income.

## MAINLAND OPERATIONS

In 2019, the Bank's branches and sub-branches in the Mainland actively handled complex changes arising from the external environment, maintaining steady growth in asset scale along with sound asset quality. As the core business developed healthily, and the product and service system improved constantly, the cross-border business recorded an outstanding performance. The Bank realised major breakthroughs in the network of outlets across the Mainland along with the constant optimisation of internal risk prevention and control and operational processes. Thereby, the Bank effectively consolidated the customer base and substantially improved the overall operating efficiency, maintaining a favourable development trend.

With the aim of realising a comprehensive and balanced business, the Bank benefited the company's deposits by widening customer channels, strengthening loan customer management and developing cross-border business. In terms of loan business, the Bank comprehensively enhanced its business varieties and scale returns by means of diversifying products such as syndicated and M&A loans, and accelerating loan business development. Moreover, it gradually increased loan yields through enhancing customer service capabilities and loan price management. In addition, the Bank effectively increased its revenue from intermediary business by establishing an investment bank team and a system for diversifying products. In the meantime, the Bank stepped up customer expansion by perfecting the evaluation mechanism for relationship managers and the set-up of the customer segment management and service system.

The Mainland institutional business of the Bank maintained a sound development trend during the year. The Guangzhou Branch continuously expanded its institution customers and enhanced customer services, maintaining a satisfactory increase in institution deposits. Being the first partner collaborating with the smart financial service platform of Nanshan District in Shenzhen, the Shenzhen Branch worked closely with the government. The Foshan Sub-branch successfully developed a collaborative relationship with the Foshan Public Resources Trading Platform, rising from zero to breakthrough level.

This year's cross-border business also accomplished rapid growth with constantly enhanced service capabilities. The Bank proactively participated in the development strategy of the Greater Bay Area, launching a series of financial products and services that allowed residents and enterprises from Hong Kong and Macau to live and work in the Greater Bay Area. These measures involved professional, efficient and quality cross-border financial services such as mortgage loans for Hong Kong and Macau residents, and "one-stop access to Shenzhen-Hong Kong commercial services". Furthermore, the settlement amount of the Bank surged more than 90% year-on-year in 2019 due to energetic engagement in cross-border RMB clearing and cross-border settlement.

The Bank made critical breakthroughs in its outlets across the Mainland. The Shanghai Branch, which was approved to prepare for operations in February 2019, officially opened on 26 November 2019 after nine months of preparation. The Branch is the first operating outlet set up by the Bank in the Yangtze River Delta region and its opening represented a new milestone for further development of the Bank's Mainland business. Now, Chong Hing Bank has formed a new development pattern covering the Pearl River Delta region and the Yangtze River Delta region. In addition, the Foshan Chancheng Sub-branch of the Bank obtained a financial licence issued by domestic regulators during the year and officially began operations in February 2020, facilitating the Bank's outlet distribution over the Greater Bay Area.



On 10 April 2019, the Bank launched the "Shenzhen and Hong Kong Pass" jointly with Shenzhen Administration for Market Regulation and its major shareholder Yuexiu Group, a further enhancement of its cross-border financial services.



The opening of the Shanghai Branch on 26 November 2019 represents a major step in the Bank's plan to set up a nationwide network.

## CHIEF EXECUTIVE'S STATEMENT

### CHONG HING SECURITIES LIMITED

Due to the Sino-US trade friction and Hong Kong's social events, the overall sentiment of local retail securities investment and transactions suffered a setback. Investors tended to be cautious about entering the market. Such market conditions affected the overall turnover and commission income of Chong Hing Securities for the year and they were lower than in the previous year. However, with Chong Hing Securities' synergies with the Bank, the number of online and cross-border customers continuously increased compared to 2018. The forthcoming mobile application launched by Chong Hing Securities, using faster and more convenient investment tools, as well as numerous preferential offer promotions will contribute to higher customer appetite for securities investment, greater customer loyalty, and higher revenue for the Bank.

### CHONG HING INSURANCE COMPANY LIMITED

During the year, the highly competitive general insurance business together with the impact of local social events undermined the general insurance market business in Hong Kong. However, Chong Hing Insurance maintained satisfactory growth this year and recorded a gain in its underwriting and profit before taxation.

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

### TRANSFORMATION OF BUSINESS DEVELOPMENT

#### *Fintech*

Keeping fully abreast of market trends, the Bank rolled out its fintech products and services and speeded up cross-border fintech development and implementation of regulatory technology in support of the Hong Kong Monetary Authority's promotion of Smart Banking. In addition, the Bank's digital banking transformation teams, responsible for encouraging the digital and infrastructure transformation, were further enhanced. In the past three years, a total of 22 systems relevant to the projects have been launched to support the digitalisation of the banking business and to expand vigorously the banking ecosystem and customer base under different scenarios. The Bank will also collaborate closely with business partners to offer a number of financial service solutions, including:

- I Remote opening of a fund account; online personal loans entering the implementation phase.
- I Digitalisation of branches, including tablet personal computers that support transactions, card-less ATM withdrawals via QR codes, voice navigation ATMs, a "Faster Payment System" to receive and pay via QR codes, and the new core system becomes available by the end of this year.
- I Collaborating with JETCO and implementing the second phase of the Open Application Programming Interface (Open API), by which customers can apply for the Bank's services through a third-party service provider.
- I In 2018, the Bank began the blockchain network of the clearing bank to improve the efficiency of anti-money laundering investigations and optimise remittances and customer services. This is conducive to cost reduction and high efficiency of regulatory technology and risk control.

### *Process Banking*

The smooth implementation of 82 process optimisation projects over the past three years enabled the Bank to enhance the customer experience, reduce costs and improve quality. Through the intensified process transformation, the Bank concentrated all transactions by corporate customers in the lower-cost Kowloon Bay Central Exchange for intensive processing so that branches and frontline employees could focus on customers and sales services. For the purposes of efficient control of costs, satisfactory customer experience and low operational risks, the Bank introduced mechanical process automation software when handling the intensification. Moreover, the Bank released new service content for commercial customers to enhance the customer experience of banking services, including "new account opening in five days", "bank confirmation issuance in three days", and account opening via making online appointments. The Bank will continue its efforts to make traditional businesses available online by technology applications and create high business efficiency by digital process reengineering.

### **CORPORATE CULTURE**

Through carrying out numerous, diverse and innovative cultural activities in 2019, the Bank comprehensively supported the building up of its corporate culture and reinforced the employees' recognition of corporate culture concepts and their practices in order to create a cultural atmosphere of "Exceed • Excel".

- | This year 35 corporate culture training activities were organised for approximately 1,400 persons covering Board members, management and employees, inculcating the corporate culture spirit in all levels of the Bank.
- | The "Corporate Culture Ambassador Programme" was launched in which ambassadors from all Bank units were selected as mentors in order to promote the corporate culture.
- | The "Bright Ideas" sharing platform was established to facilitate staff members to make suggestion for innovation and improvement in terms of the Bank's competitiveness and sustainable development. Each quarter the best ideas were selected, with many successfully put into practice.
- | The introduction of a specially designed platform for supervisors to record staff performance, documenting employees' work results, appreciating their contribution in a timely manner, and boosting employee morale.
- | Introduction of innovative corporate culture training that includes recording real-life work stories from employees and putting them on microfilm to demonstrate the Bank's spirit of "Dedication", "Innovation", "Commitment" and "Teamwork". A quiz was conducted to raise employees' awareness of the preferred behaviour under different scenarios with the management personally offering the explanation in line with the Chong Hing culture and promoting the corporate cultural mindset.
- | To understand employees' views on our corporate culture, the Bank worked with a third-party research team to run two questionnaires this year, evaluating employees' opinions and behavioural changes so as to help Chong Hing Bank formulate corporate cultural strategies for the future.

### **CORPORATE RESPONSIBILITY**

To achieve its corporate mission of "To benefit the Community", the Bank has committed itself to improving the well-being of the community and is an enthusiastic supporter of charitable causes while simultaneously developing our business. Fulfilling its corporate responsibility, it actively supports and engages in the activities of social welfare organisations, environmental organisations and cultural groups.

## CHIEF EXECUTIVE'S STATEMENT

### ACTIVITIES FOR COMMUNITY, ENVIRONMENT AND ART

- In January, the Bank held a visitors' day and career orientation sharing session for 50 students of the Baptist Oi Kwan Social Service (the "BOKSS"); participated in a Green Power Hike for a Green Future; and participated in the Hong Kong Jockey Club Charities Trust "Jockey Club Age-friendly City Partnership Scheme".



- In March, the Bank participated in the "Earth Hour 2019" environmental protection activity and JESSICA RUN 2019.



- In May, the Bank held the "Visiting elders on the Dragon Boat Festival" with the Helping Hand Association; supported the "Education Workshop for Smart Money" launched by the Hong Kong Association of Banks; and engaged in public voluntary teaching called "Big Hands in Small Hands" held by the Yuexiu Group in Yingde, Guangdong.



- In July, the Bank held the “Dreams for the Future” financial sharing session with the BOKSS for the “Children's Development Fund” of the Labour and Welfare Bureau.



- In September, the Bank organised the “Community Pastoral Leisure Tour”, visiting the Eco-tour 330 in Tuen Mun District with the mentally handicapped from the Fu Hong Society, and with students arranged by the BOKSS, practising living a green life while expressing support for social inclusion; and sponsored the Po Leung Kuk's charity Cantonese opera special “The Empress Flower” and the “Fine Art Asia & Ink Asia 2019” of Eastern and Western Art.



Through the Bank's branch network and in its support for numerous charities such as the Yan Oi Tong, Hong Kong Federation of the Blind, Po Leung Kuk and Tung Wah Group of Hospitals, the Bank carried out various community fund-raising activities including selling raffle tickets, collecting donations with flag bags, and setting up donation boxes. In addition, the Bank contributed to public welfare by inserting promotional leaflets of charities in its Bank mailers sent to customers.

## CHIEF EXECUTIVE'S STATEMENT

### ACHIEVEMENTS UNDER CORPORATE RESPONSIBILITY

To fulfil its social responsibilities, the Bank advocates protection of the environment, supports education and culture as well as assists the disadvantaged through diversified public welfare activities. The Bank's involvement in serving society was recognised by various sectors of the community. In 2019, it received the following awards and recognition:

- I The "2019 Talent Development Award" and the "Freshman Prize" of "Certified Banker (Stage 1)" professional qualifications presented by the Hong Kong Institute of Bankers.



- I The "Employer of Choice Award" won for the third consecutive year and presented by JobMarket.

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



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



- I The Certification of CO2 Reduction in Paper Recycling awarded by the Integrated Waste Solutions Group and recognising the Bank's enthusiasm for reducing paper consumption and promoting waste reduction at source.

- I The "Third Winner for the Industrial and Commercial Institutions and the Groups in the Charity Lottery Bazaar Competition" title and the "Raffle Tickets Selling Award" presented by the Tung Wah Group of Hospitals.



**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**

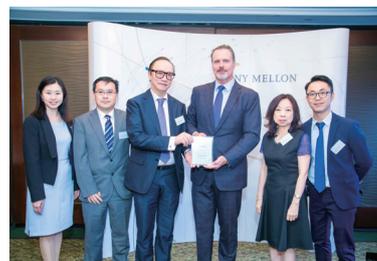
The Bank is committed to providing quality banking services and improving operational efficiency. In 2019, it received the following awards and recognition from professional bodies:

I Selected among the "Top 1000 World Banks" of the British magazine "The Banker" for many years, and ranked among the top 400 for the first time in 2019 (in the 398th place), a further recognition from the international community of the Bank's all-round strength.

I The "Best SME's Partner Award" from the Hong Kong General Chamber of Small and Medium Business for the 11th time, and the "Best SME's Partner Gold Award 2019".



I The "Straight Through Processing (STP) Award" of the US dollar from the Bank of New York Mellon for the 11th consecutive year.



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



## CHIEF EXECUTIVE'S STATEMENT

### FUTURE DEVELOPMENT

Chong Hing Bank will constantly allocate resources to strengthen risk management, enhance profitability and create value through professionalism, ensuring the smooth implementation of its strategic planning in an orderly manner. The coronavirus outbreak has brought much pressure on the economy in both Mainland China and Hong Kong, and various industries are being affected. The extent of the impact on Hong Kong's financial services sector and on Chong Hing Bank will depend on when the disease is effectively contained. We will closely monitor the development of the outbreak and continue to implement precautionary measures. The Bank is confident that with the decline of the outbreak, Hong Kong's economy will gradually bounce back.

Looking ahead, the Bank will secure its business development in Hong Kong by leveraging on its unique competitive edge. In the meantime, with the continuous enhancement of its strategic efforts to develop the Mainland market, the Bank will further expand its outlet network in core cities in an orderly manner, thus gradually achieving basic coverage of the economically developed regions in the Mainland. In addition to grasping cross-border business opportunities, the Bank will roll out distinctive and differentiated cross-border financial products and services to serve enterprises and residents in the Greater Bay Area alike in response to the Greater Bay Area development plan. The Bank will also further deepen synergies with and actively enhance Mainland businesses by using the substantial resources of the Bank's major shareholder Yuexiu Group and the network of strategic shareholders. Moreover, the Bank will carry forward its digital transformation by setting up a business team to carry out such a transformation in the Mainland. The Bank will continue to explore further cross-border cooperation in the Greater Bay Area and the application of fintech, creating a new competitive edge in digital competition and driving forward the corporate vision of itself as "an integrated commercial bank with cross-border expertise".

### APPRECIATION

In light of the rapidly changing global circumstances, the business environment is expected to be ever more complex and challenging. Chong Hing Bank will firmly seize the development opportunities from the development of the Greater Bay Area to maintain robust operations highlighted by its risk-management and customer-centric orientation. It will make full use of its rich financial management experience of over 70 years, its outstanding brands, professional management teams and loyal customer base. Embarking on its new journey, the Bank will keep abreast of all the latest trends in fintech and vigorously seek new developments.

I would like to extend my sincere gratitude to the Board of Directors for their valuable guidance and support in the smooth advancement of the development strategy of the Bank. I would also like to express my appreciation to the management team and all staff for their contributions and dedication in the past year, especially during the recent coronavirus outbreak when we all remain committed to delivering our best and stand together to fight the virus. The Bank will continue to develop steadily and provide even higher quality and more professional financial services for customers and create greater value for shareholders.

**Zong Jianxin**

*Chief Executive*

Hong Kong, 27 February 2020

# DIRECTORS' REPORT

The Directors are pleased to present their annual report and the audited consolidated financial statements for the year ended 31 December 2019.

## PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Bank is principally 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 2019 (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 "2019 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 Annual 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:

	2019 HK\$'000	2018 HK\$'000
Corporate and personal banking	3,048,250	2,722,166
Financial markets activities	519,751	499,373
Securities business	114,384	144,461
Others	339,820	320,117
	<b>4,022,205</b>	<b>3,686,117</b>

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.

## DIRECTORS' REPORT

Securities business of the Group includes 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 2019 are set out in the consolidated income statement and the consolidated statement of comprehensive income on pages 76 and 77.

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 2019 of HK\$0.41 per share (2018: HK\$0.41 per share) to the shareholders whose names appear on the register of members of the Bank on 26 May 2020.

### DISTRIBUTABLE RESERVES

The distributable reserves are shown in note 42 to the consolidated financial statements.

### PRINCIPAL PROPERTIES

The Group's investment properties were revalued during the year. The net decrease in fair value arising on the revaluation, which has been debited directly to the consolidated income statement, amounted to HK\$4,431,000. 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. There was no movement in the share capital of the Bank during the year.

### ISSUANCE OF ADDITIONAL TIER 1 CAPITAL SECURITIES

On 15 July 2019, the Bank issued US\$400 million 5.7% Undated Non-cumulative Subordinated Additional Tier 1 Capital Securities (the "New Securities"), which was completed under the US\$2 billion Medium Term Note and Perpetual Capital Securities Programme of the Bank. The New Securities are listed on the Stock Exchange (Stock Code: 04419), the offering of which raised a total of net proceeds of HK\$3,111,315,000. The net proceeds enabled the Bank to strengthen its capital base and are being used to support its operations and business development.

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

The Bank completed the redemption of US\$300,000,000 Undated Non-cumulative Subordinated Additional Tier 1 Capital Securities (Stock Code: 05804, the "Securities") in full on 25 September 2019. The listing of the Securities from the Stock Exchange was withdrawn upon the close of business on 4 October 2019.

Save for the above, neither the Bank nor any of its subsidiaries purchased, sold or redeemed any other 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)*

**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

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 Rules Governing the Listing of Securities on the Stock Exchange (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 Lau Wai Man, Chow Cheuk Yu Alfred and Lee Ka Lun shall retire and offer themselves for re-election at the forthcoming annual general meeting of the Bank (the "2020 AGM") to be held on 15 May 2020.

## DIRECTORS' REPORT

Details of the retiring Directors to be re-elected at the 2020 AGM are set out in the circular to the shareholders sent together with this Annual Report.

No Directors proposed for re-election at the 2020 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).

### INDEPENDENCE 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:

Mr CHAN Kam Ki Vincent <sup>(1)</sup>	Mr LAI Kwok Wai Paul
Mr CHAN Man Mei	Mr LAU Wai Man
Mr CHAN Tai On	Mr LEUNG Chan Keung
Mr CHENG Yuk Wo	Mr MA Chiu Cheung Andrew
Mr CHIU Tak Wah Edward	Mr MA Wai Leung
Ms CHIU Yau Sim <sup>(2)</sup>	Mr SEI Wing Keen
Mr CHOW Cheuk Yu Alfred	Mr WONG Wan Hong
Mr CHU Shiu Man	Mr WOO Pak Kin Clement <sup>(3)</sup>
Mr CHUN Ka Wing	Mr ZONG Jianxin

Notes:

(1) Appointed as a Director of the relevant subsidiary of the Bank on 17 September 2019.

(2) Retired as a Director of the relevant subsidiary of the Bank on 1 January 2020.

(3) Appointed as a Director of the relevant subsidiaries of the Bank on 2 January 2020.

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/personal/footer/about-ch-bank/investor-relations/directors-list/index.shtml](http://www.chbank.com/en/personal/footer/about-ch-bank/investor-relations/directors-list/index.shtml)).

## DIRECTORS' (INCLUDING THE CHIEF EXECUTIVE'S) INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As of 31 December 2019, the interests and short positions of the Directors (including the Chief Executive) of the Bank 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

Name of Director	Associated Corporation	Long/short position	Number of ordinary shares held, nature and capacity of interests			Total interests	Approximate percentage of interests <sup>(1)</sup>
			Personal Interests (held as beneficial owner)	Family Interests (interest of spouse or child under 18)	Corporate Interests (interest of controlled corporation)		
Li Feng	Yuexiu Property Company Limited	Long position	172,900	–	–	172,900	0.001%
Lee Ka Lun	Yuexiu Property Company Limited	Long position	3,200,000	–	–	3,200,000	0.021%
Yu Lup Fat Joseph	Yuexiu Property Company Limited	Long position	4,000,000	–	–	4,000,000	0.026%

Note:

- (1) The approximate percentage of interests held was calculated on the basis of 15,482,280,438 ordinary shares of Yuexiu Property Company Limited in issue as at 31 December 2019.

Save as disclosed above, as of 31 December 2019, to the knowledge of the Bank, none of the Directors (including the Chief Executive) of the Bank had 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.

Saved as disclosed above, as of 31 December 2019, none of the Directors (including the Chief Executive) of the Bank and their spouses or children under the age of 18 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' 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

In accordance with Rule 13.51B(1) of the Listing Rules, the changes in information required to be disclosed by Directors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules since the date of the Bank's 2019 Interim Report and up to 27 February 2020 (being the date of this Annual Report) are set out below:

Name of Director	Details of Change
Mr Li Feng <i>Non-executive Director</i>	<ul style="list-style-type: none"><li>Appointed as the Chairman of the Board of Directors of Yue Xiu Securities Holdings Limited with effect from 25 September 2019</li></ul>
Ms Chen Jing <i>Non-executive Director</i>	<ul style="list-style-type: none"><li>Resigned as the Chairman of the Board of Directors of Yue Xiu Securities Holdings Limited with effect from 25 September 2019</li></ul>
Mr Cheng Yuk Wo <i>Independent Non-executive Director</i>	<ul style="list-style-type: none"><li>Resigned as Independent Non-executive Director of C.P. Lotus Corporation* with effect from 28 October 2019</li><li>Appointed as Independent Non-executive Director, Chairman of the Audit Committee and a member of the Corporate Governance Committee of C.P. Pokphand Co. Ltd. (Stock Code: 00043) with effect from 1 January 2020</li></ul>
Mr Ma Chiu Cheung Andrew <i>Independent Non-executive Director</i>	<ul style="list-style-type: none"><li>Resigned as Chairman but remains as a member of each of the Audit Committee, Remuneration Committee, Nomination Committee and Corporate Governance Committee of C.P. Pokphand Co. Ltd. (Stock Code: 00043) with effect from 1 January 2020</li></ul>

\* Delisted from the Stock Exchange on 28 October 2019

Save as disclosed above, there is no other information relating to the Directors of the Bank that is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

The emoluments of the Directors of the Bank on a named basis are set out in note 43 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 <sup>(1)</sup>	HK\$20,000	HK\$20,000	HK\$20,000	HK\$20,000 <sup>(2)</sup>

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.

**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.

## DIRECTORS' REPORT

### SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS

As of 31 December 2019, the following persons, other than the Directors or the Chief Executive of the Bank, had interests or short positions in the shares and underlying shares of the Bank as recorded in the register required to be kept under Section 336 of the SFO:

#### INTERESTS IN SHARES

Name	Long/ short position	Nature and capacity of interests	Number of ordinary shares	Approximate percentage of interests <sup>(1)</sup>
Yuexiu Financial Holdings Limited <sup>(2)</sup>	Long position	Direct interests/ Beneficial owner	729,394,500	75%
Yue Xiu Enterprises (Holdings) Limited ("YX Enterprises")	Long position	Corporate interests/Interests of a controlled corporation	729,394,500	75%
Guangzhou Yue Xiu Holdings Limited* (廣州越秀集團股份有限公司) ("GZYX Holdings")	Long position	Corporate interests/Interests of a controlled corporation	729,394,500	75%
廣州地鐵集團有限公司 <sup>(3)</sup> Guangzhou Metro Group Co., Ltd.*	Long position	Interests of a controlled corporation	70,126,000	7.21%

Notes:

- (1) The approximate percentage of interests held was calculated on the basis of 972,526,094 ordinary shares of the Bank in issue as at 31 December 2019.
- (2) Yuexiu Financial Holdings Limited is wholly-owned by YX Enterprises, and YX Enterprises is wholly-owned by GZYX Holdings.
- (3) Pursuant to the SFO, 廣州地鐵集團有限公司 (Guangzhou Metro Group Co., Ltd.\*) is deemed to be interested in 70,126,000 ordinary shares of the Bank as a result of its indirect holding of such shares through its wholly-owned subsidiary, details of which were as follows:

Name	Long position in shares
Guangzhou Metro Investment Finance (HK) Limited (Note (i))	70,126,000

- (i) 70,126,000 ordinary shares of the Bank were held by Guangzhou Metro Investment Finance (HK) Limited, which is wholly-owned by 廣州地鐵集團有限公司 (Guangzhou Metro Group Co., Ltd.\*). Guangzhou Metro Investment Finance (HK) Limited and 廣州地鐵集團有限公司 (Guangzhou Metro Group Co., Ltd.\*) are legally and beneficially owned as to 7.21% by 70,126,000 ordinary shares.

Save as disclosed above, as at 31 December 2019, no person, other than the Directors or the Chief Executive of the Bank whose interests are set out in the above section headed "Directors' (including the Chief Executive's) interests and short positions in shares, underlying shares and debentures", had any interests or short positions in the shares or underlying shares of the Bank as recorded in the register required to be kept under Section 336 of the SFO.

\* for identification purpose only

### 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 2019 were HK\$16,749,598, which was within the annual cap of HK\$72,930,000 as announced on 25 October 2017.

- C. As set out in the Bank's announcement dated 29 March 2018, Guangzhou Tianhe Sub-Branch of the Bank ("Guangzhou Tianhe Sub-Branch") and Guangzhou Jiayao Real Estate Company Limited\* (廣州佳耀置業有限公司) ("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 Units 102-01, 201 and 301, Yuexiu Financial Tower, 28 Zhujiang East Road, Tianhe District, Guangzhou, the People's Republic of China ("PRC") (the "YX Financial Tower Property")<sup>#</sup> 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 Guangzhou Yue Xiu City Construction Jones Lang LaSalle Property Services Co., Ltd.\* (廣州越秀城建仲量聯行物業服務有限公司) ("GZYX Jones Lang") (an associate of YX Enterprises) 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 of the Bank ("Guangzhou Branch") and Guangzhou Yuyao Real Estate Company Limited\* (廣州譽耀置業有限公司) (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, PRC (the "Site") for display of the Bank's logo at the rooftop of the Site at an annual rental fee (inclusive of tax) of RMB800,000.

The total rents, management fees and rental fees of the Site incurred during the financial year 2019 were RMB5,049,603.95, which were within the annual cap of RMB5,109,000 as announced on 29 March 2018.

- D. As set out in the Bank's announcement dated 30 November 2018, Guangzhou Branch and Guangzhou Jingyao Real Estate Company Limited\* (廣州景耀置業有限公司) (an associate of YX Enterprises) entered into a new Tenancy Agreement on 30 November 2018 for the lease renewal of Rooms 01-16, 50/F, Yuexiu Financial Tower, 28 Zhujiang East Road, Tianhe District, Guangzhou, PRC (the "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 financial year 2019 were RMB9,782,965.80, which were within the annual cap of RMB9,904,000 as announced on 30 November 2018.

- E. As set out in the Bank's announcement dated 17 May 2019, the Bank and GZYX Holdings entered into a Foreign Exchange and Financial Markets Transactions Framework Agreement (the "2019 Framework Agreement") on 17 May 2019 to renew the arrangements under the framework agreement dated 17 June 2016 entered into between the Bank and GZYX Holdings 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 2019 Framework Agreement commenced on 1 January 2019 and shall end on 31 December 2021 (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.

Mr Zhang Zhaoxing, being common director of the Bank and GZYX Holdings on the date of execution of the 2019 Framework Agreement, abstained from voting on the resolutions approving the 2019 Framework Agreement and the FX and FM Transactions contemplated thereunder (including the annual caps). Save as disclosed above, none of the Directors has any material interest in the 2019 Framework Agreement and the FX and FM Transactions contemplated thereunder (including the annual caps).

As of 31 December 2019, the aggregate absolute amount of fair value at inception of the FX and FM Transactions recorded as assets/liabilities was HK\$3,680,418, which was within the annual cap of HK\$30 million for the financial year 2019 as announced on 17 May 2019.

- F. As set out in the Bank's announcement dated 21 August 2019, the Bank and Yuexiu Property Company Limited ("Yuexiu Property") (an associate of YX Enterprises) entered into a Foreign Exchange Transactions Framework Agreement (the "2019 FX Framework Agreement") on 21 August 2019 to renew the arrangements under the framework agreement dated 29 November 2016 entered into between the Bank and Yuexiu Property 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 2019 FX Framework Agreement commenced on 1 January 2019 and shall end on 31 December 2021 (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.

Mr Li Feng, Ms Chen Jing, Mr Lee Ka Lun and Mr Yu Lup Fat Joseph, being common directors of the Bank and Yuexiu Property on the date of execution of the 2019 FX Framework Agreement, abstained from voting on the resolutions approving the 2019 FX Framework Agreement and the FX Transactions contemplated thereunder (including the annual caps). Save as disclosed above, none of the Directors has any material interest in the 2019 FX Framework Agreement and the FX Transactions contemplated thereunder (including the annual caps).

As of 31 December 2019, the aggregate absolute amount of fair value at inception of the FX Transactions recorded as assets/liabilities was HK\$947,617, which was within the annual cap of HK\$30 million for the financial year 2019 as announced on 21 August 2019.

- 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.

## DIRECTORS' REPORT

The transactions described in sub-section (i) (comprising items A to F) 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 40 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, PRC, which was subsequently corrected as Units 102-01, 201 and 301, Yuexiu Financial Tower, 28 Zhujiang East Road, Tianhe District, Guangzhou, PRC.*

## 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\$125,000 (2018: HK\$336,000).

**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 2020 AGM.

On behalf of the Board

**Zhang Zhaoxing**

*Chairman*

Hong Kong, 27 February 2020

# CORPORATE GOVERNANCE REPORT

as of 27 February 2020

## CORPORATE GOVERNANCE PRACTICES

Chong Hing Bank Limited (the “Bank”) is an authorized 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 (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and the module on “Corporate Governance of Locally Incorporated Authorized 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 2019, the Bank complied with all applicable code provisions set out in the Corporate Governance Code, except for deviation from the code provision A.4.1. Under code provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election. Currently, all Non-executive Directors of the Bank are not appointed for a specific term but 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 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 2019.

## 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 2019, 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 12 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 and the Bank.

## CORPORATE GOVERNANCE REPORT

as of 27 February 2020

### 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 were 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 five 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 2019, a total of 6 Board lunches and dinners were held, and the Chairman held a meeting that was attended only by Independent Non-executive Directors.

During the year under review, the Board also met with the representatives of HKMA to maintain a regular dialogue with the regulator where HKMA shared with the Board about HKMA's overall supervisory assessment of the Bank and their key supervisory focuses on the banking industry in general.

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 2019/2020 was reviewed and renewed.

## CORPORATE GOVERNANCE REPORT

as of 27 February 2020

### ATTENDANCE RECORDS

The attendance records of individual Directors at the Board, Board Committee meetings and 2019 AGM held in 2019 are as follows:

Names of Directors	2019							2019 AGM
	Number of Meetings Attended/Required Meetings to Attend							
	Connected							
	Party							
	Board	Audit Committee	Transactions Committee	Executive Committee	Nomination Committee	Remuneration Committee	Risk Committee	
<b>Chairman and Non-executive Director</b>								
Mr ZHANG Zhaoxing	5/5	-	-	-	1/1	4/4	-	1/1
<b>Executive Directors</b>								
Mr ZONG Jianxin	5/5	-	-	14/15	-	-	-	1/1
Mr LAU Wai Man	5/5	-	-	15/15	-	-	-	1/1
<b>Non-executive Directors</b>								
Mr LI Feng	5/5	-	-	-	-	-	5/5	1/1
Mr CHOW Cheuk Yu Alfred	5/5	5/5	Nil <sup>(1)</sup>	-	-	4/4	-	1/1
Ms CHEN Jing	5/5	5/5	-	-	-	-	-	-
<b>Independent Non-executive Directors</b>								
Mr CHENG Yuk Wo	5/5	5/5	Nil <sup>(1)</sup>	-	1/1	-	5/5	1/1
Mr MA Chiu Cheung Andrew	5/5	-	Nil <sup>(1)</sup>	-	1/1	4/4	-	1/1
Mr LEE Ka Lun	4/5	5/5	-	-	-	3/4	5/5	0/1
Mr YU Lup Fat Joseph	5/5	5/5	-	-	1/1	4/4	5/5	1/1

Note:

- (1) 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 2019, 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 two "Board Strategy Meetings" and provided a number of trainings and briefings to the Directors which covered topics such as corporate culture of the Bank, latest governance and regulatory updates and risk management. Directors also visited the Bank's Shanghai branch and took part in Shanghai Branch's opening ceremony such that Directors could have 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
<b>Chairman and Non-executive Director</b>		
Mr ZHANG Zhaoxing	✓	✓
<b>Executive Directors</b>		
Mr ZONG Jianxin	✓	✓
Mr LAU Wai Man	✓	✓
<b>Non-executive Directors</b>		
Mr LI Feng	✓	✓
Mr CHOW Cheuk Yu Alfred	✓	✓
Ms CHEN Jing	✓	✓
<b>Independent Non-executive Directors</b>		
Mr CHENG Yuk Wo	✓	✓
Mr MA Chiu Cheung Andrew	✓	✓
Mr LEE Ka Lun	✓	✓
Mr YU Lup Fat Joseph	✓	✓

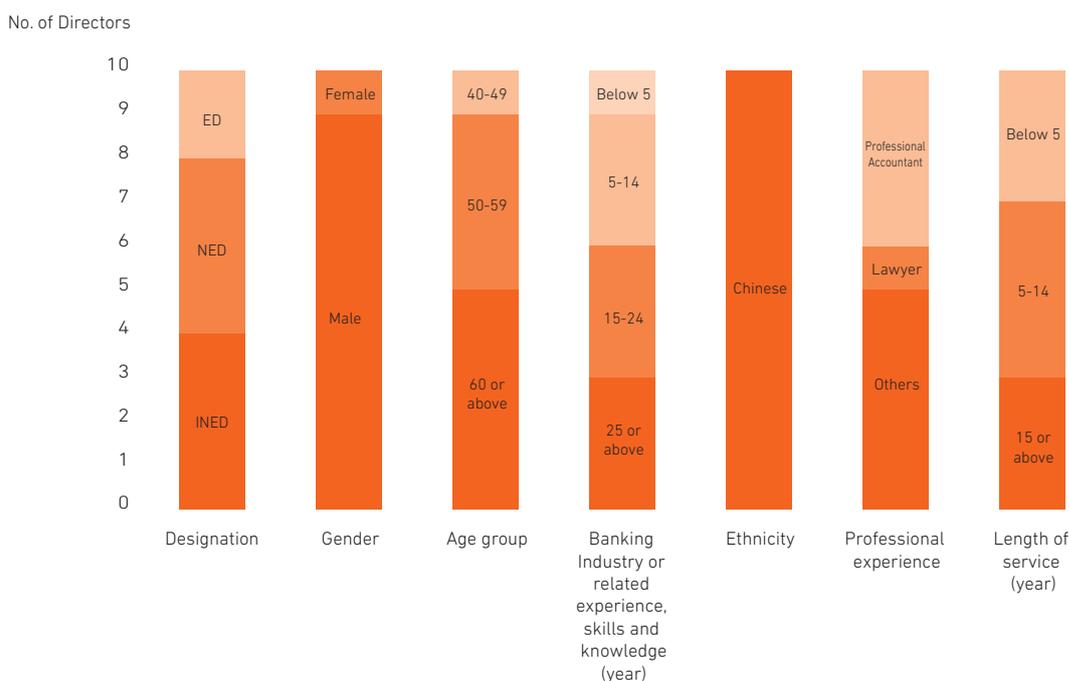
# CORPORATE GOVERNANCE REPORT

as of 27 February 2020

## 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 members’ 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 2019, 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 12 of this Annual Report. During the year of 2019, 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.

Five committee meetings were held in 2019 and the attendance records of the Audit Committee members are set out on page 50 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 function to discuss the financial statements for the year ended 31 December 2018 and for the six months ended 30 June 2019;

## CORPORATE GOVERNANCE REPORT

as of 27 February 2020

- (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 re-appointment of the Bank's external auditor, including its independence and objectivity, 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 annual non-audit services provided by the external auditor to the Group and the related fees;
- (v) reviewed the external auditor's audit strategy and plan of the Group for the year of 2019 and the assessment of the sufficiency of the internal control of the Group for the year of 2018;
- (vi) reviewed the report for the year 2018 and the report for the six months ended 30 June 2019 issued from the external auditor to the Audit Committee;
- (vii) reviewed the internal control issues and the internal audit function of the Group, covering the annual internal audit plan, revision on the amendment of internal audit procedure, staffing, resources and performance of Internal Audit Division, audit findings and recommendations raised in the internal audits undertaken, and the implementation status of related audit recommendations;
- (viii) approved the internal audit plan for 2019;
- (ix) approved the revised Internal Audit Policy;
- (x) reviewed the amendment on the Bank's procedure for implementing the quarterly regulatory disclosure pursuant to the Banking (Disclosure) Rules and recommended to the Board for adopting the procedure;
- (xi) reviewed the Bank's progress for the adoption of HKFRS 9 (Financial Instruments);
- (xii) reviewed the financial impact of HKFRS 16 (Lease); and
- (xiii) reviewed the structure, scope of work, qualification and experience of employee and employee's training course of the Bank's Finance and Capital Management Division, and confirmed that the Bank has sufficient resources in accounting and financial reporting to deal with the daily work.

### REVIEW OF FINANCIAL RESULTS

The Audit Committee reviewed the Group's financial statements for the year ended 31 December 2019 in conjunction with the Bank's external auditor. Based on this review and discussions with the Management, the Audit Committee was satisfied that the Group's financial statements for the year ended 31 December 2019 were prepared in accordance with applicable accounting standards and fairly present the Group's financial position and results for the year ended 31 December 2019. The Audit Committee therefore recommended the Group's financial statements for the year ended 31 December 2019 be approved by the Board.

**AUDITORS' REMUNERATION**

The remuneration paid and payable to the Group's auditor, PricewaterhouseCoopers, for 2019 amounted to:

	HK\$'000
Audit services and interim review	7,299
Tax service	540
Other service	560
Total	<b>8,399</b>

**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 廣州越秀集團股份有限公司 (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.

\* *for identification purpose only*

**EXECUTIVE COMMITTEE**

The Executive Committee currently consists of eight 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.

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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 management, expenses control, 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.

15 Executive Committee meetings were held in 2019 and the attendance records of the Executive Directors are set out on page 50 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 2019 and the attendance records of the Nomination Committee members are set out on page 50 of this Annual Report. The primary duties performed by the Nomination Committee during the year included:

- (i) made recommendation to the Board on the extension of the employment contract of Mr Lau Wai Man as Executive Director and Deputy Chief Executive of the Bank and his retirement age;
- (ii) made recommendation to the Board on the extension of the employment contract of Mr Fung Siu Ming as Deputy Chief Executive of the Bank;
- (iii) made recommendation to the Board on the appointments of Deputy Chief Executive, Alternate Chief Executive and Chief Risk Officer of the Bank;
- (iv) reviewed the structure, size and composition (including 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) made recommendation on the nomination of Directors for the Board to recommend to the Shareholders for re-election at the 2019 AGM; and
- (viii) approved the updated Senior Management Succession Policy and reported to the Board.

## REMUNERATION COMMITTEE

### *Authority and Responsibility*

The Bank has established a Remuneration Committee with specific Terms of Reference to entrust it with the authority and responsibilities for, among others, making recommendation and reviewing the Remuneration Policy of the Group by taking into account the pay and conditions across the Group's individual remuneration packages for Directors, Senior Management and Key Personnel 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 individual Director, Chief Executive or any of their associates will be involved in deciding his/her own remuneration; and assisting the Board in carrying out the Bank's Corporate Culture-related duties.

The Remuneration Committee currently consists of 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 (discretionary cash bonus and/or other incentives in form of shares (where applicable)) which does not only conform 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 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.

## CORPORATE GOVERNANCE REPORT

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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 2019, 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 performance 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 & Values". 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 variable remuneration (if applicable).

### *Award of Variable Remuneration*

The Bank's variable remuneration structure consists of discretionary cash bonus and/or other incentives in form of shares (where applicable).

The size of the overall variable remuneration pool of the Group is determined according to the compliance/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 the Remuneration Committee to the Board for approval and is subject to the Board's discretion.

The subsequent allocated quota of variable remuneration 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 compliance/risk-adjusted performance rating in the individual Scorecards and the Corporate Culture and Values rating.

Poor performance (either financial or non-financial) will result in a reduction or elimination of discretionary variable remuneration 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 (taking into account compliance and risk factors), rather than solely relying on its/his/her financial performance. This ultimately helps mitigating the Group's risk exposure and aligns with its long-term value creation.

To ensure independence, the variable 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 variable remuneration 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 remuneration 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 variable remuneration exceeds a certain multiple of their fixed salary or a certain amount, a pre-defined portion is subject to deferment. Deferral period can last for 4 years the longest.

The award of deferred portion 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 portion 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 is 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 portion (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 share incentive scheme (the "Share Award 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.

## CORPORATE GOVERNANCE REPORT

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### *Summary of Work*

Four Committee meetings were held in 2019 and the attendance records of the Remuneration Committee members are set out on page 50 of this Annual Report. The major works performed by the Remuneration Committee during the year included:

- (i) reviewed the salary adjustment proposal for 2019 and the variable remuneration for 2018 for the Executive Directors, Senior Management and Key Personnel, and recommended to the Board;
- (ii) proposed the remuneration packages for a number of Senior Management and Key Personnel, including Deputy Chief Executive, Chief Risk Officer, Chief Information Officer, Chief Credit Officer and Deputy Head of Mainland Business Division, and recommended to the Board;
- (iii) reviewed the Bank's variable remuneration budget and allocation mechanism proposal for 2019 and recommended to the Board;
- (iv) reviewed the Bank-level 2017 deferred variable remuneration vesting arrangement and recommended to the Board;
- (v) reviewed the performance indicators of the Corporate Balanced Scorecard of the Bank for 2019 and the estimated achievement of targets; reviewed the proposal for the 2019 discretionary variable remuneration pool and Mainland relationship managers' incentive framework and recommended to the Board;
- (vi) reviewed the Bank-level 2020 annual salary review proposal;
- (vii) discussed the proposal of the Share Award Scheme design framework, reviewed the proposed list of eligible participants and recommended to the Board;
- (viii) reviewed the proposal of the 2019 newly established 「開門紅」 incentives plan and framework as well as for 2020 and recommended to the Board;
- (ix) received the report on Independent Review of the Group against "Guideline on a Sound Remuneration System" ("CG-5") under the SPM issued by the HKMA by Internal Audit Division; and
- (x) reviewed the progress updates and the implementation of Chong Hing Bank Corporate Culture and reported to the Board.

The emolument payable to Directors will depend on their respective contractual terms under employment contracts, if any, and the recommendations made by the Remuneration Committee. Details of the Directors' emolument are set out in note 43 to the Consolidated Financial Statements. According to the module on CG-5 and the Remuneration Policy of the Group, Senior Management refers to Executive Directors, Chief Executive, Deputy Chief Executives and 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 7 and 12 employees categorised as Senior Management and Key Personnel respectively. The aggregate payouts for these senior executives for 2018 and 2019 are shown in the tables below in accordance with the disclosure requirement under paragraph 3.2.3 of CG-5 issued by the HKMA on 12 March 2015.

The remuneration for the Senior Management and Key Personnel for the years ended 31 December 2018 and 2019, which was entirely paid in cash, is as follows:

Senior Management	Year ended 31 December 2019		Year ended 31 December 2018	
	HK\$'000		HK\$'000	
	Non-deferred	Deferred	Non-deferred	Deferred
<b>Fixed remuneration:</b>	<b>30,031</b>	<b>—</b>	<b>38,638</b>	<b>—</b>
– Cash	30,031	—	38,638	—
– 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	9	—	7	—
<b>Variable remuneration:</b>	<b>7,060</b>	<b>876</b>	<b>8,557</b>	<b>3,633</b>
– Cash	7,026	876	8,557	3,633
– Shares and share-linked instrument	N/A	N/A	N/A	N/A
– Others	34	—	N/A	N/A
Number of beneficiaries	7	4	7	6
– Vested	—	3,205	—	—
– Unvested	—	—	—	—
– Awarded	—	—	—	—
– Paid out	—	—	—	—
– Reduced through performance adjustments	—	—	—	—

*Remarks:*

- 1) There was an additional position categorized as Senior Management in 2019. The above disclosed figures for 2019 consist of the remuneration of this additional position.
- 2) There was a transition of Deputy Chief Executive (“DCE”) and Chief Risk Officer (“CRO”) in the Group in November and May 2019 respectively. The above disclosed figures for 2019 consist of the total remuneration of the former and current DCEs & CROs of their service tenures.

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Key Personnel	Year ended 31 December 2019		Year ended 31 December 2018	
	HK\$'000		HK\$'000	
	Non-deferred	Deferred	Non-deferred	Deferred
<b>Fixed remuneration:</b>	<b>36,834</b>	—	32,078	—
– Cash	36,834	—	32,078	—
– 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	13	—	14	—
<b>Variable remuneration:</b>	<b>8,680</b>	<b>1,930</b>	6,855	4,199
– Cash	8,582	1,930	6,855	4,199
– Shares and share-linked instrument	N/A	N/A	N/A	N/A
– Others	98	—	N/A	N/A
Number of beneficiaries	13	5	11	9
– Vested	—	3,380	—	300
– Unvested	—	655	—	—
– Awarded	—	—	—	—
– Paid out	—	—	—	—
– Reduced through performance adjustments	—	—	—	—

*Remarks:*

The above disclosed figure of Vested Deferred Variable Remuneration for 2019 includes the vested amount of a former Key Personnel who left the Group in November 2018.

	Year ended 31 December 2019	Year ended 31 December 2018
	HK\$'000	HK\$'000
Guaranteed Bonus	—	750
Number of beneficiaries	—	1
Sign-on Awards	720	200
Number of beneficiaries	1	1
Severance Payment/Long Service Payment	—	—
Number of beneficiaries	—	—

The Remuneration Committee will continue to review and enhance the Group's Remuneration Policy in accordance with the principles and spirit of CG-1 and CG-5, with particular attention paid to risk adjustments to performance assessment; also alongside with the development of labor market, especially in the development of 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.

Five committee meetings were held in 2019 and the attendance records of the Risk Committee members are set out on page 50 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 made recommendation 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 or meetings on risk-related matters conducted by the HKMA and China Banking and Insurance Regulatory Commission;
- (v) reviewed and discussed the independent auditor's report of "Commercial Credit Risk Management" of the Bank;
- (vi) reviewed the governance structure of the Bank;
- (vii) approved the Compliance Policy and the quarterly report of the stress-testing, and reviewed the Capital Management Policy, the Recovery Plan, the Dividend Policy and the internal capital adequacy assessment process (ICAAP) of the Bank and made recommendation for the Board's approval;
- (viii) reviewed the process updates of the risk culture related programmes of the Bank;
- (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 meeting with the Bank's Chief Risk Officer without the Executive Directors present.

# CORPORATE GOVERNANCE REPORT

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## 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 2019, 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 69 to 73 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 unauthorized 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 2019 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.

## CORPORATE GOVERNANCE REPORT

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### 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](http://www.chbank.com) in a timely manner. The Shareholders' calendar containing important dates for Shareholders is set out on page 14 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](mailto: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 2019 AGM on 17 May 2019. Poll results in respect of the resolutions proposed at the 2019 AGM were published on the websites of the Stock Exchange and the Bank on the same day.

The 2020 AGM will be held on 15 May 2020, 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](mailto: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](mailto: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](http://www.chbank.com).

## CORPORATE GOVERNANCE REPORT

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### 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 2019, 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, 27 February 2020

# INDEPENDENT AUDITOR'S REPORT

## 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 76 to 231, which comprise:

- | the consolidated statement of financial position as at 31 December 2019;
- | 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 2019, 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 period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

- | Measurement of impairment allowances of advances to customers.

## INDEPENDENT AUDITOR'S REPORT

Nature of the Key Audit Matter	How our audit addressed the Key Audit Matter
<p><b>Measurement of impairment allowances of advances to customers</b></p> <p>As at 31 December 2019, the Group recorded gross advances to customers of HK\$118,079 million and impairment allowances of HK\$619 million, with HK\$426 million as stage 1 and stage 2 impairment allowances and HK\$193 million as stage 3 impairment allowances.</p> <p>This is the second year of the implementation of HKFRS 9 which is considered as a highly complex process and requires considerable management judgements and interpretation. The Group uses expected credit losses ("ECL") models for estimating impairment allowances on advances to customers which is considered to be material to the Group's consolidated financial statements. Governance processes and controls are also in place for the measurement of impairment allowances of advances to customers.</p> <p>Our audit focused on key management judgements used in the ECL models, including the following:</p> <ul style="list-style-type: none"><li>Criteria for determining whether or not there was a significant increase in credit risk, or a default or impairment loss was incurred;</li><li>Management overlay adjustments due to uncertain factors or data limitations not covered in the models;</li><li>Selection of economic indicators for forward-looking measurement, and the application of economic scenarios and respective probability weightings; and</li><li>The estimated future cash flows for corporate loans and advances in stage 3.</li></ul> <p>The impairment allowances of advances to customers are detailed in notes 7, 14 and 22 to the consolidated financial statements.</p>	<p>We performed the following procedures:</p> <ul style="list-style-type: none"><li>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 review and approval of ECL results and management assumptions by the ECL committee;</li><li>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 the selected samples;</li><li>Assessed major modelling methodologies and assumptions including the reasonableness of portfolio segmentation and use of statistical methods with the assistance of our modelling specialists;</li><li>Validated the model logics of the calculation engine by recalculation;</li><li>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;</li><li>Assessed management's analysis of their selection of economic indicators and economic scenarios, and performed an assessment of their sensitivity analysis of probability weightings;</li><li>Assessed the reasonableness in selecting uncertain factors and the analysis of data limitations, as well as challenged their application and measurement in the management overlay adjustments;</li><li>Discussed the reasonableness of the ECL results with management and the Audit Committee; and</li><li>Evaluated, on a sample basis, the level of stage 3 impairment allowances recorded for specific loans by challenging management on the judgements applied in the expected future cash flows estimation and re-performing the mathematical accuracy of management's discounted cash flow calculation.</li></ul> <p>Based on the procedures we performed, the key management judgements and assumptions used in the ECL models were considered acceptable.</p>

### 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 2019, which are expected to be made available to us after that date.

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 identified above 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 2019, 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 HKSAAs 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.

## INDEPENDENT AUDITOR'S REPORT

As part of an audit in accordance with HKSA's, 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.

## INDEPENDENT AUDITOR'S REPORT

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. Antoinette Hoon.

**PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, 27 February 2020

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# CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2019

	<i>Notes</i>	2019 HK\$'000	2018 HK\$'000
Interest income		6,492,027	5,102,578
Interest expense		(3,232,167)	(2,222,616)
Net interest income	9	3,259,860	2,879,962
Fee and commission income		448,854	505,548
Fee and commission expenses		(112,263)	(121,054)
Net fee and commission income	10	336,591	384,494
Net income from trading and investments	11	241,293	248,155
Other operating income	12	184,461	173,506
Operating expenses	13	(1,635,363)	(1,548,840)
Operating profit before impairment allowances		2,386,842	2,137,277
Net impairment losses on financial assets	14	(137,881)	(178,254)
Operating profit after impairment allowances		2,248,961	1,959,023
Net losses on disposal of property and equipment		(344)	(341)
Net (losses) gains on fair value adjustments			
on investment properties	25	(4,431)	10,250
Other non-operating income	24	–	116,655
Share of profits of associates	24	37,191	19,628
Profit before taxation		2,281,377	2,105,215
Taxation	15	(380,735)	(344,828)
Profit for the year			
– Attributable to equity owners of the Bank		1,900,642	1,760,387
Earnings per share – basic and diluted	17	HK\$1.80	HK\$2.14

The notes on pages 83 to 231 form an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2019

	2019 HK\$'000	2018 HK\$'000
Profit for the year	1,900,642	1,760,387
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
Net gains (losses) on investments in equity instruments measured at fair value through other comprehensive income ("FVOCI")	4,979	(3,504)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation	(57,666)	(179,949)
Net gains (losses) on investments in debt instruments measured at FVOCI	527,219	(495,408)
Amount reclassified to profit or loss upon disposal of debt securities measured at FVOCI	(40,899)	(21,460)
Income tax effect relating to disposal of financial assets measured at FVOCI	6,748	3,541
Income tax effect relating to fair value change of financial assets measured at FVOCI	(79,403)	86,332
Share of other comprehensive income of associates	18,233	(22,275)
Other comprehensive income for the year (net of tax)	379,211	(627,337)
Total comprehensive income for the year	2,279,853	1,133,050
Total comprehensive income attributable to:		
Equity owners of the Bank	2,279,853	1,133,050

The notes on pages 83 to 231 form an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2019

	<i>Notes</i>	2019 HK\$'000	2018 HK\$'000
<b>Assets</b>			
Cash and short-term funds	18	20,404,505	26,182,402
Placements with banks maturing between one to twelve months		5,525,049	7,945,726
Derivative financial instruments	19	705,930	896,140
Investments in securities	20	57,534,593	46,986,126
Advances and other accounts	22	125,982,796	106,808,471
Interests in associates	24	377,244	347,320
Investment properties	25	306,610	311,942
Property and equipment	26	1,124,251	521,330
Prepaid lease payments for land	27	–	2,073
Deferred tax assets	34	28,767	19,907
Intangible assets	36	778,289	554,201
<b>Total assets</b>		<b>212,768,034</b>	<b>190,575,638</b>
<b>Liabilities</b>			
Deposits and balances of banks		6,949,921	5,615,953
Financial assets sold under repurchase agreements	28	4,253,852	6,571,696
Deposits from customers	29	162,664,648	143,690,294
Derivative financial instruments	19	1,902,951	873,617
Other accounts and accruals	37	3,172,687	2,118,485
Current tax liabilities		486,528	240,637
Certificates of deposit	30	3,749,075	2,688,386
Debt securities issued	30	–	1,707,923
Loan capital	31	4,579,912	4,507,147
Deferred tax liabilities	34	145,247	19,171
<b>Total liabilities</b>		<b>187,904,821</b>	<b>168,033,309</b>
<b>Equity attributable to owners of the Bank</b>			
Share capital	32	9,977,060	9,977,060
Additional equity instruments	33	3,111,315	2,312,030
Reserves		11,774,838	10,253,239
<b>Total equity</b>		<b>24,863,213</b>	<b>22,542,329</b>
<b>Total liabilities and equity</b>		<b>212,768,034</b>	<b>190,575,638</b>

The notes on pages 83 to 231 form an integral part of these consolidated financial statements.

Approved and authorised for issue by the Board of Directors on 27 February 2020 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 2019

	Note	Land and									Total
		Share	Additional		Investment	building	General	Translation	Regulatory	Retained	
		capital	equity	Goodwill	revaluation	revaluation	reserve	reserve	reserve	profits	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
<b>At 1 January 2019</b>		9,977,060	2,312,030	(182)	7,092	179,633	1,388,500	(113,933)	912,000	7,880,129	22,542,329
Profit for the year		—	—	—	—	—	—	—	—	1,900,642	1,900,642
Other comprehensive income		—	—	—	436,877	—	—	(57,666)	—	—	379,211
Total comprehensive income for the year		—	—	—	436,877	—	—	(57,666)	—	1,900,642	2,279,853
Issue of additional equity instruments (Note 1)	33	—	3,111,315	—	—	—	—	—	—	—	3,111,315
Redemption of additional equity instruments (Note 2)	33	—	(2,312,030)	—	—	—	—	—	—	(41,174)	(2,353,204)
Shares issued under General Mandate		—	—	—	—	—	—	—	—	—	—
Shares issued under Rights Issue		—	—	—	—	—	—	—	—	—	—
Transaction costs incurred in respect of the shares issued		—	—	—	—	—	—	—	—	—	—
Distribution payment for additional equity instruments		—	(153,015)	—	—	—	—	—	—	—	(153,015)
Transfer from retained profits		—	153,015	—	—	—	—	—	—	(153,015)	—
Unclaimed dividend forfeited		—	—	—	—	—	—	—	—	—	—
Interim dividend paid	16	—	—	—	—	—	—	—	—	(165,329)	(165,329)
Final dividend paid	16	—	—	—	—	—	—	—	—	(398,736)	(398,736)
Earmark of retained profits as regulatory reserve		—	—	—	—	—	—	—	127,000	(127,000)	—
<b>At 31 December 2019</b>		<b>9,977,060</b>	<b>3,111,315</b>	<b>(182)</b>	<b>443,969</b>	<b>179,633</b>	<b>1,388,500</b>	<b>(171,599)</b>	<b>1,039,000</b>	<b>8,895,517</b>	<b>24,863,213</b>

Note 1: During the year, the Bank issued US\$400,000,000 (equivalent to HK\$3,123,280,000) undated non-cumulative subordinated Additional Tier 1 capital securities ("AT1"). Direct issuance costs of HK\$11,965,000 are accounted for as a deduction from the equity instrument.

Note 2: During the year, the Bank redeemed US\$300,000,000 (after deduction relevant issuing cost, equivalent to HK\$2,312,030,000) AT1 issued in 2014, the difference of HK\$41,174,000 paid in excess of the carrying amount was charged to retained profits.

The notes on pages 83 to 231 form an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2019

		Share capital	Additional equity instruments	Goodwill	Investment revaluation reserve	Land and building revaluation reserve	General reserve	Translation reserve	Regulatory reserve	Retained profits	Total
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>At 1 January 2018</b>		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
Issue of additional equity instruments		-	-	-	-	-	-	-	-	-	-
Redemption of additional equity instruments		-	-	-	-	-	-	-	-	-	-
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)	-
<b>At 31 December 2018</b>		<u>9,977,060</u>	<u>2,312,030</u>	<u>(182)</u>	<u>7,092</u>	<u>179,633</u>	<u>1,388,500</u>	<u>(113,933)</u>	<u>912,000</u>	<u>7,880,129</u>	<u>22,542,329</u>

The retained profits of the Group included retained profits of HK\$169,951,000 (2018: retained profits of HK\$159,752,000) 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 83 to 231 form an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2019

	<i>Note</i>	2019 HK\$'000	2018 HK\$'000
<b>OPERATING ACTIVITIES</b>			
Profit before taxation		2,281,377	2,105,215
Adjustments for:			
Net interest income	9	(3,259,860)	(2,879,962)
Net impairment losses on financial assets	14	137,881	178,254
Net losses on disposal of property and equipment		344	341
Net gains on disposal of financial assets measured at FVOCI		(40,899)	(21,460)
Net losses (gains) on fair value adjustments			
on investment properties		4,431	(10,250)
Share of profits of associates	24	(37,191)	(19,628)
Net gains on fair value hedge		(2,727)	(1,779)
Dividend received from investments	12	(12,767)	(8,443)
Depreciation and amortisation	13	248,048	78,326
Release of prepaid lease payments for land	27	–	66
Exchange adjustments		(77,875)	(254,907)
Operating cash flows before movements in operating assets and liabilities		(759,238)	(834,227)
(Increase) decrease in operating assets:			
Money at call and short notice with original maturity over three months		192,993	(313,649)
Placements with banks with original maturity over three months		(390,612)	(908,753)
Financial assets at fair value through profit or loss		(24,659)	(115,763)
Advances to customers		(16,268,634)	(15,484,520)
Advances to banks		(502,380)	(227,066)
Other accounts		(2,337,062)	(75,932)
Increase (decrease) in operating liabilities:			
Deposits and balances of banks		1,333,968	2,564,021
Financial assets sold under repurchase agreements		(2,317,844)	(5,431,293)
Deposits from customers		18,974,354	24,931,620
Certificates of deposit		1,060,689	(529,065)
Derivative financial instruments		170,328	(200,733)
Other accounts and accruals		(26,925)	170,203
Cash (used in) generated from operations		(895,022)	3,544,843
Hong Kong profits tax paid		(121)	(425,883)
Overseas tax paid		(89,850)	(59,318)
Interest received		4,937,008	3,735,317
Interest paid		(2,446,967)	(1,606,048)
<b>NET CASH GENERATED FROM OPERATING ACTIVITIES</b>		<b>1,505,048</b>	<b>5,188,911</b>

## CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2019

	<i>Note</i>	2019 HK\$'000	2018 HK\$'000
<b>INVESTING ACTIVITIES</b>			
Interest received from investments in securities		1,340,810	1,108,862
Dividends received on investments in securities	12	12,767	8,443
Dividends received from associates		25,500	26,370
Capital investment in an associate		–	(75,000)
Purchase of investments in securities measured at amortised cost		(375,874)	(564,700)
Purchase of investments in securities measured at FVOCI		(76,437,888)	(23,318,951)
Purchase of property and equipment		(82,898)	(55,017)
Purchase of intangible assets		(231,622)	(187,192)
Proceeds from redemption of investments in securities measured at amortised cost		383,506	267,181
Proceeds from sale and redemption of investments in securities measured at FVOCI		67,611,524	17,565,647
Proceeds from disposal of property and equipment		2,757	40,044
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(7,751,418)</b>	<b>(5,184,313)</b>
<b>FINANCING ACTIVITIES</b>			
Net proceeds from issue of additional equity instruments/new shares		3,111,315	4,541,156
Redemption of additional equity instruments		(2,353,204)	–
Interest paid on loan capital	31	(210,804)	(221,697)
Interest paid on debt securities issued	30	(62,103)	(66,791)
Redemption of debt securities issued	30	(1,708,650)	–
Payment of lease liabilities	37	(209,297)	–
Dividends paid to ordinary shareholders		(564,065)	(419,304)
Distribution paid on additional equity instruments	33	(153,015)	(152,845)
<b>NET CASH (USED IN) GENERATED FROM FINANCING ACTIVITIES</b>		<b>(2,149,823)</b>	<b>3,680,519</b>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(8,396,193)</b>	<b>3,685,117</b>
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>		<b>30,694,891</b>	<b>27,009,774</b>
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>		<b>22,298,698</b>	<b>30,694,891</b>
Represented by:			
Cash and balances with central bank and banks		5,703,209	5,295,825
Money at call and short notice with original maturity of less than three months		14,580,640	20,572,928
Placements with banks maturing between one to twelve months with original maturity of less than three months		2,014,849	4,826,138
		<b>22,298,698</b>	<b>30,694,891</b>

The notes on pages 83 to 231 form an integral part of these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

## 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 standard has been adopted by the Group for the first time for the financial year beginning on 1 January 2019 and is relevant to the Group:

### I HKFRS 16, Leases

There are also amendments to standards effective for the accounting period beginning on 1 January 2019 but do not have material financial impact. Therefore, these amendments are not analysed in details.

The Group has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17 Leases ("HKAS 17"). Under this method, comparative information is not restated.

### ADJUSTMENTS RECOGNISED ON ADOPTION OF HKFRS 16

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as of 1 January 2019. The weighted average incremental borrowing rate applied to the lease liabilities by the Group on 1 January 2019 was 3.2%.

	HK\$'000
Operating lease commitments disclosed as at 31 December 2018	201,269
Discounted using the Group's incremental borrowing rate of at the date of initial application	189,383
Less: short-term leases recognised on a straight-line basis as expense	(20,737)
Less: low-value leases recognised on a straight-line basis as expense	(7)
<b>Lease liabilities recognised as at 1 January 2019</b>	<b>168,639</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

#### ADJUSTMENTS RECOGNISED ON ADOPTION OF HKFRS 16 (Continued)

Right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application. The impact on transition is summarised below.

	1 January 2019 HK\$'000
Right-of-use assets presented in property and equipment	181,690
Lease liabilities	168,639
Provision for restoration cost	10,978

#### Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made applying HKAS 17 and HKFRIC 4 Determining whether an Arrangement contains a Lease.

**2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)****THE GROUP AS LESSEE**

The Group leases various offices and retail branches. Rental contracts are typically made for fixed periods but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants.

Until the 2018 financial year, leases of property and equipment were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to the consolidated income statement on a straight-line basis over the period of the lease. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the consolidated income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset’s useful life and the lease term on a straight-line basis. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the fixed payments (including in-substance fixed payments), the payments to be made under reasonably certain to exercise termination option and less any lease incentives receivable. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee’s incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- | the amount of the initial measurement of lease liability;
- | any lease payments made at or before the commencement date less any lease incentive received; and
- | restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in consolidated income statement. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise small items of equipment.

**THE GROUP AS LESSOR**

As a lessor, the Group leases out its investment properties as the lessor of operating leases. Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant leases.

The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under HKAS 17.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 3. NEW AND REVISED HKFRSs ISSUED BUT NOT YET EFFECTIVE

A number of new standards and amendments to standards and interpretations are not yet effective for annual period beginning on 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.

### 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 HKFRS 16 with a date of transition of 1 January 2019, which resulted in changes in accounting policies. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

#### 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.

### 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **BASIS OF CONSOLIDATION** *(Continued)*

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.

#### **FINANCIAL INSTRUMENTS**

##### *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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### FINANCIAL INSTRUMENTS *(Continued)*

##### *Measurement methods (Continued)*

##### *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).

##### *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 *(Continued)*

##### *Financial assets*

(i) *Classification and subsequent measurement*

The Group 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### FINANCIAL INSTRUMENTS *(Continued)*

##### *Financial assets (Continued)*

##### *(i) Classification and subsequent measurement (Continued)*

###### *Debt instruments (Continued)*

- I 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.
  
- I 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.

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.

### 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### FINANCIAL INSTRUMENTS *(Continued)*

##### *Financial assets (Continued)*

##### *(i) Classification and subsequent measurement (Continued)*

###### *Debt instruments (Continued)*

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.

##### *(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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### FINANCIAL INSTRUMENTS *(Continued)*

##### *Financial assets (Continued)*

##### *(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.

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.

#### 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

##### FINANCIAL INSTRUMENTS *(Continued)*

###### *Financial assets (Continued)*

(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;
- | 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### FINANCIAL INSTRUMENTS *(Continued)*

##### *Financial liabilities (Continued)*

##### *(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.

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 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.

#### 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).

**4. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

**NON-INTEREST INCOME REVENUE RECOGNITION** *(Continued)*

*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.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 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.

#### 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.

##### *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.

**4. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***FOREIGN CURRENCIES** *(Continued)**Transactions and balances (Continued)*

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, 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 instruments measured at FVPL, are reported as part of the fair value gain or loss. Translation differences on non-monetary financial instruments, such as equity instruments measured at FVOCI, are included in other comprehensive income.

*Group companies and overseas 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.

**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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### RETIREMENT BENEFIT COSTS *(Continued)*

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.

#### 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.

**4. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***TAXATION** *(Continued)*

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).

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 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.

#### 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.

**4. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***LEASING – ACCOUNTING POLICIES APPLIED FROM 1 JANUARY 2019***The Group as lessee*

The Group leases various offices and retail branches. Rental contracts are typically made for fixed periods but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the consolidated income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the fixed payments (including in-substance fixed payments), less any lease incentives receivable and the payments to be made under reasonably certain to exercise termination option. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability, any lease payments made at or before the commencement date less any lease incentive received and restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in consolidated income statement. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise small items of equipment.

*The Group as lessor*

As a lessor, the Group leases out its investment properties as the lessor of operating leases. Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant leases.

The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under HKAS 17.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### LEASING – ACCOUNTING POLICIES APPLIED PRIOR TO 1 JANUARY 2019

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 lessee*

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

##### *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.

##### *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.

### 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.

**5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY** *(Continued)*

**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.

*(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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

#### KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

##### *(d) Determining the lease term*

In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group's operation. Extendable lease term is included if the Group is reasonably certain to exercise an extension option. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

#### 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)***CALCULATION OF THE EXPECTED CREDIT LOSS ALLOWANCE**

During 2019, the Group engaged an independent party to perform model validation and review of certain data proxy adopted for portfolios lacking of historical default history and it provided recommendations to the Group for future considerations. The Group revisited and updated key assumption based on the recommendation that the adjustments of the probability of default multiplier for Mainland China originated corporate loan exposures.

The Group monitors and reviews the underlying assumptions used in the ECL calculation on a regular basis. If the nature of the Group's credit portfolio changed, the monitoring and review process will be performed more frequently.

**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 2019, the Group has recognised the deferred tax of HK\$18,142,000 (2018: HK\$18,550,000) 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\$965,532,000 (2018: HK\$749,201,000) 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.

**CRITICAL JUDGEMENTS IN DETERMINING THE LEASE TERM**

In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group's operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 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 business of the Group includes 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 6. SEGMENT INFORMATION (Continued)

#### (A) OPERATING SEGMENTS (Continued)

(i) Operating segment information for the year ended 31 December 2019 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	4,499,541	1,952,754	9,646	30,086	-	6,492,027
Interest expense to external customers	(2,470,492)	(484,891)	-	(276,784)	-	(3,232,167)
Inter-segment interest income (Note)	538,204	-	-	515,907	(1,054,111)	-
Inter-segment interest expense (Note)	-	(1,054,111)	-	-	1,054,111	-
Net interest income	2,567,253	413,752	9,646	269,209	-	3,259,860
Fee and commission income	344,803	1,054	101,235	1,762	-	448,854
Fee and commission expense	(111,905)	(302)	(56)	-	-	(112,263)
Net income from trading and investments	136,518	105,247	(23)	(449)	-	241,293
Other operating income	111,581	-	3,582	69,298	-	184,461
Segment revenue						
Total operating income	3,048,250	519,751	114,384	339,820	-	4,022,205
Comprising:						
- Segment revenue from external customers	2,510,046	1,573,862	114,384	(176,087)		
- Inter-segment transactions	538,204	(1,054,111)	-	515,907		
Operating expenses	(1,382,501)	(111,370)	(87,420)	(54,072)	-	(1,635,363)
Net impairment losses on financial assets	(105,055)	(32,822)	1	(5)	-	(137,881)
Net losses on disposal of property and equipment	-	-	-	(344)	-	(344)
Net (losses) gains on fair value adjustments on investment properties	-	-	-	(4,431)	-	(4,431)
Other non-operating income	-	-	-	-	-	-
Segment profit	1,560,694	375,559	26,965	280,968	-	2,244,186
Unallocated corporate expenses						-
Share of profits of associates						37,191
Profit before taxation						2,281,377

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 6. SEGMENT INFORMATION *(Continued)*

#### (A) OPERATING SEGMENTS *(Continued)*

(i) Operating segment information for the year ended 31 December 2019 is presented below: *(Continued)*

#### Operating segment assets and liabilities as at 31 December 2019

	Corporate and personal banking HK\$'000	Financial markets activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Consolidated HK\$'000
<b>Assets</b>					
Segment assets	127,757,395	81,513,885	372,672	975,513	210,619,465
Interests in associates					377,244
Unallocated corporate assets					1,771,325
Consolidated total assets					212,768,034
<b>Liabilities</b>					
Segment liabilities	163,673,166	22,019,638	221,858	183,026	186,097,688
Unallocated corporate liabilities					1,807,133
Consolidated total liabilities					187,904,821

#### 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	43,077	1,955	104	65	269,319	314,520
Depreciation and amortisation	151,483	12,286	11,478	7,802	66,534	249,583
Release of prepaid lease payments for land	-	-	-	-	-	-

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 6. SEGMENT INFORMATION (Continued)

#### (A) OPERATING SEGMENTS (Continued)

(ii) 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 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 on disposal of property and equipment	–	–	–	(341)	–	(341)
Net (losses) gains on 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 6. SEGMENT INFORMATION (Continued)

#### (A) OPERATING SEGMENTS (Continued)

(ii) 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
<b>Assets</b>					
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
<b>Liabilities</b>					
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

#### 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

### 6. SEGMENT INFORMATION *(Continued)*

#### (A) OPERATING SEGMENTS *(Continued)*

- (ii) Operating segment information for the year ended 31 December 2019 is presented below: *(Continued)*

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 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:

	2019						
	Total	Profit	Capital	Total	Total	Total	Non-current
	operating	before	expenditure				
	income	taxation	during the			liabilities and	assets
HK\$'000	HK\$'000	year	HK\$'000	HK\$'000	commitments	HK\$'000	
Hong Kong	3,266,822	1,906,145	283,322	167,367,304	147,671,184	32,637,540	2,370,740
Macau and Mainland China	755,383	375,232	31,198	45,400,730	40,233,637	13,577,910	244,421
<b>Total</b>	<b>4,022,205</b>	<b>2,281,377</b>	<b>314,520</b>	<b>212,768,034</b>	<b>187,904,821</b>	<b>46,215,450</b>	<b>2,615,161</b>

	2018						
	Total	Profit	Capital	Total	Total	Total	Non-current
	operating	before	expenditure				
	income	taxation	during the			liabilities and	assets
HK\$'000	HK\$'000	year	HK\$'000	HK\$'000	commitments	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
<b>Total</b>	<b>3,686,117</b>	<b>2,105,215</b>	<b>242,209</b>	<b>190,575,638</b>	<b>168,033,309</b>	<b>37,516,137</b>	<b>1,756,773</b>

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

	2019 HK\$'000	2018 HK\$'000
<b>Financial assets</b>		
Financial assets measured at fair value through profit or loss	846,617	1,012,168
Financial assets measured at FVOCI	56,913,273	46,378,556
Financial assets measured at amortised cost (including cash and cash equivalents)	<u>152,392,983</u>	<u>141,428,141</u>
<b>Financial liabilities</b>		
Fair value through profit or loss	1,902,951	873,617
Amortised cost ( <i>Note</i> )	<u>185,370,095</u>	<u>166,899,884</u>

*Note:* Loan capital of HK\$4,579,912,000 (2018: HK\$4,507,147,000) was carried at amortised cost with adjustment of fair value hedge as at 31 December 2019 (see note 31).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 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, Chief Credit Officer 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.

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.

## 7. FINANCIAL RISK MANAGEMENT *(Continued)*

### CREDIT RISK *(Continued)*

#### *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.

The ECL "Stage 1" and "Stage 2" exposures are categorised as collective provision.

If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3' and its ECL is categorised as specific provision.

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:

#### *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:

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 7. FINANCIAL RISK MANAGEMENT *(Continued)*

#### **CREDIT RISK** *(Continued)*

##### *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 adopt "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 equal to or 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 treasury portfolios only)
- | 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 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 type 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 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 maintain 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.

##### *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 addition 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 are set out below:

	Scenario	31 December 2019 Average (2020 – 2022)	31 December 2018 Average (2019 - 2021)
Domestic GDP YoY Growth %	Base	1.20%	1.20%
	Good	6.40%	6.40%
	Bad	(5.31%)	(5.31%)
Exchange Rate (HKD/USD)	Base	7.690	7.775
	Good	7.305	7.386
	Bad	7.991	7.985
House Price Index YoY Change	Base	4.93%	4.77%
	Good	12.43%	12.43%
	Bad	(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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 7. FINANCIAL RISK MANAGEMENT (Continued)

#### CREDIT RISK (Continued)

##### 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 2019, the amount of management overlay on top of ECL model results represents approximately 0.07% (2018: 0.07%) of the advances to customers balance.

##### 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 "Guideline on loan classification system" issued by Hong Kong Monetary Authority is adopted. For debt securities, short-term funds and placements with banks, credit rating from Moody's, or equivalent, is adopted. Debt securities not rated by Moody's, or equivalent, 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

	2019			Total HK\$'000
	Stage 1 12-month ECL HK\$'000	Stage 2 Lifetime ECL HK\$'000	Stage 3 Lifetime ECL HK\$'000	
<b>Credit rating</b>				
Pass	116,906,160	279,711	–	117,185,871
Special mention	–	493,768	3,817	497,585
Substandard	–	1,674	162,140	163,814
Doubtful	–	–	43,669	43,669
Loss	–	–	187,975	187,975
<b>Gross carrying amount at 31 December</b>	<b>116,906,160</b>	<b>775,153</b>	<b>397,601</b>	<b>118,078,914</b>
Loss allowance	382,053	43,710	193,597	619,360
<b>Carrying amount at 31 December</b>	<b>116,524,107</b>	<b>731,443</b>	<b>204,004</b>	<b>117,459,554</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 7. FINANCIAL RISK MANAGEMENT (Continued)

#### CREDIT RISK (Continued)

##### Credit risk exposure (Continued)

Maximum exposure to credit risk – Financial instruments subject to impairment (Continued)

##### Advances to customers (Continued)

	2018			Total HK\$'000
	Stage 1	Stage 2	Stage 3	
	12-month ECL HK\$'000	Lifetime ECL HK\$'000	Lifetime ECL HK\$'000	
<b>Credit rating</b>				
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
<b>Gross carrying amount at 31 December</b>	<u>100,898,880</u>	<u>573,117</u>	<u>353,230</u>	<u>101,825,227</u>
Loss allowance	<u>379,031</u>	<u>12,382</u>	<u>154,435</u>	<u>545,848</u>
<b>Carrying amount at 31 December</b>	<u><u>100,519,849</u></u>	<u><u>560,735</u></u>	<u><u>198,795</u></u>	<u><u>101,279,379</u></u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 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

	2019			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL HK'000	Lifetime ECL HK'000	Lifetime ECL HK'000	
<b>Credit rating</b>				
Aaa	5,600,149	–	–	5,600,149
Aa1 to Aa3	13,502,275	–	–	13,502,275
A1 to A3	22,756,999	–	–	22,756,999
Lower than A3	11,256,379	–	–	11,256,379
Unrated	4,288,785	–	–	4,288,785
<b>Gross carrying amount at 31 December</b>	<b>57,404,587</b>	<b>–</b>	<b>–</b>	<b>57,404,587</b>
Loss allowance	100,301	–	–	100,301
<b>Carrying amount at 31 December</b>	<b>57,304,286</b>	<b>–</b>	<b>–</b>	<b>57,304,286</b>

	2018			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL HK'000	Lifetime ECL HK'000	Lifetime ECL HK'000	
<b>Credit rating</b>				
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
<b>Gross carrying amount at 31 December</b>	<b>46,850,567</b>	<b>–</b>	<b>–</b>	<b>46,850,567</b>
Loss allowance	66,047	–	–	66,047
<b>Carrying amount at 31 December</b>	<b>46,784,520</b>	<b>–</b>	<b>–</b>	<b>46,784,520</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 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

	2019			Total HK'000
	Stage 1	Stage 2	Stage 3	
	12-month ECL HK'000	Lifetime ECL HK'000	Lifetime ECL HK'000	
<b>Credit rating</b>				
Pass	16,591,634	4	–	16,591,638
Special mention	–	6,929	–	6,929
Substandard	–	–	–	–
Doubtful	–	–	–	–
Loss	–	–	–	–
<b>Gross carrying amount at 31 December</b>	<b>16,591,634</b>	<b>6,933</b>	<b>–</b>	<b>16,598,567</b>
Loss allowance	7,263	5,479	–	12,742
<b>Carrying amount at 31 December</b>	<b>16,584,371</b>	<b>1,454</b>	<b>–</b>	<b>16,585,825</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 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 (Continued)

	2018			Total HK'000
	Stage 1	Stage 2	Stage 3	
	12-month ECL HK'000	Lifetime ECL HK'000	Lifetime ECL HK'000	
<b>Credit rating</b>				
Pass	14,352,225	9,261	–	14,361,486
Special mention	–	6,150	–	6,150
Substandard	–	–	–	–
Doubtful	–	–	–	–
Loss	–	–	500	500
<b>Gross carrying amount at 31 December</b>	<u>14,352,225</u>	<u>15,411</u>	<u>500</u>	<u>14,368,136</u>
Loss allowance	<u>9,855</u>	<u>927</u>	<u>7</u>	<u>10,789</u>
<b>Carrying amount at 31 December</b>	<u><u>14,342,370</u></u>	<u><u>14,484</u></u>	<u><u>493</u></u>	<u><u>14,357,347</u></u>

##### Short-term funds and placements with banks

The Group held, short-term funds and placements with banks of HK\$25,112,289,000 at 31 December 2019 (31 December 2018: HK\$33,665,154,000), which are rated at investment grade based on Moody's or equivalent ratings. The placement with banks are neither part due nor impaired and unsecured.

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):

	2019 Maximum exposure to credit risk HK'000
<b>Financial assets at fair value through profit or loss</b>	
– Debt securities	140,494
– Derivatives	675,033
<b>Hedging Derivatives</b>	<b>30,897</b>

	2018 Maximum exposure to credit risk HK'000
<b>Financial assets at fair value through profit or loss</b>	
– Debt securities	115,813
– Derivatives	541,933
<b>Hedging Derivatives</b>	<b>354,207</b>

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 premises; and
- | Charges over financial instruments such as debt securities and equities.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 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

	2019			Fair value of collateral held HK'000
	Gross exposure HK'000	Stage 3 ECL allowance HK'000	Carrying amount HK'000	
<b>Loans and advances to customers</b>				
Overdrafts	36,166	(4,025)	32,141	46,851
Instalment loans	27,873	(4,458)	23,415	93,147
Term loans	28,000	(11,720)	16,280	16,809
Syndication loans	100,656	(100,656)	–	–
Trade finance	204,231	(72,454)	131,777	99,317
Personal loans and tax loans	268	–	268	367
Other	407	(284)	123	–
<b>Total credit-impaired assets</b>	<b>397,601</b>	<b>(193,597)</b>	<b>204,004</b>	<b>256,491</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 7. FINANCIAL RISK MANAGEMENT (Continued)

#### CREDIT RISK (Continued)

#### Collateral and other credit enhancements (Continued)

#### Credit-impaired assets (Continued)

	2018			Fair value of collateral held HK'000
	Gross exposure HK'000	Stage 3 ECL allowance HK'000	Carrying amount 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)	–	–
<b>Total credit-impaired assets</b>	<b>353,230</b>	<b>(154,435)</b>	<b>198,795</b>	<b>267,720</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 7. FINANCIAL RISK MANAGEMENT (Continued)

#### CREDIT RISK (Continued)

##### Loss allowance

The following tables explain the changes in gross exposure and the loss allowance between the beginning and the end of the annual period due to these factors:

##### Advances to customers

	2019							
	Stage 1 12-month ECL		Stage 2 Lifetime ECL		Stage 3 Lifetime ECL		Total	
	Gross exposure HK\$'000	Allowance HK\$'000						
<b>Balance at 1 January</b>	100,898,880	379,031	573,117	12,382	353,230	154,435	1,011,035	545,848
Transfers:								
Transfer from Stage 1 to Stage 2	(583,409)	(3,363)	583,409	27,419	-	-	-	24,056
Transfer from Stage 2 to Stage 1	101,393	753	(101,393)	(3,396)	-	-	-	(2,643)
Transfer to Stage 3	(229,670)	(607)	(2,625)	(53)	232,295	9,592	-	8,932
Transfer from Stage 3	-	-	-	-	-	-	-	-
Net new financial assets originated/(asset derecognised)	21,395,850	69,419	(118,045)	13,981	(142,451)	1,490	21,135,354	84,890
Changes in PDs/LGDs/EADs	(4,676,884)	(35,501)	(159,310)	(1,154)	(39,386)	36,246	(4,875,580)	(409)
Changes in model assumption and methodologies	-	(24,530)	-	(2,326)	-	-	-	(26,856)
Amounts written off	-	-	-	-	(6,087)	(6,087)	(6,087)	(6,087)
Other movements	-	(3,149)	-	(3,143)	-	(2,079)	-	(8,371)
<b>Balance at 31 December</b>	<b>116,906,160</b>	<b>382,053</b>	<b>775,153</b>	<b>43,710</b>	<b>397,601</b>	<b>193,597</b>	<b>1,180,789,914</b>	<b>619,360</b>
								Total HK\$'000
Change in ECL in income statement charge for the year								87,970
Add: Recoveries								(1,065)
Add: Others								9,925
Total ECL charge for the year								96,830

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 7. FINANCIAL RISK MANAGEMENT (Continued)

#### CREDIT RISK (Continued)

##### Loss allowance (Continued)

##### Advances to customers (Continued)

	2018							
	Stage 1 12-month ECL		Stage 2 Lifetime ECL		Stage 3 Lifetime ECL		Total	
	Gross exposure HK\$'000	Allowance HK\$'000						
<b>Balance at 1 January</b>	83,165,996	213,504	2,964,505	118,125	567,871	399,755	86,698,372	731,384
Transfers:								
Transfer from Stage 1 to Stage 2	(312,723)	(243)	312,723	6,547	-	-	-	6,304
Transfer from Stage 2 to Stage 1	260,412	569	(260,412)	(12,682)	-	-	-	(12,113)
Transfer to Stage 3	(199,898)	(2,452)	(15,051)	(1,419)	214,949	139,876	-	136,005
Transfer from Stage 3	39,071	40	75,466	1,116	(114,537)	(3,793)	-	(2,637)
Net new financial assets originated/asset derecognised)	17,501,827	170,630	(2,559,200)	(97,998)	83,486	(5,291)	15,026,113	67,341
Changes in PDs/LGDs/EADs	444,195	4,131	55,086	(1,092)	(36,720)	(11,940)	462,561	(8,901)
Changes in model assumption and methodologies	-	-	-	-	-	-	-	-
Amounts written off	-	-	-	-	(361,819)	(361,819)	(361,819)	(361,819)
Other movements	-	(7,148)	-	(215)	-	(2,353)	-	(9,716)
<b>Balance at 31 December</b>	<b>100,898,880</b>	<b>379,031</b>	<b>573,117</b>	<b>12,382</b>	<b>353,230</b>	<b>154,435</b>	<b>101,825,227</b>	<b>545,848</b>
								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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 7. FINANCIAL RISK MANAGEMENT (Continued)

#### CREDIT RISK (Continued)

##### Loss allowance (Continued)

The following tables explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors:

#### Debt securities

	2019			Total HK\$'000
	Stage 1 12-month ECL HK\$'000	Stage 2 Lifetime ECL HK\$'000	Stage 3 Lifetime ECL HK\$'000	
<b>Balance at 1 January</b>	66,047	–	–	66,047
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	14,380	–	–	14,380
Changes in PDs/LGDs/EADs	26,541	–	–	26,541
Changes in model assumption and methodologies	(6,667)	–	–	(6,667)
Other movements	–	–	–	–
<b>Balance at 31 December</b>	<b>100,301</b>	<b>–</b>	<b>–</b>	<b>100,301</b>
Of which:				
For debt securities at amortised cost	120	–	–	120
For debt securities at FVOCI	100,181	–	–	100,181
	<b>100,301</b>	<b>–</b>	<b>–</b>	<b>100,301</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 7. FINANCIAL RISK MANAGEMENT (Continued)

#### CREDIT RISK (Continued)

#### Loss allowance (Continued)

#### Debt securities (Continued)

	2018			Total HK\$'000
	Stage 1	Stage 2	Stage 3	
	12-month ECL HK\$'000	Lifetime ECL HK\$'000	Lifetime ECL HK\$'000	
<b>Balance at 1 January</b>	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
Changes in model assumption and methodologies	–	–	–	–
Other movements	(127)	–	–	(127)
<b>Balance at 31 December</b>	<b>66,047</b>	<b>–</b>	<b>–</b>	<b>66,047</b>
Of which:				
For debt securities at amortised cost	89	–	–	89
For debt securities at FVOCI	65,958	–	–	65,958
	<b>66,047</b>	<b>–</b>	<b>–</b>	<b>66,047</b>

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 7. FINANCIAL RISK MANAGEMENT (Continued)

#### CREDIT RISK (Continued)

#### Loss allowance (Continued)

#### Loan commitments and financial guarantee contracts

	2019			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL HK\$'000	Lifetime ECL HK\$'000	Lifetime ECL HK\$'000	Total HK\$'000
<b>Balance at 1 January</b>	9,855	927	7	10,789
Transfers:				
Transfer from Stage 1 to Stage 2	(615)	4,758	–	4,143
Transfer from Stage 2 to Stage 1	12	(58)	–	(46)
Transfer to Stage 3	–	–	–	–
Transfer from Stage 3	–	–	–	–
Net decrease of loan commitment and financial guarantee contracts	84	(204)	(7)	(127)
Changes in PDs/LGDs/EADs	(943)	178	–	(765)
Changes in model assumption and methodologies	(1,130)	(122)	–	(1,252)
Other movements	–	–	–	–
<b>Balance at 31 December</b>	<b>7,263</b>	<b>5,479</b>	<b>–</b>	<b>12,742</b>

	2018			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL HK\$'000	Lifetime ECL HK\$'000	Lifetime ECL HK\$'000	Total HK\$'000
<b>Balance at 1 January</b>	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)
Changes in model assumption and methodologies	–	–	–	–
Other movements	–	–	–	–
<b>Balance at 31 December</b>	<b>9,855</b>	<b>927</b>	<b>7</b>	<b>10,789</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 7. FINANCIAL RISK MANAGEMENT (Continued)

#### CREDIT RISK (Continued)

##### Loss allowance (Continued)

#### Short-term funds and placements with banks

	2019			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL HK\$'000	Lifetime ECL HK\$'000	Lifetime ECL HK\$'000	Total HK\$'000
<b>Balance at 1 January</b>	<b>19,278</b>	–	–	<b>19,278</b>
Transfers:				
Transfer from Stage 1 to Stage 2	–	–	–	–
Transfer from Stage 2 to Stage 1	–	–	–	–
Transfer to Stage 3	–	–	–	–
Transfer from Stage 3	–	–	–	–
Net decrease in short-term funds and placements with banks	(786)	–	–	(786)
Changes in PDs/LGDs/EADs	6,398	–	–	6,398
Changes in model assumption and methodologies	(768)	–	–	(768)
Other movements	(142)	–	–	(142)
<b>Balance at 31 December</b>	<b>23,980</b>	–	–	<b>23,980</b>

	2018			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL HK\$'000	Lifetime ECL HK\$'000	Lifetime ECL HK\$'000	Total HK\$'000
<b>Balance at 1 January</b>	<b>10,720</b>	–	–	<b>10,720</b>
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
Changes in model assumption and methodologies	–	–	–	–
Other movements	(260)	–	–	(260)
<b>Balance at 31 December</b>	<b>19,278</b>	–	–	<b>19,278</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 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 2019				
	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 <i>(Note 1)</i>	Gross impaired advances HK\$'000
Loans for use in Hong Kong					
Industrial, commercial and financial					
– Property development	6,375,480	7,505	–	3,184,337	–
– Property investment	10,513,477	27,815	47	7,908,837	74
– Financial concerns	8,452,285	7,887	–	558,586	–
– Stockbrokers	2,656,227	2,209	–	1,512,703	–
– Wholesale and retail trade	1,823,656	9,168	13,383	1,633,247	29,180
– Manufacturing	658,669	2,398	2,409	454,761	20,030
– Transport and transport equipment	1,468,693	22,383	–	899,062	277
– Recreational activities	551	1	–	551	–
– Information technology	1,553,620	7,086	645	323,392	13,000
– Others <i>(Note 2)</i>	5,866,252	13,920	340	4,780,980	340
Individuals					
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	486,484	365	91	486,484	1,320
– Loans for the purchase of other residential properties	8,852,812	6,544	55	8,850,990	10,538
– Credit card advances	70,126	1,026	284	–	407
– Others <i>(Note 3)</i>	4,031,851	6,795	1,577	3,559,784	10,434
	52,810,183	115,102	18,831	34,153,714	85,600
Trade finance	5,295,352	24,018	72,453	1,137,965	203,709
Loans for use outside Hong Kong	59,973,379	286,643	102,313	11,958,106	108,292
	118,078,914	425,763	193,597	47,249,785	397,601

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 7. FINANCIAL RISK MANAGEMENT (Continued)

#### CREDIT RISK (Continued)

##### Loss allowance (Continued)

	31 December 2018				
	Gross loans and advances HK\$'000	Stage 1	Stage 3	Loans and	Gross
		impairment allowances HK\$'000	impairment allowances HK\$'000	advances secured by collateral HK\$'000	impaired advances HK\$'000
				(Note 1)	
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

- Notes:
- Loans and advances secured by collateral are determined as the lower of the market value of collateral or outstanding loan principal.
  - Major items mainly included loans to businesses in electricity and gas, hotels, catering, margin lending and other business purposes.
  - Major items mainly included loans to professionals and other individuals for various private purposes.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 7. FINANCIAL RISK MANAGEMENT *(Continued)*

#### CREDIT RISK *(Continued)*

##### *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 2019 was HK\$6,087,000 (2018: 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.

##### *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 2019 was HK\$1,724,000 (2018: 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 and their respective effect on the Group's financial performance is considered immaterial:

	2019 HK\$'000	2018 HK\$'000
Advance to customers		
Amortised cost before modification	250	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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 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
<b>At 31 December 2019</b>				
Short-term funds	2,412,859	14,922,314	2,252,066	19,587,239
Placements with banks	2,597,730	2,927,319	–	5,525,049
Derivative financial instruments	135,798	135,032	435,100	705,930
Financial assets at fair value through profit or loss	–	140,494	–	140,494
Financial assets measured at FVOCI – debt securities	22,859,260	23,980,156	9,984,237	56,823,653
Financial assets measured at amortised cost	1,987	459,234	19,412	480,633
Advances and other accounts	89,842,701	34,217,619	1,922,476	125,982,796
	<u>117,850,335</u>	<u>76,782,168</u>	<u>14,613,291</u>	<u>209,245,794</u>
<b>At 31 December 2018</b>				
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
	<u>103,152,249</u>	<u>71,149,166</u>	<u>13,832,294</u>	<u>188,133,709</u>

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 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
<b>At 31 December 2019</b>						
Short-term funds	17,623,954	1,963,285	-	-	-	19,587,239
Placements with banks	4,101,649	-	-	1,423,400	-	5,525,049
Derivative financial instruments	602,457	-	611	102,796	66	705,930
Financial assets at fair value through profit or loss	-	140,494	-	-	-	140,494
Financial assets measured at FVOCI - debt securities	20,945,295	16,109,168	-	19,769,190	-	56,823,653
Financial assets measured at amortised cost	19,368	459,265	-	2,000	-	480,633
Advances and other accounts	7,398,681	2,522,222	949,408	99,160,646	15,951,839	125,982,796
	<u>50,691,404</u>	<u>21,194,434</u>	<u>950,019</u>	<u>120,458,032</u>	<u>15,951,905</u>	<u>209,245,794</u>
<b>At 31 December 2018</b>						
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 - debt securities	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
	<u>49,381,670</u>	<u>15,851,607</u>	<u>1,344,470</u>	<u>105,782,756</u>	<u>15,773,206</u>	<u>188,133,709</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 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 or equivalent ratings. Financial securities not rated by Moody's, or equivalent, are treated as unrated ones.

	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
<b>At 31 December 2019</b>				
Aaa	–	5,599,221	–	5,599,221
Aa1 to Aa3	–	13,497,952	–	13,497,952
A1 to A3	116,017	22,225,630	478,633	22,820,280
Lower than A3	–	11,227,317	–	11,227,317
Unrated	24,477	4,273,533	2,000	4,300,010
<b>Total</b>	<b>140,494</b>	<b>56,823,653</b>	<b>480,633</b>	<b>57,444,780</b>
<b>At 31 December 2018</b>				
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
<b>Total</b>	<b>115,813</b>	<b>46,292,978</b>	<b>491,542</b>	<b>46,900,333</b>

##### Repossessed collateral

As at 31 December 2019, the Group obtained assets by taking possession of collateral held as security, as follows:

	2019 HK\$'000	2018 HK\$'000
Types of assets		
Others	–	9,500

Repossessed assets are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 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 portfolios is at acceptable level, as the Group maintains controllable positions of financial instruments leading to foreign exchange and interest rate risk 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 and amortised cost, and exposures arising from our daily risk management operations.

From time to time, the Group may use derivatives to mitigate market risk exposure driven by price fluctuation in interest rate and foreign exchange rate affecting trading and non-trading portfolios.

#### *Market risk management*

Market risk is measured in terms of value at risk ("VaR"), which is used to estimate potential losses on risk positions in the trading portfolio as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence; Meanwhile, it is also subject to market risk exposure measurement by sensitivity of foreign exchange which are applied to the market risk positions within each risk type; The Group has maintained a controllable of market risk exposure (interest rate and foreign exchange risk) for both trading and customer order fulfillment managed by the Financial Markets Division within approved limits in day to day business; and

The market risk positions are managed using risk limits approved by the Group. These limits are allocated across business lines and to the Group's legal entities. Daily risk monitoring is carried out independently by Market Risk Management Department, which ensures all dealing activities are conducted in a proper manner and within approved limits. The Group's market risk exposures are periodically reviewed by the Board, Risk Management Committee ("RMC") and senior management.

The Group has established standards, policies and procedures to control and monitor the market risk under Board Risk Committee ("RC") and RMC management oversight. The Policy, together with limits and underlying assumptions therein, is subject to be regularly reviewed and approved by the RMC at least once a year.

The Bank adopts scenario-based approach in stress-testing. Stress tests are performed regularly to assess the potential losses under extreme market conditions. The Board, Risk Committee and senior management review stress test results on a regular basis.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 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\$ HK\$'000	US\$ HK\$'000	RMB HK\$'000	Others HK\$'000 (Note)	Total HK\$'000
<b>At 31 December 2019</b>					
<b>Assets</b>					
Cash and short-term funds	6,055,816	2,796,317	8,340,322	3,212,050	20,404,505
Placements with banks	946,858	77,865	4,500,326	–	5,525,049
Derivative financial instruments	642,183	63,661	–	86	705,930
Financial assets at fair value through profit or loss	193	–	140,494	–	140,687
Financial assets measured at FVOCI	12,917,476	33,390,056	5,467,109	5,138,632	56,913,273
Financial assets measured at amortised cost	1,987	19,412	294,288	164,946	480,633
Advances to customers	77,916,771	16,679,243	23,409,972	72,928	118,078,914
Advances to banks	–	–	837,275	–	837,275
Other financial assets	1,620,489	1,726,734	3,683,286	36,098	7,066,607
<b>Total financial assets</b>	<b>100,101,773</b>	<b>54,753,288</b>	<b>46,673,072</b>	<b>8,624,740</b>	<b>210,152,873</b>
<b>Liabilities</b>					
Deposits and balances of banks	104,682	834,638	4,523,962	1,486,639	6,949,921
Financial assets sold under repurchase agreements	–	3,157,842	1,096,010	–	4,253,852
Deposits from customers	100,402,686	17,681,643	39,889,653	4,690,666	162,664,648
Derivative financial instruments	174,674	1,404,797	25,506	297,974	1,902,951
Certificates of deposit	460,976	2,952,516	335,583	–	3,749,075
Debt securities issued	–	–	–	–	–
Loan capital	–	4,579,912	–	–	4,579,912
Other financial liabilities	1,850,043	601,170	695,560	25,914	3,172,687
<b>Total financial liabilities</b>	<b>102,993,061</b>	<b>31,212,518</b>	<b>46,566,274</b>	<b>6,501,193</b>	<b>187,273,046</b>
<b>Net position – total financial assets and liabilities</b>	<b>(2,891,288)</b>	<b>23,540,770</b>	<b>106,798</b>	<b>2,123,547</b>	<b>22,879,827</b>

Note: Currencies included in "Others" mainly represented Macau Pactaca, Australian dollars and New Zealand dollars.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 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
<b>At 31 December 2018</b>					
<b>Assets</b>					
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
<b>Total financial assets</b>	<b>97,943,652</b>	<b>45,074,566</b>	<b>35,736,098</b>	<b>10,064,549</b>	<b>188,818,865</b>
<b>Liabilities</b>					
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
<b>Total financial liabilities</b>	<b>96,447,964</b>	<b>31,040,465</b>	<b>34,198,209</b>	<b>6,086,863</b>	<b>167,773,501</b>
<b>Net position – total financial assets and liabilities</b>	<b>1,495,688</b>	<b>14,034,101</b>	<b>1,537,889</b>	<b>3,977,686</b>	<b>21,045,364</b>

Note: Currencies included in "Others" mainly represented Macau Pataca, 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 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  $\pm 1$  and  $\pm 5$  (2018:  $\pm 1$  and  $\pm 5$ ) 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)				
<b>2019</b>				
Profit after tax	24,283	(24,283)	(9,017)	9,017
Other comprehensive income (after tax)	–	–	201,722	(201,722)

	Change in currency rate			
	US Dollars		Renminbi	
	Appreciate +1%	Depreciate -1%	Appreciate + 5%	Depreciate -5%
Hong Kong dollars equivalents (HK\$'000)				
<b>2018</b>				
Profit after tax	123,016	(123,016)	(73,562)	73,562
Other comprehensive income (after tax)	–	–	128,450	(128,450)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 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 gap risk, basis risk and option risk. Interest margins may increase as a result of such changes in favor of the Bank, but also result negative impacts in the event that unexpected or adverse movement arises.

Interest rate risk comprises those originating from both trading and non-trading portfolios, and the Group's interest rate risk exposure is mainly contributed by non-trading portfolio. In non-trading portfolio, the Group manages its interest rate risk in banking book ("IRRBB") within the IRRBB limits approved by ALCO and under monitoring of Market Risk Management Department independently, which regularly report to both ALCO and RMC for senior management oversight. In trading portfolio, specific limits are approved by RMC on interest rate sensitivities (also known as DV01) and stop loss, which are monitored on a daily basis. The Group maintains manageable interest rate positions on its trading book, in addition to certain interest rate contracts entered into for the management of the Group's own risk with holding securities that are classified as the trading purpose.

The Group also manages the positions under IRRBB arising from investments in approved financial instruments that are gauged by the internal guideline and relevant risk limits. Hedging for these interest rate positions would be executed through interest rate derivatives whenever deemed necessary, and non-hedged positions will contain within the normal banking businesses where the risks originate.

##### *Interest rate risk in banking book*

IRRBB refers to the risk against the Bank's capital and earnings due to adverse movements in interest rates. Banking book positions refer to assets and liabilities such as loans, deposits and financial instruments that evolve with normal banking businesses and are not for trading. When interest rates change, the future cash flows attached with these non-trading assets and liabilities change.

The Group manages its IRRBB exposures using economic value as well as earnings based measures.

The economic value is measured from present values of its expected net cash flows of assets, liabilities and off-balance sheet positions held with the Bank, discounted to reflect market rates. Thereby the Group measures the change in Economic Value of Equity (" $\Delta$ EVE") as the maximum decrease of the banking book economic value under the six standard scenarios defined by the HKMA's Supervisory Policy Manual.

Earnings-based measures the impact of changes in interest rates on accruing or reported earnings. Reduced earnings or outright losses can threaten the financial stability by undermining its capital adequacy and by reducing market confidence in it. The Group measures the change in net interest income as the maximum reduction in net interest income over a period of 12 months.

## 7. FINANCIAL RISK MANAGEMENT *(Continued)*

### MARKET RISK *(Continued)*

#### *Interest rate risk in banking book (Continued)*

The calculation of the IRRBB gapping is processed through an automatic system on a daily basis. Market Risk Management Department monitors the IRRBB gapping results against the approved risk limits. Cashflows arising from interest rate sensitive assets, liabilities and off-balance sheet positions are slotted; with embedded optional adjustments based on various business models, including prepayment model, early-redemption model and behavioural models for non-maturity deposits ("NMDs").

The Group manages the interest rate risk exposure for its NMDs through Co-integration Model for Deposit Volume on core deposit ratio and decay rate Approach on behavioral maturity. For the core deposit ratio, the Group followed regulatory guidelines by first estimating stable deposit ratio using the Group's deposit balance data over the past 10 years, and then developing statistical models to estimate the core deposit ratio. In estimating the core deposit ratio, the Group aimed to measure the percentage of stable deposits that would remain with the bank even under significant interest rate changes. In estimating behavioral maturity, the Group followed the run-off approach, which estimates the decay rate of the deposit balance. The behavioral maturity was obtained based on the decay-rate estimates. For reporting period, the average repricing maturity assigned across to NMDs is 0.27 years, and the Group uses 1.48 year as the longest repricing maturity assigned to NMDs.

In the loan and some of the term deposit products, the Group takes into accounts of early prepayment/withdrawal behavior of its customers. The parameters are based on historical observations, statistical analyses and expert assessments. Furthermore, the Group generally calculates IRRBB related metrics in contractual currencies and aggregates the resulting metrics for reporting purposes.

Stress tests on IRRBB are conducted regularly. Coverage of stress scenarios are comprehensive with forward-looking, and they are composed of risk factors that can significantly affect the Bank.

The Group conducts periodic reviews of the risk management process for IRRBB in order to ensure its integrity, accuracy and reasonableness in response to changing market condition.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 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
<b>At 31 December 2019</b>						
<b>Assets</b>						
Cash and short-term funds	17,725,996	2,206,408	—	—	472,101	20,404,505
Placements with banks	3,925,434	1,599,615	—	—	—	5,525,049
Derivative financial instruments	77,537	29,532	—	—	598,861	705,930
Financial assets at fair value through profit or loss	—	—	24,565	115,929	193	140,687
Financial assets measured at FVOCI	31,667,229	21,065,035	3,452,610	638,779	89,620	56,913,273
Financial assets measured at amortised cost	72,817	95,739	19,412	292,665	—	480,633
Advances to customers	92,572,893	9,468,691	7,904,393	7,010,248	1,122,689	118,078,914
Advances to banks	837,275	—	—	—	—	837,275
Other financial assets	422,469	664,942	53,367	3,873	5,921,956	7,066,607
<b>Total financial assets</b>	<b>147,301,650</b>	<b>35,129,962</b>	<b>11,454,347</b>	<b>8,061,494</b>	<b>8,205,420</b>	<b>210,152,873</b>
<b>Liabilities</b>						
Deposits and balances of banks	4,410,690	2,533,176	—	—	6,055	6,949,921
Financial assets sold under repurchase agreements	4,253,852	—	—	—	—	4,253,852
Deposits from customers	141,662,792	13,464,182	7,536,929	—	745	162,664,648
Derivative financial instruments	539,535	767,492	—	—	595,924	1,902,951
Certificates of deposit	2,461,930	1,287,145	—	—	—	3,749,075
Debt securities issued	—	—	—	—	—	—
Loan capital	—	1,588,843	2,991,069	—	—	4,579,912
Other financial liabilities	163,810	190,469	377,493	—	2,440,915	3,172,687
<b>Total financial liabilities</b>	<b>153,492,609</b>	<b>19,831,307</b>	<b>10,905,491</b>	<b>—</b>	<b>3,043,639</b>	<b>187,273,046</b>
<b>Net position – total financial assets and liabilities</b>	<b>(6,190,959)</b>	<b>15,298,655</b>	<b>548,856</b>	<b>8,061,494</b>	<b>5,161,781</b>	<b>22,879,827</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 7. FINANCIAL RISK MANAGEMENT (Continued)

#### MARKET RISK (Continued)

##### Interest rate risk (Continued)

	Up to 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non-interest bearing	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>At 31 December 2018</b>						
<b>Assets</b>						
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
<b>Total financial assets</b>	<b>161,766,494</b>	<b>10,757,802</b>	<b>9,618,043</b>	<b>4,377,563</b>	<b>2,298,963</b>	<b>188,818,865</b>
<b>Liabilities</b>						
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
<b>Total financial liabilities</b>	<b>134,316,071</b>	<b>19,667,211</b>	<b>11,314,120</b>	<b>15,414</b>	<b>2,460,685</b>	<b>167,773,501</b>
<b>Net position – total financial assets and liabilities</b>	<b>27,450,423</b>	<b>(8,909,409)</b>	<b>(1,696,077)</b>	<b>4,362,149</b>	<b>(161,722)</b>	<b>21,045,364</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 7. FINANCIAL RISK MANAGEMENT (Continued)

#### MARKET RISK (Continued)

##### Interest rate risk (Continued)

##### Interest rate sensitivity

The framework adopted by the Group to measure interest rate risk exposure arising from its banking book positions is consistent with the guidelines set out by the HKMA in its Supervisory Policy Manual ("SPM") on Interest Rate Risk in the Banking Book. Since this is the first time disclosure under IRRBB, comparative figures with prior year are not available. Sensitivities of earnings or economic value of equity ("EVE") to interest rate changes by specific size of interest rate parallel shocks and key assumptions as required by SPM are summarised below:

	2019				
	HKD HK\$'000	USD HK\$'000	CNY HK\$'000	CNH HK\$'000	EUR HK\$'000
Size of interest rate parallel shocks (bps)	200	200	250	250	200
Impact on earnings over the next 12 months (parallel up) (Note)	(572,000)	(48,000)	(51,000)	(6,000)	4,000
Impact on EVE (parallel up) (Note)	—	—	553,000	—	2,000

Note: Positive impact means unfavorable to the Bank.

The key assumptions are as follows:

- | exclusion of spread components in the cash flows used in the computation or discount rate either for  $\Delta$ EVE;
- | determination of behavioral modeling in accordance with the Group's business regions;
- | estimation of the prepayment rates of customer loans and the early withdrawal rates for time deposits, the Group adopted the model derived at the account level with using logistic regression with clustered standard errors. The fixed-rate retail loan and retail term deposit portfolios were assumed to follow a run-off mode, with no new originations or auto-renewal in the forecast; and
- | estimation of behavioral maturity of HKD non-maturity deposits ("NMDs"), the Group adopted the run-off approach, which estimates the decay rate of the current and saving deposit respectively.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 7. FINANCIAL RISK MANAGEMENT (Continued)

#### MARKET RISK (Continued)

##### Interest rate risk (Continued)

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	
	Change in basis points	
	+100	-10
	HK\$'000	HK\$'000
Profit after tax	237,931	(11,217)

##### Price risk

The Group is exposed to price risk arising from its listed investments in equity securities. Except for those classified as FVPL, 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

	2019		2018	
	Change in price		Change in price	
	+10%	-10%	+10%	-10%
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit after tax	16	(16)	18	(18)
Other comprehensive income (after tax)	4,153	(4,153)	3,726	(3,726)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 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 after							Undated	Total
	Repayable on	Repayable	1 month but	3 months but	1 year but	Repayable			
	demand	within 1 month	within 3 months	within 1 year	within 5 years	after 5 years			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
<b>Liabilities adjusted with interest payable</b>									
<b>At 31 December 2019</b>									
Deposits and balances of banks	38,949	2,816,293	1,588,880	2,533,176	-	-	-	6,977,298	
Financial assets sold under repurchase agreements	-	1,096,010	3,168,646	-	-	-	-	4,264,656	
Deposits from customers	57,789,080	46,003,212	38,932,309	13,772,463	7,506,369	-	-	164,003,433	
Certificates of deposit	-	-	2,400,846	1,401,757	-	-	-	3,802,603	
Debt securities issued	-	-	-	-	-	-	-	-	
Loan capital	-	-	-	1,799,344	462,365	3,329,003	-	5,590,712	
Other financial liabilities	817,609	704,228	635,211	537,159	395,330	966	837,639	3,928,142	
<b>Total undiscounted financial liabilities</b>	<b>58,645,638</b>	<b>50,619,743</b>	<b>46,725,892</b>	<b>20,043,899</b>	<b>8,364,064</b>	<b>3,329,969</b>	<b>837,639</b>	<b>188,566,844</b>	
<b>Liabilities adjusted with interest payable</b>									
<b>At 31 December 2018</b>									
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	
<b>Total undiscounted financial liabilities</b>	<b>52,258,344</b>	<b>40,381,140</b>	<b>43,004,113</b>	<b>20,513,491</b>	<b>9,045,446</b>	<b>3,464,723</b>	<b>255,919</b>	<b>168,923,176</b>	

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 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
<b>At 31 December 2019</b>						
Derivatives settled net						
Interest rate contracts						
– Inflows/(outflows)	–	–	(126,716)	(673,069)	(331,688)	(1,131,473)
Derivatives settled gross						
Exchange rate contracts						
– Inflows	25,366,408	74,975,450	70,729,579	6,180,528	–	177,251,965
– Outflows	(25,367,225)	(74,996,240)	(70,694,688)	(6,173,082)	–	(177,231,235)
	(817)	(20,790)	34,891	7,446	–	20,730
<b>At 31 December 2018</b>						
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)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 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 38 to the consolidated financial statements and summarised in the table below:

	No later than 1 year HK\$'000
<b>At 31 December 2019</b>	
Direct credit substitutes	469,730
Trade-related contingencies	6,231,424
Undrawn formal standby facilities, credit lines and other commitments excluding those that are unconditionally cancellable without prior notice	9,897,413
	<b>16,598,567</b>
<b>At 31 December 2018</b>	
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
	<b>14,368,136</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 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 2019 HK\$'000	At 31 December 2018 HK\$'000
Tier 1	Debt Securities issued by sovereigns, central banks or public sector entities with 0% risk-weight	<b>16,844,820</b>	11,584,320
Tier 2	Other investment grade debt securities	<b>24,819,834</b>	18,263,441

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.

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.

*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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 7. FINANCIAL RISK MANAGEMENT *(Continued)*

#### LIQUIDITY RISK *(Continued)*

##### *Liquidity cushion (Continued)*

##### *Stress-testing (Continued)*

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. Three 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 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	Repayable	Repayable after	Repayable after	Repayable after	Repayable	Undated	Total
	demand	within 1 month	1 month but	3 months but	1 year but	after 5 years		
	HK\$'000	HK\$'000	within 3 months	within 1 year	within 5 years	HK\$'000		
<b>At 31 December 2019</b>								
<b>Assets</b>								
Cash and short-term funds	5,519,417	9,756,399	2,922,293	2,206,396	—	—	—	20,404,505
Placements with banks	—	—	4,065,463	1,459,586	—	—	—	5,525,049
Derivative financial instruments	—	315,004	172,373	101,545	106,805	10,203	—	705,930
Financial assets at fair value through profit or loss	—	—	—	—	24,565	115,929	193	140,687
Financial assets measured at FVOCI	—	9,943,507	3,044,284	3,511,470	24,139,198	16,185,194	89,620	56,913,273
Financial assets measured at amortised cost	—	—	72,710	47,194	69,945	290,784	—	480,633
Advances to customers	1,313,714	7,429,319	9,042,575	27,468,370	50,388,823	22,177,380	258,733	118,078,914
Advances to banks	—	837,275	—	—	—	—	—	837,275
Other financial assets	3,430,962	486,225	524,080	1,920,482	72,859	6,759	625,240	7,066,607
<b>Total financial assets</b>	<b>10,264,093</b>	<b>28,767,729</b>	<b>19,843,778</b>	<b>36,715,043</b>	<b>74,802,195</b>	<b>38,786,249</b>	<b>973,786</b>	<b>210,152,873</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 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 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
<b>At 31 December 2019</b>								
<b>Liabilities</b>								
Deposits and balances of banks	13,144	2,816,261	1,587,340	2,533,176	-	-	-	6,949,921
Financial assets sold under repurchase agreements	-	1,096,010	3,157,842	-	-	-	-	4,253,852
Deposits from customers	57,540,760	45,547,377	38,499,848	13,570,300	7,506,363	-	-	162,664,648
Derivative financial instruments	-	340,334	139,939	110,008	591,837	720,833	-	1,902,951
Certificates of deposit	-	-	2,384,062	1,365,013	-	-	-	3,749,075
Debt securities issued	-	-	-	-	-	-	-	-
Loan capital	-	-	-	1,588,843	-	2,991,069	-	4,579,912
Lease liabilities	-	13,976	28,293	126,708	359,960	-	-	528,937
Other financial liabilities	560,370	438,684	450,079	320,648	35,364	966	837,639	2,643,750
<b>Total financial liabilities</b>	<b>58,114,274</b>	<b>50,252,642</b>	<b>46,247,403</b>	<b>19,614,696</b>	<b>8,493,524</b>	<b>3,712,868</b>	<b>837,639</b>	<b>187,273,046</b>
<b>Net position – total financial assets and liabilities</b>	<b>(47,850,181)</b>	<b>(21,484,913)</b>	<b>(26,403,625)</b>	<b>17,100,347</b>	<b>66,308,671</b>	<b>35,073,381</b>	<b>136,147</b>	<b>22,879,827</b>
Of which debt securities included in:								
FVOCI	-	9,943,507	3,044,284	3,511,470	24,139,198	16,185,194	-	56,823,653
Amortised cost	-	-	72,710	47,194	69,945	290,784	-	480,633
	-	9,943,507	3,116,994	3,558,664	24,209,143	16,475,978	-	57,304,286

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 7. FINANCIAL RISK MANAGEMENT (Continued)

#### LIQUIDITY RISK (Continued)

##### Analysis of assets and liabilities by remaining maturity (Continued)

	Repayable after							Undated	Total
	Repayable on	Repayable	1 month but	3 months but	1 year but	Repayable			
	demand	within 1 month	within 3 months	within 1 year	within 5 years	after 5 years			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
<b>At 31 December 2018</b>									
<b>Assets</b>									
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	
<b>Total financial assets</b>	<b>4,200,462</b>	<b>37,929,126</b>	<b>20,069,260</b>	<b>29,612,134</b>	<b>61,926,730</b>	<b>34,930,834</b>	<b>150,319</b>	<b>188,818,865</b>	

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 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
<b>At 31 December 2018</b>								
<b>Liabilities</b>								
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
Lease liabilities	-	-	-	-	-	-	-	-
Other financial liabilities	679,295	281,600	521,515	370,177	9,979	-	255,919	2,118,485
<b>Total financial liabilities</b>	<b>52,247,093</b>	<b>40,454,306</b>	<b>42,845,763</b>	<b>20,188,402</b>	<b>8,728,140</b>	<b>3,053,878</b>	<b>255,919</b>	<b>167,773,501</b>
<b>Net position – total financial assets and liabilities</b>	<b>(48,046,631)</b>	<b>(2,525,180)</b>	<b>(22,776,503)</b>	<b>9,423,732</b>	<b>53,198,590</b>	<b>31,876,956</b>	<b>(105,600)</b>	<b>21,045,364</b>
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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 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	
	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000
Financial assets				
– measured at amortised cost	480,633	491,542	487,531	490,224
Financial liabilities				
– Loan capital	4,552,924	4,507,147	4,579,912	4,546,544
– Debt securities issued	–	1,707,923	–	1,705,198

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 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
<b>At 31 December 2019</b>				
Financial assets measured at amortised cost	–	487,531	–	487,531
Loan capital	–	4,579,912	–	4,572,912
Debt securities issued	–	–	–	–
<b>At 31 December 2018</b>				
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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 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, debt securities classified as amortised cost 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).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 7. FINANCIAL RISK MANAGEMENT (Continued)

#### FAIR VALUE MEASUREMENTS RECOGNISED IN THE STATEMENTS OF FINANCIAL POSITION (Continued)

	Fair value hierarchy			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
<b>At 31 December 2019</b>				
Financial assets measured at fair value through profit or loss				
Equity securities	193	–	–	193
Debt securities	140,494	–	–	140,494
Financial assets measured at FVOCI				
Equity securities	49,736	–	39,884	89,620
Debt securities	55,039,373	1,784,280	–	56,823,653
Derivative financial assets not used for hedging	–	675,033	–	675,033
Derivative financial assets used for hedging	–	30,897	–	30,897
Derivative financial liabilities not used for hedging	–	(670,656)	–	(670,656)
Derivative financial liabilities used for hedging	–	(1,232,295)	–	(1,232,295)
<b>Total</b>	<b>55,229,796</b>	<b>587,259</b>	<b>39,884</b>	<b>55,856,939</b>
<b>At 31 December 2018</b>				
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)
<b>Total</b>	<b>42,585,201</b>	<b>3,890,951</b>	<b>40,954</b>	<b>46,517,106</b>

There were no transfers between Levels 1, 2 and 3 in 2019. In 2018 debt securities measured at FVOCI of HK\$42,424,549,000 were transferred from Level 2 to Level 1 given the Group can access to quoted prices in active markets. 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 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 HK\$'000
<b>Balance at 1 January 2018</b>	34,735
Purchase	7,718
Exchange difference	(1,500)
Total net gains recognised in the investment revaluation reserve	1
<b>Balance at 31 December 2018</b>	<u>40,954</u>
<b>Balance at 1 January 2019</b>	40,954
Exchange difference	(1,070)
<b>Balance at 31 December 2019</b>	<u>39,884</u>

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% (2018: 0.02%), 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\$1,994,200 (2018: HK\$2,048,000) respectively.

Of the total net gains or losses for the year included in other comprehensive income, there was no gain/loss (2018: HK\$1,000 gains) related to financial assets measured at FVOCI 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 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 liabilities offset		Net amounts of financial assets presented	Related amounts not offset in the consolidated statement of financial position		Net amounts
	Gross amounts of recognised financial assets	in the consolidated statement of financial position	in the consolidated statement of financial position	Financial instruments	Cash/financial collateral received	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
<b>At 31 December 2019</b>						
Derivatives – interest rate swaps	61,251	-	61,251	(58,136)	(7,099)	(3,984)
Derivatives – foreign currency forward contracts	546,171	-	546,171	(411,129)	(97,304)	37,738
FVOCI debt securities	3,227,556	-	3,227,556	(3,142,270)	(2,661)	82,625
Amounts due from HKSCC and brokerage clients	388,491	(58,563)	329,928	-	-	329,928
<b>Total</b>	<b>4,223,469</b>	<b>(58,563)</b>	<b>4,164,906</b>	<b>(3,611,535)</b>	<b>(107,064)</b>	<b>446,307</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 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 assets		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 HK\$'000
	Gross amounts of recognised financial liabilities	offset in the consolidated statement of financial position	Gross amounts of recognised financial liabilities	presented in the consolidated statement of financial position	Financial instruments	Cash/financial collateral pledged	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
<b>At 31 December 2019</b>							
Derivatives – interest rate swaps	697,173	–	697,173	(58,136)	(704,677)	(65,640)	
Derivatives – foreign currency forward contracts	510,466	–	510,466	(411,129)	(90,077)	9,260	
Financial assets sold under repurchase agreements	3,142,270	–	3,142,270	(3,142,270)	(5,316)	(5,316)	
Amounts due to HKSCC and brokerage clients	280,422	(58,563)	221,859	–	–	221,859	
<b>Total</b>	<b>4,630,331</b>	<b>(58,563)</b>	<b>4,571,768</b>	<b>(3,611,535)</b>	<b>(800,070)</b>	<b>160,163</b>	

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 8. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING, ENFORCEABLE MASTER NETTING ARRANGEMENTS AND SIMILAR AGREEMENTS (Continued)

Types of financial assets	Gross amounts		Net amounts		Related amounts not offset in the		Net amounts
	of recognised financial		of financial assets		consolidated statement of financial position		
	Gross amounts	liabilities offset	in the consolidated	presented	Financial	Cash/financial	
	of recognised	in the consolidated	in the consolidated	consolidated statement of financial position	instruments	collateral received	
	financial assets	statement of	statement of				
	financial position	financial position	financial position				
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
						(Note)	
<b>At 31 December 2018</b>							
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 debt securities	7,243,924	-	7,243,924	(6,571,696)	(43,747)		628,481
Amortised cost debt securities	-	-	-	-	-		-
Amounts due from HKSCC and brokerage clients	225,312	(31,168)	194,144	-	-		194,144
<b>Total</b>	<b>8,137,471</b>	<b>(31,168)</b>	<b>8,106,303</b>	<b>(7,145,864)</b>	<b>(164,888)</b>		<b>795,551</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 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 HK\$'000	Gross amounts of recognised financial assets offset in the consolidated statement of financial position HK\$'000	Net amounts of financial liabilities presented in the consolidated statement of financial position HK\$'000	Related amounts not offset in the consolidated statement of financial position		Net amounts HK\$'000
				Financial instruments HK\$'000	Cash/financial collateral pledged HK\$'000	
<i>(Note)</i>						
<b>At 31 December 2018</b>						
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
<b>Total</b>	<b>7,443,955</b>	<b>(31,168)</b>	<b>7,412,787</b>	<b>(7,145,864)</b>	<b>(200,933)</b>	<b>65,990</b>

Note: The cash and financial collateral received/pledged as at 31 December 2019 and 31 December 2018 represent in fair value.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 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 debt securities – fair value;
- | amortised cost 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 FVOCI, which are measured on different basis as the related financial assets sold under repurchase agreements. The directors of the Group consider there are no material differences arising from the measuring differences.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 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	2019 HK\$'000	2018 HK\$'000
Derivatives – interest rate swaps as stated above	61,251	227,746
Derivatives – foreign currency forward contracts as stated above	546,171	440,489
	<b>607,422</b>	668,235
Derivative financial assets not in scope of offsetting disclosures	98,508	227,905
Total derivative financial assets stated in note 19	<b>705,930</b>	896,140
FVOCI debt securities as stated above	3,227,556	7,243,924
FVOCI securities not in scope of offsetting disclosures	53,685,717	39,134,632
Total FVOCI securities stated in note 20	<b>56,913,273</b>	46,378,556
Amortised cost securities not in scope of offsetting disclosures	480,633	491,542
Total amortised cost securities stated in note 20	<b>480,633</b>	491,542
Amount due from HKSCC and brokerage clients as stated above	329,928	194,144
Other accounts not in scope of offsetting disclosures	6,303,476	4,105,038
Total other accounts stated in note 22	<b>6,633,404</b>	4,299,182

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 8. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING, ENFORCEABLE MASTER NETTING ARRANGEMENTS AND SIMILAR AGREEMENTS *(Continued)*

Types of financial liabilities	2019	2018
	HK\$'000	HK\$'000
Derivatives – interest rate swaps as stated above	697,173	253,697
Derivatives – foreign currency forward contracts as stated above	510,466	489,858
	1,207,639	743,555
Derivative financial liabilities not in scope of offsetting disclosures	695,312	130,062
Total derivative financial liabilities stated in note 19	1,902,951	873,617
Financial assets sold under repurchase agreements as stated above	3,142,270	6,571,696
Financial assets sold under repurchase agreements not in scope of offsetting disclosures	1,111,582	–
Financial assets sold under repurchase agreements stated in note 28	4,253,852	6,571,696
Amounts due to HKSCC and brokerage clients as stated above and included in other accounts	221,859	97,536
Total other accounts and accruals not in scope of offsetting disclosures	2,950,828	2,020,949
Total other accounts and accruals as stated in note 37	3,172,687	2,118,485

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 9. NET INTEREST INCOME

	2019 HK\$'000	2018 HK\$'000
Interest income		
Balances and placements with central bank and banks	747,883	661,925
Investments in securities	1,534,455	1,218,849
Loans and advances	4,209,689	3,221,804
	<b>6,492,027</b>	<b>5,102,578</b>
Interest expense		
Deposits and balances of banks	(357,261)	(145,273)
Deposits from customers	(2,352,002)	(1,618,178)
Financial assets sold under repurchase agreements	(156,936)	(117,989)
Certificates of deposit	(90,579)	(56,317)
Debt securities issued	(25,249)	(66,666)
Loan capital in issue	(230,391)	(218,193)
Lease liabilities	(19,749)	–
	<b>(3,232,167)</b>	<b>(2,222,616)</b>
Net interest income	<b>3,259,860</b>	<b>2,879,962</b>
Included within interest income		
Interest income on impaired loans and advances	<b>9,925</b>	<b>9,452</b>

Included within interest income and interest expense are HK\$6,492,027,000 (2018: HK\$5,095,245,000) and HK\$3,232,167,000 (2018: HK\$2,222,616,000) earned and incurred from financial assets and financial liabilities that are not recognised at fair value through profit or loss, respectively.

Included above is interest income from unlisted investments in debt securities of HK\$1,534,455,000 (2018: HK\$1,218,849,000).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 10. NET FEE AND COMMISSION INCOME

	2019 HK\$'000	2018 HK\$'000
Fee and commission income		
Securities dealings	103,279	136,791
Loans, overdrafts and guarantees	67,416	72,963
Trade finance	15,582	16,448
Credit card services	125,600	138,773
Agency services	92,231	107,129
Others	44,746	33,444
Total fee and commission income	448,854	505,548
Less: Fee and commission expenses	(112,263)	(121,054)
Net fee and commission income	336,591	384,494
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 recognised at fair value through profit or loss		
– Fee income	213,192	236,888
– Fee expenses	(103,932)	(117,582)
	109,260	119,306

**11. NET INCOME FROM TRADING AND INVESTMENTS**

	2019 HK\$'000	2018 HK\$'000
Foreign exchange gains	176,393	224,337
Net gains on financial instruments at fair value through profit or loss	21,274	579
Net gains (losses) on fair value hedge:		
– Net gains (losses) on hedged items attributable to the hedged risk	1,051,943	(145,497)
– Net (losses) gains on hedging instruments	(1,049,216)	147,276
Net gains on disposal of FVOCI debt securities	40,899	21,460
	<b>241,293</b>	<b>248,155</b>

“Foreign exchange gains” includes net 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”.

Net gains on disposal of the financial assets at FVOCI were included in the net income from trading and investments of the Group which form part of the business operation. This is to in line with the current business model of the Group.

No amortised cost securities were disposed in both years.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 12. OTHER OPERATING INCOME

	2019 HK\$'000	2018 HK\$'000
Dividend income		
– Listed investments	6,670	1,994
– Unlisted investments	6,097	6,449
	12,767	8,443
Gross rents from investment properties	8,855	8,653
Less: Outgoings	(452)	(410)
Net rental income	8,403	8,243
Safe deposit box rentals	57,087	57,407
Net insurance income ( <i>Note</i> )	20,995	13,297
Other banking services income	79,602	71,868
Others	5,607	14,248
	<u>184,461</u>	<u>173,506</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 12. OTHER OPERATING INCOME (Continued)

Note: Details of net insurance income are as follows:

	2019 HK\$'000	2018 HK\$'000
Gross insurance premium income	39,378	40,240
Reinsurers' share of gross insurance premium income	(11,893)	(11,543)
	27,485	28,697
Decrease (increase) in gross outstanding claims	13,092	(2,964)
Gross claim paid	(15,352)	(21,688)
	(2,260)	(24,652)
(Decrease) increase in recoverable from reinsurance of outstanding claims	(8,488)	4,419
Reinsurance claims recoveries	609	1,849
	(7,879)	6,268
Net insurance commission income	3,649	2,984
Net insurance income	20,995	13,297

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 13. OPERATING EXPENSES

	2019 HK\$'000	2018 HK\$'000
Auditor's remuneration		
– Audit services – current year	7,299	7,070
– Audit services – under provision in prior year	–	250
– Non-audit services	1,100	3,128
Total auditor's remuneration	8,399	10,448
Staff costs (including directors' emoluments)		
– Salaries and other costs	966,910	930,807
– Retirement benefits scheme contributions	51,027	49,944
– Capitalised to intangible assets	(50,424)	(43,450)
Total staff costs	967,513	937,301
Depreciation		
– Property and equipment	71,670	78,929
– Right-of-use assets	173,869	–
– Capitalised to intangible assets	–	(4,164)
– Government grants (Note)	(1,535)	–
	244,004	74,765
Amortisation of intangible assets	4,044	3,561
Release of prepaid lease payments for land	–	66
Premises and equipment expenses, excluding depreciation and release of prepaid lease payments for land		
– Rentals and rates for premises	7,105	166,304
– Expenses relating to short-term leases	23,609	–
– Expenses relating to leases of low-value assets	556	–
– Capitalised to intangible assets	(2,898)	(3,623)
	28,372	162,681
– Others	14,180	36,071
Other operating expenses	370,367	325,516
– Capitalised to intangible assets	(1,516)	(1,569)
	368,851	323,947
	<b>1,635,363</b>	<b>1,548,840</b>

Included in the premises and equipment expenses are minimum lease payments classified as operating lease under HKAS17 of HK\$ nil (2018: HK\$157,829,000).

Note: Government grants were received by the Group from the Government of the People's Republic of China for the office rental in Shenzhen. There are no unfulfilled conditions or contingencies relating to these grants.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 14. NET IMPAIRMENT LOSSES ON FINANCIAL ASSETS

	2019 HK\$'000	2018 HK\$'000
Loans and advances to customers	96,830	174,601
Investments in securities	34,254	15,222
Loan commitments and financial guarantee	1,953	(20,387)
Short-term funds and placement with banks	4,844	8,818
	<b>137,881</b>	<b>178,254</b>

### 15. TAXATION

	2019 HK\$'000	2018 HK\$'000
The tax charge comprises:		
Hong Kong Profits Tax		
– Current year	242,310	245,689
– Under (over) provision in prior years	23,216	(24,111)
Overseas taxation		
– Current year	70,713	69,205
– (Over) under provision in prior years	(377)	237
<i>Deferred tax (Note 34)</i>		
– Current year	44,873	15,915
– Under provision in prior years	–	37,893
	<b>380,735</b>	<b>344,828</b>

Hong Kong Profits Tax is calculated at 16.5% (2018 : 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 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:

	2019 HK\$'000	2018 HK\$'000
Profit before taxation	2,281,377	2,105,215
Tax at the domestic income tax rate of 16.5% (2018: 16.5%)	376,427	347,360
Tax effect of share of profits of associates	(6,137)	(3,239)
Tax effect of expenses not deductible for tax purpose	41,980	37,601
Tax effect of income not taxable for tax purpose	(45,948)	(36,771)
Under provision in prior years	22,839	14,019
Effect of different tax rates of subsidiaries and branches operating in other jurisdictions	14,426	6,518
Others	(22,852)	(20,660)
Tax charge for the year	380,735	344,828

Included in the "Others" is mainly the tax effect on deductibility of additional tier 1 capital distribution of HK\$153,015,000 (2018: HK\$152,845,000).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 16. DIVIDENDS

	2019 HK\$'000	2018 HK\$'000
Dividends recognised as distribution to ordinary shareholders during the year:		
2019 Interim – HK\$0.17 (2018: Interim – HK\$0.17) per share	165,329	165,329
2018 Final – HK\$0.41 (2017: Final – HK\$0.39) per share	398,736	254,475
	<b>564,065</b>	<b>419,804</b>

The final dividend of HK\$0.41 per share, totalling HK\$398,736,000, in respect of the current financial year (2018: HK\$0.41 per share, totalling HK\$398,736,000) 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 22 August 2019, the Board declared a total amount of interim dividend of HK\$165,329,000 (2018: HK\$165,329,000) at a rate of HK\$0.17 (2018: HK\$0.17) per share. The interim dividend was paid on 3 October 2019.

### 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\$1,900,642,000 (2018: HK\$1,760,387,000) with deduction of distribution payment for additional equity instruments of HK\$153,015,000 (2018: HK\$152,845,000) on 972,526,000 (2018: 751,457,000) weighted average ordinary shares in issue during the year, calculated as follows:

#### WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES

	2019 Number of shares (thousands)	2018 Number of shares (thousands)
Issued ordinary shares at 1st January	972,526	653,807
Effect of shares issued under General Mandate ( <i>Note 32 (i)</i> )	–	25,076
Effect of shares issued under Rights Issue ( <i>Note 32 (ii)</i> )	–	72,574
Weighted average number of ordinary shares at 31st December	<b>972,526</b>	<b>751,457</b>

As at 31 December 2019 and 31 December 2018, there was no potential dilutive instrument in issue.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 18. CASH AND SHORT-TERM FUNDS

	2019 HK\$'000	2018 HK\$'000
Cash and balances with central bank and banks	5,703,209	5,295,825
Money at call and short notice	14,701,296	20,886,577
	<b>20,404,505</b>	<b>26,182,402</b>

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\$724,351,000 (2018: HK\$348,578,000).

### 19. DERIVATIVE FINANCIAL INSTRUMENTS

	2019			2018		
	Notional amount HK\$'000	Fair value		Notional amount HK\$'000	Fair value	
		Assets HK\$'000	Liabilities HK\$'000		Assets HK\$'000	Liabilities HK\$'000
Derivatives held for trading						
– Foreign currency forward contracts	186,312,939	606,575	603,091	260,404,113	517,316	535,554
– Foreign currency options	3,264,209	25,849	25,845	344,608	887	887
– Interest rate swaps	43,402,994	42,573	41,694	15,389,236	23,730	25,136
– Futures	358,179	36	26	–	–	–
Derivatives designated as hedging instruments						
– Interest rate swaps	35,920,843	30,897	1,232,295	31,200,783	354,207	312,040
		<b>705,930</b>	<b>1,902,951</b>		<b>896,140</b>	<b>873,617</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 19. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

As at 31 December 2019 and 31 December 2018, all foreign currency forward contracts have settlement dates within three years (2018: two years) from the end of the reporting period.

The remaining maturity of interest rate swaps held for trading is within 9 years (2018: 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:

	2019			2018		
	Notional amount	Replacement cost	Credit risk-weighted amount	Notional amount	Replacement cost	Credit risk-weighted amount
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Exchange rate contracts	189,577,148	632,424	1,043,312	260,748,721	518,203	1,039,483
Interest rate contracts	79,682,016	73,506	127,712	46,590,019	377,937	201,718
		<u>705,930</u>	<u>1,171,024</u>		<u>896,140</u>	<u>1,241,201</u>

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 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 debt securities with carrying amount of HK\$31,648,912,000 (2018: HK\$25,761,758,000) as at 31 December 2019. 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 2 months to 9 years (2018: 3 months to 10 years).

During the years ended 31 December 2019 and 31 December 2018, the above fair value hedges were effective in hedging the fair value exposures to interest rate movements and as a result, both the gains in fair value of the bonds of HK\$1,145,420,000 (2018: losses of HK\$195,934,000) and losses in fair value of the interest rate swaps of HK\$1,143,778,000 (2018: gains of HK\$197,902,000) 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 (2018: 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\$93,477,000 (2018: decrease in fair value of HK\$50,438,000) and gains in fair value of the interest rate swap of HK\$94,562,000 (2018: gains of HK\$50,626,000) were included in the consolidated income statement.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 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
<b>2019</b>				
Equity securities:				
Listed in Hong Kong	193	47,074	–	47,267
Listed overseas	–	2,662	–	2,662
	193	49,736	–	49,929
Unlisted	–	39,884	–	39,884
	193	89,620	–	89,813
Debt Securities:				
Certificates of deposits – unlisted	–	597,021	–	597,021
Other debt securities – unlisted	140,494	56,226,632	480,633	56,847,759
	140,494	56,823,653	480,633	57,444,780
Total:				
Listed in Hong Kong	193	47,074	–	47,267
Listed overseas	–	2,662	–	2,662
Unlisted	140,494	56,863,537	480,633	57,484,664
	140,687	56,913,273	480,633	57,534,593
As analysed by issuing entities:				
Central governments and central banks	140,494	20,945,295	459,265	21,545,054
Banks and other financial institutions	–	16,109,168	19,368	16,128,536
Corporate entities	193	19,858,810	2,000	19,861,003
	140,687	56,913,273	480,633	57,534,593

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 20. INVESTMENTS IN SECURITIES (Continued)

	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
<b>2018</b>				
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 and other financial institutions	–	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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 20. INVESTMENTS IN SECURITIES (Continued)

#### 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 2019		Instruments disposed during the year ended 31 December 2019		
	Fair value HK\$000	Dividend recognised HK\$000	Fair value	Cumulative	Dividend
			on date of disposal HK\$000	gains on disposal HK\$000	recognised HK\$000
Type of equity instrument					
– business facilitation	39,607	6,097	–	–	–
– other	50,013	6,670	9,724	113	69
At 31 December 2019	89,620	12,767	9,724	113	69

	Instruments held as at 31 December 2018		Instruments disposed during the year ended 31 December 2018		
	Fair value HK\$000	Dividend recognised HK\$000	Fair value	Cumulative	Dividend
			on date of disposal HK\$000	gains on disposal HK\$000	recognised 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 21. TRANSFER OF FINANCIAL ASSETS

The following were the Group's debt securities classified as FVOCI as at 31 December 2019 and 31 December 2018 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 measured at fair value in the consolidated statement of financial position.

	2019 HK\$'000	2018 HK\$'000
Financial assets measured at FVOCI		
Carrying amount of transferred assets	4,467,402	7,165,740
Carrying amount of associated liabilities (Note 28)	4,253,852	6,571,696

### 22. ADVANCES AND OTHER ACCOUNTS

	2019 HK\$'000	2018 HK\$'000
Advances to customers		
Bills receivable	618,617	753,851
Trade bills	2,490,856	2,361,920
Other advances to customers	114,969,441	98,709,456
	118,078,914	101,825,227
Interest receivable	1,052,563	895,015
Impairment allowances		
– Stage 1	(382,053)	(379,031)
– Stage 2	(43,710)	(12,382)
– Stage 3	(193,597)	(154,435)
	(619,360)	(545,848)
	118,512,117	102,174,394
Advances to banks	837,275	334,895
Others	6,633,404	4,299,182
	125,982,796	106,808,471

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 22. ADVANCES AND OTHER ACCOUNTS (Continued)

Included in the "Others" is initial and variation margin of HK\$1,885,643,000 (2018: HK\$456,206,000) deposited in banks for certain interest rate swaps, foreign currency forward contracts and repurchase agreements and an amount of approximately HK\$4,055,287,000 (2018: HK\$3,330,321,000) placed as reserve funds with banks in the Mainland by the Mainland branches. Among which, HK\$3,421,728,000 (2018: HK\$2,756,418,000) are the mandatory reserve deposits placed with the People's Bank of China which are not available for the Group's daily operation; HK\$633,559,000 (2018: HK\$573,903,000) 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\$692,474,000 (2018: HK\$512,655,000) 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\$318,653,000 (2018: HK\$194,144,000).

Details of the impaired loans are as follows:

	2019 HK\$'000	2018 HK\$'000
Gross impaired loans	397,601	353,230
Less: Impairment allowances under Stage 3	(193,597)	(154,435)
Net impaired loans	204,004	198,795
Gross impaired loans as a percentage of gross advances to customers	0.34%	0.35%
Market value of collateral pledged	256,491	267,720

Details of the non-performing loans are as follows:

	2019 HK\$'000	2018 HK\$'000
Gross non-performing loans (Note)	395,458	354,859
Less: Impairment allowances under Stage 3	(193,558)	(154,435)
Net non-performing loans	201,900	200,424
Gross non-performing loans as a percentage of gross advances to customers	0.33%	0.35%
Market value of collateral pledged	241,548	254,310

Note: Non-performing loans represent advances which are either classified as "substandard", "doubtful" or "loss" under the Group's classification of loan quality.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 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
Chong Hing Insurance Brokers Limited (Note)	Hong Kong, limited liability company	HK\$ 4,000,000	100%	Insurance broking 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.

*Note:* Chong Hing Insurance Brokers Limited ("CHIB") was incorporated on 17 September 2019 to conduct insurance broking business. As at 31 December 2019, the insurance broker licence of CHIB was under application process.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 24. INTERESTS IN ASSOCIATES

	2019 HK\$'000	2018 HK\$'000
Share of post-acquisition profits and other comprehensive income net of dividends received	<b>377,244</b>	347,320

The directors consider the Group have significant influence over these entities.

As at 31 December 2019 and 2018, the Group had interests in the following associates:

	Place of incorporation and operation	Class of share held	Ownership interest	Proportion of voting power <i>(Note)</i>	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

*Note:* The Group is able to exercise significant influence over all of these entities because it has the power to appoint one out of six to one out of eight directors of these companies.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 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:

	2019 HK\$'000	2018 HK\$'000
Other comprehensive income	18,233	(22,275)
Profit after tax	37,191	19,628
Total comprehensive income	55,424	(2,647)

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.

In 2018, a Share Sale Agreement (the "Agreement") to sell the Group's stake in HKLI to First Origin International Limited (the "Purchaser") was terminated as certain conditions were not satisfied. 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, net of expenses, was recognised as other non-operating income. The Group continued 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 25. INVESTMENT PROPERTIES

	2019 HK\$'000	2018 HK\$'000
At 1 January	311,942	298,765
Transfer from land and buildings	–	5,400
Net (decrease) increase in fair value recognised in the profit or loss	(4,431)	10,250
Exchange adjustments	(901)	(2,473)
At 31 December	306,610	311,942

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 2019 by adopting the direct comparison approach (2018: direct comparison approach) and with reference to the recent transactions for similar premises by Vigers Appraisal and Consulting Limited (2018: 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\$3,430 to HK\$49,000 (2018: HK\$3,520 to HK\$50,280) 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 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 2019 and 31 December 2018. There were no transfers into or out of Level 3 during the year.

The carrying amount of investment properties of the Group comprises:

	2019 HK\$'000	2018 HK\$'000
Leasehold properties		
Held in Hong Kong on long-term lease (over 50 years unexpired)	163,100	167,500
Held in Hong Kong on medium-term lease (10 – 50 years unexpired)	94,300	96,600
Held outside Hong Kong on medium-term lease (10 – 50 years unexpired)	49,210	47,842
	<u>306,610</u>	<u>311,942</u>

### LEASING ARRANGEMENTS

The Group leases out investment property under operating leases. Lease payments are usually increased after the end of current leases to reflect market rentals. None of the leases includes variable lease payments.

Undiscounted minimum lease payments receivable on leases of properties are as follows:

	2019 HK\$'000
Within 1 year	8,177
After 1 year but within 2 years	5,022
After 2 years but within 3 years	486
After 3 years but within 4 years	–
After 4 years but within 5 years	–
After 5 years	–
	<u>13,685</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 26. PROPERTY AND EQUIPMENT

	Leasehold land HK\$'000	Buildings HK\$'000	Right-of- use assets HK\$'000	Equipment HK\$'000	Total HK\$'000
<b>COST</b>					
<b>At 1 January 2019</b>	345,225	112,493	–	826,902	1,284,620
Impact on initial application of HKFRS16	–	–	181,690	–	181,690
Restated balance at 1 January 2019	345,225	112,493	181,690	826,902	1,466,310
Additions	–	–	588,562	82,898	671,460
Disposals	–	–	–	(12,106)	(12,106)
Transfer to investment properties	–	–	–	–	–
Exchange adjustments	–	(78)	(2)	(3,447)	(3,527)
<b>At 31 December 2019</b>	345,225	112,415	770,250	894,247	2,122,137
<b>ACCUMULATED DEPRECIATION</b>					
<b>At 1 January 2019</b>	91,088	35,848	–	636,354	763,290
Depreciation	7,829	2,763	173,869	61,078	245,539
Eliminated on disposals	–	–	–	(9,005)	(9,005)
Transfer to investment properties	–	–	–	–	–
Exchange adjustments	–	(16)	(1)	(1,921)	(1,938)
<b>At 31 December 2019</b>	98,917	38,595	173,868	686,506	997,886
<b>CARRYING AMOUNTS</b>					
<b>At 31 December 2019</b>	246,308	73,820	596,382	207,741	1,124,251
<b>At 1 January 2019</b>	254,137	76,645	–	190,548	521,330

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 26. PROPERTY AND EQUIPMENT (Continued)

	Leasehold land HK\$'000	Buildings HK\$'000	Right-of- use assets HK\$'000	Equipment HK\$'000	Total HK\$'000
<b>COST</b>					
<b>At 1 January 2018</b>	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)
<b>At 31 December 2018</b>	<u>345,225</u>	<u>112,493</u>	<u>–</u>	<u>826,902</u>	<u>1,284,620</u>
<b>ACCUMULATED DEPRECIATION</b>					
<b>At 1 January 2018</b>	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 properties	(18)	–	–	–	(18)
Exchange adjustments	–	90	–	(4,961)	(4,871)
<b>At 31 December 2018</b>	<u>91,088</u>	<u>35,848</u>	<u>–</u>	<u>636,354</u>	<u>763,290</u>
<b>CARRYING AMOUNTS</b>					
<b>At 31 December 2018</b>	<u>254,137</u>	<u>76,645</u>	<u>–</u>	<u>190,548</u>	<u>521,330</u>
<b>At 1 January 2018</b>	<u>261,978</u>	<u>80,230</u>	<u>–</u>	<u>248,538</u>	<u>590,746</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 26. PROPERTY AND EQUIPMENT *(Continued)*

The carrying amounts of leasehold land shown above comprise:

	2019 HK\$'000	2018 HK\$'000
Leasehold land in Hong Kong:		
Held on long-term lease (over 50 years unexpired)	28,292	28,588
Held on medium-term lease (10 – 50 years unexpired)	217,213	224,717
Leasehold land outside Hong Kong:		
Held on medium-term lease (10 – 50 years unexpired)	803	832
	<b>246,308</b>	<b>254,137</b>

The carrying amounts of buildings shown above comprise:

	2019 HK\$'000	2018 HK\$'000
Building		
Held in Hong Kong on long-term lease (over 50 years unexpired)	4,996	5,238
Held in Hong Kong on medium-term lease (10-50 years unexpired)	63,363	65,737
Held outside Hong Kong on medium-term lease (10-50 years unexpired)	5,461	5,670
	<b>73,820</b>	<b>76,645</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 27. PREPAID LEASE PAYMENTS FOR LAND

The Group's prepaid lease payments for land comprise:

	2019 HK\$'000	2018 HK\$'000
<b>COST</b>		
Outside Hong Kong held on:		
Leases of between 10-50 years	–	2,850
Net book value at 1 January	2,073	2,134
Reclassified to right-of-use assets upon adoption of HKFRS 16	(2,073)	–
Release of prepaid operating lease payments	–	(66)
Exchange adjustments	–	5
Net book value at 31 December	–	2,073
Analysed as:		
Current portion	–	66
Non-current portion	–	2,007
Total	–	2,073

### 28. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	2019 HK\$'000	2018 HK\$'000
Analysed by collateral type:		
Debt securities classified as FVOCI ( <i>Note 21</i> )	4,253,852	6,571,696

As at 31 December 2019, debt securities which are classified as FVOCI with carrying amount of HK\$4,467,402,000 (2018: HK\$7,165,740,000) were sold under repurchase agreements with other banks. All repurchase agreements are due within 12 months from the end of the reporting period.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 29. DEPOSITS FROM CUSTOMERS

	2019 HK\$'000	2018 HK\$'000
Demand deposits and current accounts	12,162,143	11,605,357
Savings deposits	42,599,569	37,250,772
Time, call and notice deposits	107,902,936	94,834,165
	<b>162,664,648</b>	<b>143,690,294</b>

### 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\$3,749,075,000 as at 31 December 2019 (2018: HK\$2,688,386,000). Certificates of deposit bear contractual interest rates between 2.05% to 3.00% (2018: 2.40% to 3.40%) per annum and will mature within 1 year (2018: 2 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\$ nil as at 31 December 2019 (31 December 2018: HK\$1,707,923,000). The debt securities were redeemed at maturity in May 2019.

#### ANALYSIS OF CHANGES IN FINANCING CASH FLOWS OF DEBT SECURITIES ISSUED DURING THE YEAR

	2019 HK\$'000	2018 HK\$'000
<b>At 1 January</b>	<b>1,707,923</b>	<b>1,796,069</b>
<b>Changes from financing cash flows:</b>		
Interest paid on debt securities issued	(62,103)	(66,791)
Redemption of debt securities issued	(1,708,650)	–
	<b>(62,830)</b>	<b>1,729,278</b>
<b>Exchange adjustments</b>	–	(90,000)
<b>Other changes</b>		
Interest expense	25,249	66,666
Other non-cash movements ( <i>Note</i> )	37,581	1,979
Total other changes	<b>62,830</b>	<b>68,645</b>
<b>At 31 December</b>	<b>–</b>	<b>1,707,923</b>

*Note:* Included in "other non-cash movements" mainly represents changes in interest payable.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 31. LOAN CAPITAL

	2019 HK\$'000	2018 HK\$'000
Subordinated notes, at amortised cost with fair value hedge adjustments		
US\$204 million fixed rate subordinated note due 2020 ( <i>Notes (a) &amp; (c)</i> )	1,588,843	1,592,297
US\$383 million fixed rate subordinated note due 2027 ( <i>Notes (b) &amp; (c)</i> )	2,991,069	2,914,850
	<b>4,579,912</b>	<b>4,507,147</b>

*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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 31. LOAN CAPITAL (Continued)

#### ANALYSIS OF CHANGES IN FINANCING CASH FLOWS OF LOAN CAPITAL DURING THE YEAR

	2019 HK\$'000	2018 HK\$'000
<b>At 1 January</b>	<b>4,507,147</b>	<b>4,541,380</b>
<b>Changes from financing cash flows:</b>		
Interest paid on loan capital	(210,804)	(221,697)
	<b>4,296,343</b>	<b>4,319,683</b>
<b>Exchange adjustments</b>	<b>(26,678)</b>	<b>10,192</b>
<b>Fair value hedge adjustments</b>	<b>93,477</b>	<b>(50,438)</b>
<b>Other changes</b>		
Interest expense	230,391	218,193
Other non-cash movements	(13,621)	9,517
Total other changes	<b>216,770</b>	<b>227,710</b>
<b>At 31 December</b>	<b>4,579,912</b>	<b>4,507,147</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 32. SHARE CAPITAL

	2019		2018	
	Number of shares (thousands)	Share capital HK\$'000	Number of shares (thousands)	Share capital HK\$'000
<b>Ordinary shares, issued and fully paid:</b>				
At 1 January	972,526	9,977,060	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	<u>972,526</u>	<u>9,977,060</u>	<u>972,526</u>	<u>9,977,060</u>

*Notes:*

- (i) 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) 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) The related expenses incurred for the shares issued under General Mandate and Rights issue in 2018 amounted to HK\$22,415,000 and were deducted against the gross proceeds from shares issued.

33. ADDITIONAL EQUITY INSTRUMENTS

	2019 HK\$'000	2018 HK\$'000
Additional Tier 1 Capital Securities		
US\$300 million undated non-cumulative subordinated capital securities (Note (a))	–	2,312,030
US\$400 million undated non-cumulative subordinated capital securities (Note (b))	3,111,315	–
	<b>3,111,315</b>	<b>2,312,030</b>

Notes:

- (a) 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.

During the year, a distribution of US\$19,500,000 (2018: US\$19,500,000) (equivalent to HK\$153,015,000 (2018: HK\$152,845,000)) was paid to the securities holders.

The Bank has completed the redemption of the Additional Tier 1 Capital Securities in full on 25 September 2019. Upon completion of the redemption, the Additional Tier 1 Capital Securities have been cancelled.

- (b) On 15 July 2019, the Bank issued undated non-cumulative subordinated Additional Tier 1 Capital Securities with a face value of US\$400 million (equivalent to HK\$3,115,315,000 net of related issuance costs). The Additional Tier 1 Capital Securities are undated and bear a 5.70% coupon until the first call date on 15 July 2024. 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 3.858% 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 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:

	2019 HK\$'000	2018 HK\$'000
Deferred tax assets	28,767	19,907
Deferred tax liabilities	(145,247)	(19,171)
	<b>(116,480)</b>	<b>736</b>

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 HK\$'000	Investment properties HK\$'000	Revaluation of FVOCI securities HK\$'000	Remeasurement of retirement benefits HK\$'000	Total HK\$'000
<b>At 1 January 2019</b>	(52,141)	61,454	(18,550)	14,397	(4,424)	736
(Charge) credit to income statement for the year (Note 15)	(67,246)	22,277	96	-	-	(44,873)
Charge to other comprehensive income for the year	-	-	-	(72,655)	-	(72,655)
Exchange adjustments	-	-	312	-	-	312
<b>At 31 December 2019</b>	<b>(119,387)</b>	<b>83,731</b>	<b>(18,142)</b>	<b>(58,258)</b>	<b>(4,424)</b>	<b>(116,480)</b>
<b>At 1 January 2018</b>	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
<b>At 31 December 2018</b>	<b>(52,141)</b>	<b>61,454</b>	<b>(18,550)</b>	<b>14,397</b>	<b>(4,424)</b>	<b>736</b>

**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\$965,532,000 (2018: HK\$749,201,000) 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 36. INTANGIBLE ASSETS

	Club Membership HK\$'000	Goodwill HK\$'000	Software HK\$'000	Internally developed software HK\$'000	Total HK\$'000
<b>COST</b>					
At 1 January 2019	14,090	110,606	12,009	491,926	628,631
Addition	–	–	3,959	–	3,959
Transfer	–	–	–	–	–
Addition through internal development	–	–	–	227,663	227,663
Exchange adjustment	–	–	(1,270)	(111)	(1,381)
At 31 December 2019	<u>14,090</u>	<u>110,606</u>	<u>14,698</u>	<u>719,478</u>	<u>858,872</u>
<b>ACCUMULATED AMORTISATION</b>					
At 1 January 2019	–	–	1,016	2,414	3,430
Charge for the year	–	–	834	3,210	4,044
Exchange adjustment	–	–	79	2,030	2,109
At 31 December 2019	<u>–</u>	<u>–</u>	<u>1,929</u>	<u>7,654</u>	<u>9,583</u>
<b>ACCUMULATED IMPAIRMENT</b>					
At 1 January and 31 December 2019	<u>–</u>	<u>71,000</u>	<u>–</u>	<u>–</u>	<u>71,000</u>
<b>NET BOOK VALUE</b>					
At 31 December 2019	<u>14,090</u>	<u>39,606</u>	<u>12,769</u>	<u>711,824</u>	<u>778,289</u>
<b>COST</b>					
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	<u>14,090</u>	<u>110,606</u>	<u>12,009</u>	<u>491,926</u>	<u>628,631</u>
<b>ACCUMULATED AMORTISATION</b>					
At 1 January 2018	–	–	–	–	–
Charge for the year	–	–	1,078	2,483	3,561
Exchange adjustment	–	–	(62)	(69)	(131)
At 31 December 2018	<u>–</u>	<u>–</u>	<u>1,016</u>	<u>2,414</u>	<u>3,430</u>
<b>ACCUMULATED IMPAIRMENT</b>					
At 1 January and 31 December 2018	<u>–</u>	<u>71,000</u>	<u>–</u>	<u>–</u>	<u>71,000</u>
<b>NET BOOK VALUE</b>					
At 31 December 2018	<u>14,090</u>	<u>39,606</u>	<u>10,993</u>	<u>489,512</u>	<u>554,201</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 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 2019, 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 2019 was estimated by applying market approach based on a price-to-book ratio of 1 (2018: 1).

The management of the Group determines no impairment loss on the goodwill for the year ended 31 December 2019 (2018: nil).

During the year, there was an addition of HK\$227,663,000 to internally developed software, which is a computer software currently under internal development. Included in the balance as at 31 December 2019, HK\$193,727,000 (2018: HK\$138,889,000) is capitalised from expenditures that directly attributable to the development of the software.

### 37. OTHER ACCOUNTS AND ACCRUALS

	2019 HK\$'000	2018 HK\$'000
Accrued interest	1,489,064	946,699
Lease liabilities	528,967	–
Others	1,154,656	1,171,786
	<b>3,172,687</b>	<b>2,118,485</b>

#### TOTAL CASH OUTFLOW FOR LEASES

Amounts included in the consolidated cash flow statement and consolidated income statement for leases comprise the following:

	2019 HK\$'000
Payment of lease liabilities	209,297
Expenses relating to short-term leases	23,609
Expenses relating to leases of low-value assets	556
	<b>233,462</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 38. CONTINGENT LIABILITIES AND COMMITMENTS

	2019 HK\$'000	2018 HK\$'000
<b>Contingent liabilities and commitments – contractual amounts</b>		
Direct credit substitutes	469,730	592,606
Trade-related contingencies	6,231,424	4,528,485
Forward asset purchases	54,650	86,125
<b>Undrawn formal standby facilities, credit lines and other commitments</b>		
Which are unconditionally cancellable without prior notice	29,560,421	22,860,607
With an original maturity of one year and under	3,469,420	3,011,346
With an original maturity of over one year	6,427,993	6,235,699
<b>Lease commitments</b>	1,812	201,269
	<b>46,215,450</b>	<b>37,516,137</b>

The credit risk-weighted amount of contingent liabilities and commitments is HK\$4,727,613,000 (2018: HK\$4,441,022,000).

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% (2018: 0% to 100%) which is assessed in accordance with the Banking (Capital) Rules.

Direct credit substitutes include financial guarantees given by the Group.

The Group is the lessee in respect of a number of properties held under leases which were previously classified as operating leases under HKAS 17. The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases. From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the consolidated statement of financial position in accordance with the policies set out in note 4.

Most of the contingent liabilities and commitments are denominated in Hong Kong dollars.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 38. 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:

	2019 HK\$'000	2018 HK\$'000
Within one year	1,789	91,364
In the second to fifth years, inclusive	23	109,905
	<u>1,812</u>	<u>201,269</u>

Operating lease payments represent short-term and low-value lease payable by the Group for certain of its office properties.

Capital commitments outstanding at the end of the reporting period are as follows:

	2019 HK\$'000	2018 HK\$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of property and equipment	<u>54,650</u>	<u>86,125</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 39. RETIREMENT BENEFITS SCHEME

At the beginning 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 trustees of the ORSO Scheme have resolved to terminate the ORSO Scheme on 20 March 2019. The ORSO Scheme has ceased operations and on the same date transferred all assets to Chong Hing Bank Limited – New Staff Retirement Benefits Scheme (the "New Scheme") on 30 August 2019 with a new trustee appointed. The New Scheme mirrors the benefit provisions of the ORSO Scheme.

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.

	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)
	<u>323</u>
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	<u>5,647</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 39. RETIREMENT BENEFITS SCHEME (Continued)

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
	<u>27,696</u>

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	<u>17,682</u>

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	<u>45,378</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 39. RETIREMENT BENEFITS SCHEME (Continued)

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
	<u>45,378</u>

The fair values of the equity instruments are determined based on quoted market prices in active markets.

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	<u>14,661</u>

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.

**39. RETIREMENT BENEFITS SCHEME** *(Continued)*

**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

The table below indicates the potential effect of change of the significant assumptions on the defined benefit obligation:

	2017	
	Change in assumption	
	+0.25% HK\$'000	-0.25% HK\$'000
Discount rate	(401)	420
Expected rate of salary increase	51	(50)

	Age +1 year HK\$'000	Age -1 year 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 39. RETIREMENT BENEFITS SCHEME (Continued)

#### PRICE RISK (Continued)

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 in every three years become available.

### 40. 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	
	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000
Ultimate holding company	13	131	23,052	22,561
Intermediate holding company	13,620	13,626	6,674	2,159
Fellow subsidiaries	48,174	35,348	107,185	82,979
Associates	59,856	71,577	29,338	14,876
Key management personnel (Note)	701	1,080	3,212	3,402

During the year, the Group had net trading income with intermediate holding company and fellow subsidiary of HK\$8,293,000 (2018: HK\$42,373,000).

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	
	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000
Ultimate holding company	–	–	1,462,124	1,047,143
Intermediate holding company	200,000	498,887	329,086	742,263
Fellow subsidiaries	1,299,499	1,308,537	5,604,266	2,824,204
Associates	–	–	190,033	234,260
Key management personnel (Note)	43,490	59,118	257,189	238,139

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.

Certain comparative figures have been restated to conform to the current year's presentation.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 40. RELATED PARTY TRANSACTIONS *(Continued)*

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.

As at 31 December 2019, the Group held financial assets at FVOCI issued by fellow subsidiaries of HK\$78,598,000 (31 December 2018: HK\$ nil).

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:

	2019 HK\$'000	2018 HK\$'000
Short-term benefits	178,092	180,014
Post employment benefits	10,558	10,415
	<b>188,650</b>	<b>190,429</b>

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 2019, the Group accrued a bonus for the Group's senior management and employees. The accrued bonus was approved by the Remuneration Committee on 21 February 2020. 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 41. 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:

- I comply with the capital requirements under the Banking (Capital) Rules of the Hong Kong Banking Ordinance; and
- I 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 42. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE BANK

	2019 HK\$'000	2018 HK\$'000
<b>Assets</b>		
Cash and short-term funds	20,396,725	26,158,476
Placements with banks maturing between one to twelve months	5,525,049	7,945,726
Derivative financial instruments	705,930	896,140
Investments in securities	57,459,375	46,928,487
Advances and other accounts	125,614,505	106,562,798
Investments in subsidiaries	250,984	250,984
Amounts due from subsidiaries	205,518	212,363
Interests in associates	20,000	20,000
Investment properties	257,400	264,100
Property and equipment	935,241	377,790
Prepaid lease payments for land	–	2,073
Deferred tax assets	28,767	19,907
Intangible assets	738,683	460,406
<b>Total assets</b>	<b>212,138,177</b>	<b>190,099,250</b>
<b>Liabilities</b>		
Deposits and balances of banks	6,949,921	5,615,953
Financial assets sold under repurchase agreements	4,253,852	6,571,696
Deposits from customers	162,743,941	143,768,023
Amounts due to subsidiaries	574,970	518,801
Derivative financial instruments	1,902,951	873,617
Other accounts and accruals	2,804,531	1,858,552
Current tax liabilities	479,326	242,406
Certificates of deposit	3,749,075	2,688,386
Debt securities issued	–	1,707,923
Loan capital	4,579,912	4,507,147
Deferred tax liabilities	127,305	–
<b>Total liabilities</b>	<b>188,165,784</b>	<b>168,352,504</b>
<b>Equity attributable to owners of the Bank</b>		
Share capital	9,977,060	9,977,060
Additional equity instruments	3,111,315	2,312,030
Reserves (Note (a))	10,884,018	9,457,656
<b>Total equity</b>	<b>23,972,393</b>	<b>21,746,746</b>
<b>Total liabilities and equity</b>	<b>212,138,177</b>	<b>190,099,250</b>

Approved and authorised for issue by the Board of Directors on 27 February 2020 and signed on its behalf by:

Zhang Zhaoxing  
Chairman

Zong Jianxin  
Executive Director, Deputy Chairman and Chief Executive

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 42. 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
<b>THE BANK</b>							
<b>At 1 January 2019</b>	(8,527)	179,633	1,378,500	(116,728)	912,000	7,112,778	9,457,656
Profit for the year	–	–	–	–	–	1,826,085	1,826,085
Exchange differences arising on translation	–	–	–	(56,867)	–	–	(56,867)
Surplus on transfer of land and buildings to investment properties	–	–	–	–	–	–	–
Net gains (losses) on investments in equity instruments measured at FVOCI	1,125	–	–	–	–	–	1,125
Net gains (losses) on investments in debt instruments measured at FVOCI	527,209	–	–	–	–	–	527,209
Amount reclassified to the profit or loss upon disposal of FVOCI debt securities	(40,899)	–	–	–	–	–	(40,899)
Income tax effect relating to disposal of financial assets measured at FVOCI	6,748	–	–	–	–	–	6,748
Income tax effect relating to fair value change of financial assets measured at FVOCI	(78,785)	–	–	–	–	–	(78,785)
Other comprehensive income	415,398	–	–	(56,867)	–	–	358,531
Total comprehensive income for the year	415,398	–	–	(56,867)	–	1,826,085	2,184,616
Redemption of additional equity instruments	–	–	–	–	–	(41,174)	(41,174)
Distribution payment for additional equity instruments	–	–	–	–	–	(153,015)	(153,015)
Unclaimed dividend forfeited	–	–	–	–	–	–	–
Interim dividend paid	–	–	–	–	–	(165,329)	(165,329)
Final dividend paid	–	–	–	–	–	(398,736)	(398,736)
Earmark of retained profits as regulatory reserve	–	–	–	–	127,000	(127,000)	–
<b>At 31 December 2019</b>	<b>406,871</b>	<b>179,633</b>	<b>1,378,500</b>	<b>(173,595)</b>	<b>1,039,000</b>	<b>8,053,609</b>	<b>10,884,018</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 42. 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
<b>THE BANK</b>							
<b>At 1 January 2018</b>	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
Redemption of additional equity instruments	-	-	-	-	-	-	-
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)	-
<b>At 31 December 2018</b>	<b>(8,527)</b>	<b>179,633</b>	<b>1,378,500</b>	<b>(116,728)</b>	<b>912,000</b>	<b>7,112,778</b>	<b>9,457,656</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 42. 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 2019 comprised retained profits of HK\$7,876,893,000 (2018: HK\$6,863,185,000) and general reserve of HK\$1,378,500,000 (2018: 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 investments that have been recognised in other comprehensive income, net of amounts reclassified to the income statement when those FVOCI 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.

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 43. 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

	2019						
	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
<b>Executive Directors and Chief Executive</b>							
Leung Ko May Yee Margaret (Note 1)	-	-	-	-	-	-	-
Zong Jianxin (Note 2)	180	10,266	3,128	-	-	701	14,275
Lau Wai Man	180	5,364	1,352	-	-	536	7,432
<b>Total Executive Directors' and Chief Executive's emoluments</b>	<b>360</b>	<b>15,630</b>	<b>4,480</b>	<b>-</b>	<b>-</b>	<b>1,237</b>	<b>21,707</b>
<b>Non-executive Directors</b>							
Zhang Zhaoxing	490	-	-	-	-	-	490
Chow Cheuk Yu Alfred	510	-	-	-	-	-	510
Li Feng	440	-	-	-	-	-	440
Wang Shuhui (Note 3)	-	-	-	-	-	-	-
Zhu Chunxiu (Note 4)	-	-	-	-	-	-	-
Chen Jing (Note 5)	420	-	-	-	-	-	420
<b>Total Non-executive Directors' emoluments</b>	<b>1,860</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,860</b>
<b>Independent Non-executive Directors</b>							
Cheng Yuk Wo	610	-	-	-	-	-	610
Lee Ka Lun	620	-	-	-	-	-	620
Ma Chiu Cheung Andrew	570	-	-	-	-	-	570
Yu Lup Fat Joseph	600	-	-	-	-	-	600
<b>Total Independent Non-executive Directors' emoluments</b>	<b>2,400</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,400</b>
<b>Total</b>	<b>4,620</b>	<b>15,630</b>	<b>4,480</b>	<b>-</b>	<b>-</b>	<b>1,237</b>	<b>25,967</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 43. 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)

	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
<b>Executive Directors and Chief Executive</b>							
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
<b>Total Executive Directors' and Chief Executive's emoluments</b>	<b>428</b>	<b>24,569</b>	<b>6,630</b>	<b>-</b>	<b>-</b>	<b>1,438</b>	<b>33,065</b>
<b>Non-executive Directors</b>							
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
<b>Total Non-executive Directors' emoluments</b>	<b>2,031</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,031</b>
<b>Independent Non-executive Directors</b>							
Cheng Yuk Wo	610	-	-	-	-	-	610
Lee Ka Lun	620	-	-	-	-	-	620
Ma Chiu Cheung Andrew	570	-	-	-	-	-	570
Yu Lup Fat Joseph	600	-	-	-	-	-	600
<b>Total Independent Non-executive Directors' emoluments</b>	<b>2,400</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,400</b>
<b>Total</b>	<b>4,859</b>	<b>24,569</b>	<b>6,630</b>	<b>-</b>	<b>-</b>	<b>1,438</b>	<b>37,496</b>

### 43. 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, Deputy Chairman, Managing 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, Deputy Chairman 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. For the year ended 31 December 2019, no directors have waived any emoluments (2018: Nil).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 43. 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)***

*(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 HK\$'000	at December 31 HK\$'000	HK\$'000
2019	4,089	2,483	4,600
2018	3,560	4,089	6,132

The loans bear interest at rates ranging from 0% to prime rate plus 10%. Included in the loans to officers are loans of HK\$2,449,000 (2018: HK\$4,037,000) secured by collateral. The collateral consists mainly of properties, securities and fixed deposits.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

### 43. 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 2019 included two (2018: three) directors whose emoluments are set out in note 43(A) above. The emoluments of the remaining three (2018: two) highest paid individuals are as follows:

	2019 HK\$'M	2018 HK\$'M
Salary and other emoluments	13.0	10.1
Contributions to pension scheme	0.5	0.3
Discretionary bonuses	4.7	4.2
	<u>18.2</u>	<u>14.6</u>

Their emoluments are within the following bands:

HK\$	2019 Number of individuals	2018 Number of individuals
4,000,001 - 4,500,000	1	–
6,000,001 - 6,500,000	1	–
6,500,001 - 7,000,000	–	1
7,000,001 - 7,500,000	1	–
7,500,001 - 8,000,000	–	1

### 44. IMMEDIATE AND ULTIMATE HOLDING COMPANIES

As at 31 December 2019 and 31 December 2018, 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.

### 45. NON-ADJUSTING EVENT AFTER THE REPORTING PERIOD

The emergence and spread of coronavirus disease in early January 2020 has affected business and economic activity in Mainland China and beyond. The Group will closely monitor the evolving coronavirus situation yet an estimate of its financial effect cannot be made at this stage.

# UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2019

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.

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2019

### 3. CAPITAL ADEQUACY RATIOS, LEVERAGE RATIO AND LIQUIDITY RATIOS

	2019 %	2018 %
Total capital ratio	17.51	19.01
Tier 1 capital ratio	14.32	15.19
Common Equity Tier 1 ("CET 1") capital ratio	12.28	13.44

	31 December 2019 %	31 December 2018 %
Capital buffers (as a percentage of risk-weighted assets)		
Capital conservation buffer ratio	2.000	1.875
Countercyclical capital buffer ratio	1.411	1.368
	3.411	3.243

	2019 %	2018 %
Leverage ratio	9.90	10.03

	2019 %	2018 %
Average liquidity maintenance ratio for the year	46.27	44.49

**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: <http://www.chbank.com/en/personal/footer/about-ch-bank/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.

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2019

### 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 2019 and 2018 in respect of industry sectors which constitute not less than 10 per cent of gross advances to customers are analysed as follows:

	2019		
	Advances overdue for over three months as at 31 December HK\$'000	New impairment allowances during the year HK\$'000	Advances written-off during the year HK\$'000
Loans for use outside Hong Kong	163,176	36,731	2,849

	2018		
	Advances overdue for over three months as at 31 December HK\$'000	New impairment allowances during the year HK\$'000	Advances written-off during the year HK\$'000
Loans for use outside Hong Kong	164,907	119,792	142,563

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2019

### 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:

	2019				
	Total advances HK\$'000	Advances overdue for over three months HK\$'000	Impaired advances HK\$'000	Stage 3 impairment allowance HK\$'000	Stage 1 & stage 2 impairment allowance HK\$'000
Hong Kong	88,014,170	126,495	295,836	92,913	208,908
Mainland China	26,252,199	100,656	100,656	100,656	209,057
Macau	3,286,487	–	1,109	28	3,788
Others	526,058	–	–	–	4,010
	<u>118,078,914</u>	<u>227,151</u>	<u>397,601</u>	<u>193,597</u>	<u>425,763</u>

	2018				
	Total advances HK\$'000	Advances overdue for over three months HK\$'000	Impaired advances HK\$'000	Individual impairment allowance HK\$'000	Collective impairment allowance 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	–	–	–	–
	<u>101,825,227</u>	<u>197,187</u>	<u>353,230</u>	<u>154,435</u>	<u>391,413</u>

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2019

### 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 2019				
	Non-bank private sector				Total HK\$'000
	Banks HK\$'000	Official sector HK\$'000	Non-bank financial institutions HK\$'000	Non-financial private sector HK\$'000	
Offshore centres	2,294,072	9,564	11,328,006	18,848,959	32,480,601
of which					
– Hong Kong	2,126,197	9,124	8,269,598	9,742,703	20,147,622
Developing Asia-Pacific	7,395,527	39,356	18,678,570	7,036,910	33,150,363
of which					
– Mainland China	5,863,883	39,190	18,678,570	7,027,151	31,608,794
Developed countries	7,508,201	18,146	164,722	6,071,107	13,762,176

	At 31 December 2018				
	Non-bank private sector				Total HK\$'000
	Banks HK\$'000	Official sector HK\$'000	Non-bank financial institutions HK\$'000	Non-financial private sector 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

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2019

### 9. CURRENCY RISK

The Group's foreign currency exposures arising from trading, non-trading and structural position which constitute 10% or more of the total net position in all foreign currencies are as follows:

	2019		
	US\$	RMB	Total
Equivalent in thousand of HK\$			
Spot assets	64,243,593	46,798,123	111,041,716
Spot liabilities	(43,131,770)	(49,542,008)	(92,673,778)
Forward purchases	75,909,117	13,973,283	89,882,400
Forward sales	(96,320,126)	(10,396,881)	(106,717,007)
Net long position	<u>700,814</u>	<u>832,517</u>	<u>1,533,331</u>

	US\$	MOP	RMB	Total
Net structural position	<u>221,623</u>	<u>48,544</u>	<u>3,019,680</u>	<u>3,289,847</u>

	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	<u>3,738,924</u>	<u>552,697</u>	<u>4,291,621</u>

	US\$	MOP	RMB	Total
Net structural position	<u>—</u>	<u>48,544</u>	<u>2,164,290</u>	<u>2,212,834</u>

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2019

### 10. OVERDUE AND RESCHEDULED ASSETS

	2019	
	Gross amount of advances HK\$'000	Percentage to total advances %
Advances overdue for		
– 6 months or less but over 3 months	3,321	0.0
– 1 year or less but over 6 months	36,800	0.0
– Over 1 year	187,030	0.2
Total overdue advances	<u>227,151</u>	<u>0.2</u>
Rescheduled advances	<u>1,724</u>	<u>0.0</u>
Stage 3 impairment allowances made in respect of overdue loans and advances	<u>184,962</u>	

	2018	
	Gross amount of advances HK\$'000	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	<u>197,187</u>	<u>0.1</u>
Rescheduled advances	<u>124,443</u>	<u>0.1</u>
Stage 3 impairment allowances made in respect of overdue loans and advances	<u>139,619</u>	

**10. OVERDUE AND RESCHEDULED ASSETS** *(Continued)*

The value of the security of the above overdue advances is analysed as follows:

	2019 HK\$'000	2018 HK\$'000
Covered portion of overdue loans and advances	43,827	23,668
Uncovered portion of overdue loans and advances	183,324	173,519
	<b>227,151</b>	197,187
Market value of collateral held against covered portion of overdue loans and advances	<b>58,386</b>	38,097

Collateral held with respect to overdue loans and advances are mainly properties.

There were no advances to banks or other assets which were overdue for over three months as at 31 December 2019 and 31 December 2018, nor were there any rescheduled advances to banks and other financial institutions.

Repossession assets held by the Group as at 31 December 2019 amounted to HK\$nil (2018: HK\$9,500,000).

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2019

### 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 2019		
	On-balance sheet exposure HK\$'000	Off-balance sheet exposure HK\$'000	Total HK\$'000
<b>Type by counterparties</b>			
1. Central government, central government-owned entities and their subsidiaries and joint ventures	33,890,529	3,949,208	37,839,737
2. Local government, local government-owned entities and their subsidiaries and JVs	9,140,391	1,046,015	10,186,406
3. Mainland China nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	25,543,579	8,138,139	33,681,718
4. Other entities of central government not reported in item 1 above	5,235,277	2,869,489	8,104,766
5. Other entities of local government not reported in item 2 above	794,375	277,569	1,071,944
6. Mainland China nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	11,587,871	1,153,059	12,740,930
7. Other counterparties where the exposures are considered by the reporting institution to be nonbank Mainland China exposures	5,962,112	1,267,062	7,229,174
<b>Total</b>	<b>92,154,134</b>	<b>18,700,541</b>	<b>110,854,675</b>
<b>Total assets after provision (Note)</b>	<b>212,039,042</b>		
<b>On-balance sheet exposures as percentage of total assets (Note)</b>	<b>43.46%</b>		

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2019

### 11. MAINLAND ACTIVITIES EXPOSURES *(Continued)*

	31 December 2018		Total HK\$'000
	On-balance sheet exposure HK\$'000	Off-balance sheet exposure HK\$'000	
<b>Type by counterparties</b>			
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
<b>Total</b>	<b>71,124,238</b>	<b>17,669,260</b>	<b>88,793,498</b>
<b>Total assets after provision <i>(Note)</i></b>	<b>189,347,701</b>		
<b>On-balance sheet exposures as percentage of total assets <i>(Note)</i></b>	<b>37.56%</b>		

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.

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2019

### 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	
	2019 HK\$'000	2018 HK\$'000
Sovereign exposures	323	76
Public sector entity exposures	13,422	17,309
Bank exposures	745,207	957,303
Securities firm exposures	60,914	30,967
Corporate exposures	8,766,535	7,181,189
Collective investment scheme exposures	–	–
Cash items	64,059	57,481
Regulatory retail exposures	14,172	16,723
Residential mortgage loans	391,721	417,278
Other exposures which are not past due exposures	771,172	573,059
Past due exposures	4,990	19,342
<b>Total capital charge for on-balance sheet exposures</b>	<b>10,832,515</b>	<b>9,270,727</b>
Direct credit substitutes	27,477	36,151
Trade-related contingencies	43,138	28,916
Forward asset purchases	4,372	6,890
Other commitments	303,222	283,325
Exchange rate contracts	83,465	83,159
Interest rate contracts	8,108	15,224
Securities financing transaction	13,940	12,328
<b>Total capital charge for off-balance sheet exposures</b>	<b>483,722</b>	<b>465,993</b>
Total capital charge for securitisation exposures	350	–
Total central counterparty default risk exposures	2,109	914
Total capital charge for credit valuation adjustment	37,637	51,196
<b>Total capital charge for credit risk</b>	<b>11,356,333</b>	<b>9,788,830</b>

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2019

### 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\$3,944,938,000 as at 31 December 2019 (2018: HK\$2,812,442,000). There are no other market risk exposures as at that date.

	Capital charge	
	2019 HK\$'000	2018 HK\$'000 (Restated)
Interest rate risk exposures	69,045	102,037
Foreign exchange exposures (including gold and options)	315,590	224,995
Capital charge for market risk	<u>384,635</u>	<u>327,032</u>

The Group uses the standardised (market risk) approach for calculating market risk.

#### (III) CAPITAL CHARGE FOR OPERATIONAL RISK

	Capital charge	
	2019 HK\$'000	2018 HK\$'000
Capital charge for operational risk	<u>521,528</u>	<u>455,367</u>

The Group uses the basic indicator approach for calculating operational risk.

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2019

### 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.

	2019								
	Class of credit risk exposures							Total exposures covered by recognised collateral	Total exposures covered by recognised guarantees
	Total exposures	Exposures after recognised credit risk mitigation			Risk-weighted amounts				
HK\$'000	Rated HK\$'000	Unrated HK\$'000	Total HK\$'000	Rated HK\$'000	Unrated HK\$'000	Total HK\$'000	HK\$'000	HK\$'000	
<b>A. On-balance Sheet</b>									
1. Sovereign	26,051,387	26,051,387	—	26,051,387	4,039	—	4,039	—	—
2. Public sector entity	312,460	—	838,845	838,845	—	167,769	167,769	—	—
3. Bank	32,295,962	25,904,644	6,440,377	32,345,021	7,180,060	2,135,022	9,315,082	—	—
4. Securities firm	1,526,463	56,144	1,466,716	1,522,860	28,072	733,358	761,430	3,603	—
5. Corporate	124,954,561	30,661,942	87,437,909	118,099,851	22,145,062	87,436,627	109,581,689	6,810,778	547,257
6. Collective Investment Scheme	—	—	—	—	—	—	—	—	—
7. Cash items	817,639	—	8,298,305	8,298,305	—	800,734	800,734	—	—
8. Regulatory retail	247,570	—	236,208	236,208	—	177,156	177,156	11,363	—
9. Residential mortgage loan	12,860,733	—	12,294,089	12,294,089	—	4,896,510	4,896,510	40,258	526,385
10. Other exposures which are not past due exposures	9,940,581	1,401,136	7,919,654	9,320,790	1,401,137	8,238,507	9,639,644	617,228	—
11. Past due exposures	53,211	—	53,211	53,211	—	62,371	62,371	30,949	605
<b>B. Off-balance Sheet</b>									
Direct credit substitutes	469,730	14,956	454,774	469,730	7,478	335,989	343,467	113,324	14,646
Trade-related contingencies	1,246,285	31,146	1,215,139	1,246,285	15,573	523,648	539,221	3,460,723	—
Forward asset purchases	54,650	—	54,650	54,650	—	54,650	54,650	—	—
Undrawn formal standby facilities credit lines and other commitments:	3,907,881	172,121	3,735,760	3,907,881	96,037	3,694,238	3,790,275	72	368,854
Which are unconditionally cancellable without prior notice	—	—	—	—	—	—	—	72	68,854
With an original maturity of one year and under	693,884	2,168	691,716	693,884	1,084	650,195	651,279	—	—
With an original maturity of over one year	3,213,997	169,953	3,044,044	3,213,997	94,953	3,044,043	3,138,996	—	300,000
1. Off-balance sheet exposures other than OTC derivative transactions or credit derivative contracts	5,678,546	218,223	5,460,323	5,678,546	119,088	4,608,525	4,727,613	3,574,119	383,500
Exchange rate contracts	3,019,165	2,878,297	140,868	3,019,165	902,833	140,479	1,043,312	—	—
Interest rate contracts	212,584	207,517	5,067	212,584	96,651	4,698	101,349	—	—
2. OTC derivative transactions	3,231,749	3,085,814	145,935	3,231,749	999,484	145,177	1,144,661	—	—
3. Securities financing transactions	5,266,484	679,151	4,587,333	5,266,484	90,916	83,339	174,255	5,011,790	—
	<u>223,237,346</u>	<u>88,058,441</u>	<u>135,178,905</u>	<u>223,237,346</u>	<u>31,967,858</u>	<u>109,485,095</u>	<u>141,452,953</u>	<u>16,100,088</u>	<u>1,457,747</u>
<b>C. Securitisation Exposures</b>	26,818	2,350	24,468	26,818	705	3,670	4,375	—	—
<b>D. Credit Valuation Adjustment</b>	3,231,749	—	3,231,749	3,231,749	—	470,463	470,463	—	—
<b>E. Central Counterparties (CCP)</b>									
- Default Risk Exposures	1,318,162	1,109,487	208,675	1,318,162	22,190	4,174	26,364	—	—

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2019

### 13. RISK MANAGEMENT (Continued)

#### (I) CREDIT RISK (Continued)

##### (a) Credit risk exposures (Continued)

	2018								
	Class of credit risk exposures							Total exposures covered by recognised collateral	Total exposures covered by recognised guarantees
	Total exposures	Exposures after recognised credit risk mitigation	Risk-weighted amounts				Total		
			Rated	Unrated	Total	Rated		Unrated	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
<b>A. On-balance Sheet</b>									
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>B. Off-balance Sheet</b>									
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	-
	<u>205,230,123</u>	<u>89,191,961</u>	<u>116,038,164</u>	<u>205,230,125</u>	<u>30,649,229</u>	<u>91,059,733</u>	<u>121,708,962</u>	<u>16,854,317</u>	<u>2,063,228</u>
<b>C. Securitisation Exposures</b>									
	-	-	-	-	-	-	-	-	-
<b>D. Credit Valuation Adjustment</b>									
	<u>3,856,130</u>	-	<u>3,856,130</u>	<u>3,856,130</u>	-	<u>639,950</u>	<u>639,950</u>	-	-
<b>E. Central Counterparties (CCP)</b>									
- Default Risk Exposures	<u>571,145</u>	<u>292,134</u>	<u>279,011</u>	<u>571,145</u>	<u>5,843</u>	<u>5,580</u>	<u>11,423</u>	-	-

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2019

### 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\$160,344,185,000 (2018: HK\$167,644,626,000) and HK\$1,918,649,000 (2018: HK\$1,041,522,000) 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 mainly reputable banks 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 2019 and 31 December 2018.

	OTC derivative transactions	
	2019 HK\$'000	2018 HK\$'000
OTC derivative		
Gross total positive fair value	705,930	896,137
Credit equivalent amounts	4,549,172	4,427,276
Risk-weighted amounts	1,170,656	1,241,201

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2019

### 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	
	2019 HK\$'000	2018 HK\$'000
Notional amounts:		
– Banks	181,056,003	264,132,116
– Corporates	87,374,262	43,036,274
– Public Sector	35,716	92,475
– Other	435,004	77,875
	<b>268,900,985</b>	<b>307,338,740</b>
Credit equivalent amounts:		
– Banks	3,728,626	3,596,475
– Corporates	814,071	827,133
– Public Sector	968	2,741
– Other	5,507	927
	<b>4,549,172</b>	<b>4,427,276</b>
Risk-weighted amounts:		
– Banks	695,334	842,764
– Corporates	469,621	396,962
– Public Sector	194	548
– Other	5,507	927
	<b>1,170,656</b>	<b>1,241,201</b>

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2019

### 13. RISK MANAGEMENT *(Continued)*

#### (I) CREDIT RISK *(Continued)*

##### *(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.

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

Total risk-weighted amount as at 31 December 2019 is HK\$4,375,000 (2018: Nil).

13. RISK MANAGEMENT (Continued)

(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), the accounting policy of which is set out in note 4 to the consolidated financial statements.

	2019 HK\$'000	2018 HK\$'000
Net realised gains from sales	–	–
Net unrealised revaluation gains:		
– Amount included in investments in securities measured at FVOCI	7,649	1,135
– Amount included in disclosed reserves	6,564	1,144

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2019

### 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:

Name of company	Principal activities	Total assets		Total equity	
		2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000
Chong Hing (Nominees) Limited	Provision of nominee services	100	100	100	100
Chong Hing Securities Limited	Stockbroking	740,570	545,871	491,115	443,443
Chong Hing Commodities and Futures Limited	Investment holding and commodities and futures broking	70,160	70,908	66,954	64,405
Chong Hing Insurance Company Limited	Insurance underwriting	427,661	378,307	276,560	262,974
Chong Hing Insurance Brokers Limited	Insurance broking	4,000	–	3,890	–
Chong Hing (Management) Limited	Provision of management services	98	105	85	92

# HEAD OFFICE, BRANCHES, SUB-BRANCHES, REPRESENTATIVE OFFICE, PRINCIPAL SUBSIDIARIES AND ASSOCIATES

as of 27 February 2020

		<b>Telephone</b>
<b>HONG KONG MAIN BRANCH</b>	Chong Hing Bank Centre 24 Des Voeux Road Central	3768 1111
<b>HONG KONG ISLAND BRANCHES</b>		
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
<b>KOWLOON BRANCHES</b>		
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 6387
Lei Yue Mun	Shop 123, 1/F, Domain, 38 Ko Chiu Road, Yau Tong	3768 6530
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

## HEAD OFFICE, BRANCHES, SUB-BRANCHES, REPRESENTATIVE OFFICE, PRINCIPAL SUBSIDIARIES AND ASSOCIATES

as of 27 February 2020

		<b>Telephone</b>
<b>NEW TERRITORIES BRANCHES</b>		
Cheung Fat Estate	Shop No. 206A, 2/F, Cheung Fat Plaza Cheung Fat Estate, Tsing Yi	3768 6560
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
Sheung Tak Estate	Shop No. 237, TKO Spot, 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
<b>GUANGZHOU BRANCH</b>		
Guangzhou	50/F, Yuexiu Financial Tower, No. 28 Zhujiang East Road Tianhe District, Guangzhou, Guangdong, China	(86-20) 2213 7988
<b>SHENZHEN BRANCH</b>		
Shenzhen	Unit 17, 18 & 19 of 1st Floor Unit 39 of 2nd Floor, Unit 703 of 7th Floor & 13th Floor, T2 Tower, Ali Center No. 3331 Keyuan South Road (Shenzhen Bay) Nanshan District, Shenzhen, China	(86-755) 3352 9099

## HEAD OFFICE, BRANCHES, SUB-BRANCHES, REPRESENTATIVE OFFICE, PRINCIPAL SUBSIDIARIES AND ASSOCIATES

as of 27 February 2020

		Telephone
<b>SHANGHAI BRANCH</b>		
Shanghai	28th Floor, Yue Xiu Tower No. 388 Fushan Road, Pudong, Shanghai, China	(86-21) 6085 3000
<b>SHANTOU BRANCH</b>		
Shantou	Lanbao International Mansion No. 103-105, Block One, Fengzezhuan No. 162 Jinsha Road, Shantou, Guangdong, China	(86-754) 8890 3224
<b>GUANGZHOU TIANHE SUB-BRANCH</b>		
Guangzhou Tianhe	Units 102-01, 201 and 301 No. 28 Zhujiang East Road, Tianhe District Guangzhou, Guangdong, China	(86-20) 2213 7988
<b>GUANGDONG PILOT FREE TRADE ZONE NANSHA SUB-BRANCH</b>		
Nansha	Room 801-805, Building No. 1 No. 106 Fengze Road East, Nansha District Guangzhou, Guangdong, China	(86-20) 3226 0620
<b>FOSHAN SUB-BRANCHES</b>		
Foshan	Unit B107 & B205-2, Level 1 and Level 2, Mall 1 Yuxiu Xing Hui Yun Jin Plaza No. 84 North Nanhai Da Dao, Guicheng Jie Dao Nanhai District, Foshan, Guangdong, China	(86-757) 6352 2888
Foshan Chancheng	No. 68-70, Ground Floor, No. 33 Tongji East Road Chancheng District, Foshan, Guangdong, China	(86-757) 6352 2818
<b>GUANGDONG PILOT FREE TRADE ZONE HENGQIN SUB-BRANCH</b>		
Hengqin	Area B, Block 10, Hengqin Financial Industry Service Base, Shizimen Central Business District Hengqin New Area, Zhuhai, Guangdong, China	(86-756) 3833 039

## HEAD OFFICE, BRANCHES, SUB-BRANCHES, REPRESENTATIVE OFFICE, PRINCIPAL SUBSIDIARIES AND ASSOCIATES

as of 27 February 2020

### Telephone

#### MACAU BRANCH

Macau	No. 693, Avenida da Praia Grande Edifício Tai Wah, R/C, Macau	(853) 2833 9982
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#### 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 Brokers 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

