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2018 FINAL RESULTS

RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

HIGHLIGHTS

- Operating profit after impairment allowances amounted to HK\$1,959 million, an increase of 99% year-on-year.
- Profit before tax was 23% higher than 2017 to HK\$2,105 million.
- Profit attributable to equity owners amounted to HK\$1,760 million, an increase of 12% over that of last year.
- Cost to income ratio was at 42.02%.
- Return on shareholders' equity of 9.47% (9.89% in 2017) and earnings per share of HK\$2.14 (HK\$2.16 per share in 2017).
- Total assets increased by 16% to HK\$190.6 billion.
- Total dividends for the financial year of 2018, including the interim cash dividend of HK\$0.17 per share paid in October 2018, amounted to HK\$0.58 per share (2017 total dividends: HK\$0.54 per share).
- Total dividend payout as a percentage of an adjusted profit attributable to equity owners less the distribution paid on the additional equity instruments will be 39.08%.
- Total capital ratio increased from 17.60% in December 2017 to 19.01% in December 2018, the Tier 1 capital ratio was at 15.19% and the Common Equity Tier 1 capital ratio was at 13.44%.

The board of directors (the “Board”) of Chong Hing Bank Limited (the “Bank” or “Chong Hing Bank”) is pleased to announce the consolidated results of the Bank and its subsidiaries (the “Group”) for the year ended 31 December 2018, together with the comparative figures for the corresponding year in 2017. The financial information in this announcement is based on the audited consolidated financial statements of the Group and does not constitute the Group’s statutory accounts for the year ended 31 December 2018. The 2018 final results have been reviewed by the Audit Committee of the Bank.

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CHAIRMAN'S STATEMENT

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

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

The major financial ratios for 2018 are as follows:

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

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

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

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

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

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

Zhang Zhaoxing
Chairman

Hong Kong, 28 February 2019

CHIEF EXECUTIVE'S STATEMENT

ECONOMIC ENVIRONMENT

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

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

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

Key Financial Data

	31 December (12 months)		Variance (Note (3))
	2018 HK\$'000	2017 HK\$'000	
13. Return on shareholders' equity (Note (1))	9.47%	9.89%	-0.42pp
14. Earnings per share (Note (2))	HK\$2.14	HK\$2.16 (Restated)	-0.93%
15. Net interest margin	1.73%	1.52%	+0.21pp
16. Cost to income ratio	42.02%	49.96%	-7.94pp
17. Average liquidity maintenance ratio	44.49%	40.73%	+3.76pp
	As of 31 December 2018 HK\$'000	As of 31 December 2017 HK\$'000	Variance
18. Impaired loan ratio	0.35%	0.46%	-0.11pp
19. Non-performing loan ratio	0.35%	0.56%	-0.21pp
20. Loan to deposit ratio	67.95%	70.85%	-2.90pp
21. Net assets value per share (excluding additional equity instruments and before the final dividend)	HK\$20.80	HK\$23.18	-10.27%
22. Total capital ratio	19.01%	17.60%	+1.41pp
23. Tier 1 capital ratio	15.19%	13.30%	+1.89pp
24. Common Equity Tier 1 capital ratio	13.44%	11.30%	+2.14pp

Notes:

- (1) Return on shareholders' equity took into consideration the distribution paid on the additional equity instruments relevant for the period.
- (2) Earnings per share was calculated after deducting the distribution paid on the additional equity instruments in the relevant year and the earnings per share for the year ended 31 December 2017 has been restated to take into account the placement of shares and rights issue of the Bank completed in the third quarter of 2018.
- (3) pp means percentage point.

ANALYSIS OF KEY FINANCIAL DATA

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

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

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

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

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

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

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

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

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

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

DIVIDEND

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

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

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

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

BUSINESS REVIEW

Corporate Banking

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

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

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

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

Personal Banking

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

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

- Total deposits of personal banking grew by 14% and the number of affluent customers with assets exceeding HK\$1 million rose by 32% as compared with 2017. Our loan business maintained stable growth, with loan quality staying at a healthy level.
- Investment business saw strong momentum in the first half of the year, but was impacted by a downturn in market sentiment during the latter half. Despite market uncertainties, the Bank remained active in developing its business and implemented a series of measures to improve customer experience. In addition to launching a new online/mobile banking fund trading platform, enhancing foreign exchange trading channels, and increasing the number of wealth management products, the Bank has introduced high-end medical insurance plans and optimised life insurance services. As a result, commission income from wealth management and life insurance products sales rose by 28% year-on-year, continuing the double-digit growth for the third year.
- In respect of the credit card business, the Bank has launched a number of targeted promotions and rewards programmes to attract new customers and push up the credit card use rate. The Bank will continue to provide mobile payment services corresponding to market needs in order to increase the transaction convenience for customers and merchants. Credit card commission income saw strong 126% growth year-on-year, attributed to the efforts devoted to improving merchant services.

Financial Markets Business

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

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

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

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

Mainland Operations

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

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

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

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

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

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

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

Chong Hing Securities Limited

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

Chong Hing Insurance Company Limited

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

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

Transformation of Business Development

Fintech

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

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

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

Process Banking

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

- Setting up an “Outstanding Service Award Scheme” in recognition of employees whose customer service is of high and consistent standard, and whose goal is to exceed customers’ expectations.
- Successfully reducing operating cost through the “Cost Reduction Plan” and the “Green Office Plan”.
- Establishing a Centralised Transaction Services Department to focus on transactions and business in line with the Bank’s goal of “freeing up frontline production capacity and improving operational efficiency”. The Bank’s services for new commercial customers, such as “new account opening in five days” and “bank confirmation issuance in three days”, were leading the industry, and customers can make an appointment for opening an account through the Bank’s website.

70TH ANNIVERSARY

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

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

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

- The successful publication of monograph “Exceed Excel – 70th Anniversary of Chong Hing Bank” (《不斷超越，更加優秀－創興銀行邁向七十周年》), which reviewed the development of Chong Hing Bank over 70 years.
- For publicity purposes, the Bank conducted interviews with a number of senior employees and long-term clients and published a series of articles entitled “Celebrating Success With You” (有您，最值得慶祝), in which they shared their stories with Chong Hing Bank. In addition, the Bank launched its 70th anniversary corporate advertising campaign in Hong Kong and Mainland China to enhance the corporate brand image of Chong Hing Bank.
- Sponsorship of secondary students’ visit to the Jockey Club Life Journey Centre, organising an Elderly Visiting Day with the Senior Citizen Home Safety Association, and supporting the Child Development Fund Scheme organised by the Labour and Welfare Bureau.
- The Ocean Park Fun Day of Chong Hing Bank, attended by about 3,000 people, including employees of the Bank, their families and customers.

CORPORATE RESPONSIBILITY

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

Community and Art Events

- In March, the Bank participated in the “Earth Hour 2018” environmental protection activity.
- In September, the Bank engaged in the “‘Battling Against 16 Degrees’: 1000 People Paper Fan Origami Moving Showroom” held by South China Media; sponsored and participated in the “Parent-child Marshmallow Cupcake Class” held by the Hong Kong Federation of the Blind; and sponsored “Fine Art Asia and Ink Asia 2018”, a fair showcasing a wide range of collectable fine art from Asia and the West.
- In October, the Bank sponsored secondary school students to visit the Jockey Club Life Journey Centre and send their blessings and wishes to the elderly.
- In December, the Bank organised 70 volunteers to join the “Sending Peace” visits held by the Senior Citizen Home Safety Association.

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

Achievements under Corporate Responsibility

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

- The 10 Years Plus “Caring Company” logo awarded by the Hong Kong Council of Social Service.
- The “Raffle Ticket Selling Competition – First Runner Up in Commercial and Industrial Institutes and Groups Category” title and the “Raffle Tickets Selling Award” presented by the Tung Wah Group of Hospitals.
- The “Environmental, Society and Governance Award 2018” presented by Economic Digest.
- The “Platinum Award” won for the third consecutive year for its compliance with the “Charter on External Lighting” organised by the Environment Bureau of the HKSAR.
- The Certification of CO₂ Reduction in Paper Recycling awarded by Integrated Waste Solutions Group, recognising the enthusiasm of the Bank in reducing paper consumption and promoting waste reduction at source.
- “The Employer of Choice Award 2018” presented by JobMarket.
- The “2018 Listed Companies Distinguished Award” presented by the TVB Finance & Information Channel.

CORPORATE GOVERNANCE

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

For details of the Bank’s corporate governance practices, please refer to the section entitled “Corporate Governance Report” of the Bank’s 2018 Annual Report.

AWARDS

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

- The “Best SME’s Partner Award” from the Hong Kong General Chamber of Small and Medium Business for the tenth time, and was also awarded the “Best SME’s Partner Gold Award 2018” during the year.
- Three customer service staff received the 50th “Distinguished Salesperson Award” jointly organised by the Hong Kong Management Association and the Sales and Marketing Executives Club.

- The “Straight Through Processing (STP) Award” of the Australian dollar and New Zealand dollar from Australia and New Zealand Banking Group Limited, won for the first time, for its straight through processing operation ranked in the Best 10 percent among the 950 banking partners of Australia and New Zealand Banking Group Limited.
- The “Straight Through Processing (STP) Award” of the US dollar from the Bank of New York Mellon for the tenth consecutive year.
- Two “Straight Through Processing (STP) Awards” from Citibank, including US dollar wholesale payment services and commercial payment services.

FUTURE DEVELOPMENT

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

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

APPRECIATION

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

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

Zong Jianxin
Chief Executive

Hong Kong, 28 February 2019

CONSOLIDATED INCOME STATEMENT*for the year ended 31 December 2018*

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i> (Restated)	Variance %
Interest income	5,102,578	3,800,391	+34.26
Interest expense	(2,222,616)	(1,483,263)	+49.85
Net interest income	2,879,962	2,317,128	+24.29
Fee and commission income	505,548	424,545	+19.08
Fee and commission expenses	(121,054)	(97,074)	+24.70
Net fee and commission income	384,494	327,471	+17.41
Net income (loss) from trading and investments	248,155	(93,938)	+364.17
Other operating income	173,506	158,895	+9.20
Operating expenses	(1,548,840)	(1,353,633)	+14.42
Operating profit before impairment allowances	2,137,277	1,355,923	+57.63
Net impairment losses on financial assets	(178,254)	(372,510)	-52.15
Operating profit after impairment allowances	1,959,023	983,413	+99.21
Net gains on disposal of assets held for sale	–	2,878	-100.00
Net (losses) gains on disposal of property and equipment	(341)	654,619	-100.05
Net gains on disposal of and fair value adjustments on investment properties	10,250	12,632	-18.86
Other non-operating income	116,655	–	–
Share of profits of associates	19,628	55,723	-64.78
Profit before taxation	2,105,215	1,709,265	+23.16
Taxation	(344,828)	(144,398)	+138.80
Profit for the year	1,760,387	1,564,867	+12.49
– Attributable to equity owners of the Bank	1,760,387	1,564,867	+12.49
Earnings per share – basic and diluted	HK\$2.14	HK\$2.16	-0.93

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME*for the year ended 31 December 2018*

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
at 31 December 2018

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>	Variance %
Assets			
Cash and short-term funds	26,182,402	25,164,641	+4.04
Placements with banks maturing between one to twelve months	7,945,726	6,359,004	+24.95
Derivative financial instruments	896,140	556,793	+60.95
Investments in securities	46,986,126	39,153,501	+20.00
Advances and other accounts	106,808,471	90,949,787	+17.44
Interests in associates	347,320	301,337	+15.26
Investment properties	311,942	298,765	+4.41
Property and equipment	521,330	590,746	-11.75
Prepaid lease payments for land	2,073	2,134	-2.86
Deferred tax assets	19,907	–	–
Intangible assets	554,201	370,406	+49.62
Total assets	190,575,638	163,747,114	+16.38
Liabilities			
Deposits and balances of banks	5,615,953	3,051,932	+84.01
Financial assets sold under repurchase agreements	6,571,696	12,002,989	-45.25
Deposits from customers	143,690,294	118,758,674	+20.99
Derivative financial instruments	873,617	882,279	-0.98
Other accounts and accruals	2,118,485	1,577,588	+34.29
Current tax liabilities	240,637	434,818	-44.66
Certificates of deposit	2,688,386	3,217,451	-16.44
Debt securities issued	1,707,923	1,796,069	-4.91
Loan capital	4,507,147	4,541,380	-0.75
Deferred tax liabilities	19,171	50,136	-61.76
Total liabilities	168,033,309	146,313,316	+14.84
Equity attributable to owners of the Bank			
Share capital	9,977,060	5,435,904	+83.54
Additional equity instruments	2,312,030	2,312,030	–
Reserves	10,253,239	9,685,864	+5.86
Total equity	22,542,329	17,433,798	+29.30
Total liabilities and equity	190,575,638	163,747,114	+16.38

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2018

	Share capital HK\$'000	Additional equity instruments HK\$'000	Goodwill HK\$'000	Investment revaluation reserve HK\$'000	Land and building revaluation reserve HK\$'000	General reserve HK\$'000	Translation reserve HK\$'000	Regulatory reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2018	5,435,904	2,312,030	(182)	375,317	174,247	1,388,500	66,016	816,000	6,865,966	17,433,798
Changes on initial application of HKFRS 9	-	-	-	84,549	-	-	-	(3,000)	(75,075)	6,474
Restated balance at 1 January 2018	5,435,904	2,312,030	(182)	459,866	174,247	1,388,500	66,016	813,000	6,790,891	17,440,272
Profit for the year	-	-	-	-	-	-	-	-	1,760,387	1,760,387
Other comprehensive income	-	-	-	(452,774)	5,386	-	(179,949)	-	-	(627,337)
Total comprehensive income for the year	-	-	-	(452,774)	5,386	-	(179,949)	-	1,760,387	1,133,050
Shares issued under General Mandate	999,997	-	-	-	-	-	-	-	-	999,997
Shares issued under Rights Issue	3,563,574	-	-	-	-	-	-	-	-	3,563,574
Transaction costs incurred in respect of the shares issued	(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	-	-	-	-	-	-	-	-	(165,329)	(165,329)
Final dividend paid	-	-	-	-	-	-	-	-	(254,475)	(254,475)
Earmark of retained profits as regulatory reserve	-	-	-	-	-	-	-	99,000	(99,000)	-
At 31 December 2018	<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>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2018

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

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

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS*for the year ended 31 December 2018*

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

CONSOLIDATED STATEMENT OF CASH FLOWS*for the year ended 31 December 2018*

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

FINANCIAL REVIEW

for the year ended 31 December 2018

GENERAL

The financial information relating to the years ended 31 December 2018 and 2017 included in this announcement of 2018 final results do not constitute the Group's statutory annual consolidated financial statements for those years but is extracted from those financial statements, which will be delivered to the Registrar of Companies and the HKMA. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The Bank has delivered the financial statements for the year ended 31 December 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance and will deliver the financial statements for the year ended 31 December 2018 in due course.

The auditors expressed an unqualified opinion on those financial statements in their report dated 28 February 2019. The auditor's report did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

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.

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

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

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

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

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

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

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

HKFRS 9 Financial instruments

(a) Classification and measurement of financial instruments

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

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

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

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

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

	Ref	HKAS 39 carrying amount 31 December 2017 HK\$'000	Reclassification HK\$'000	Remeasurements HK\$'000	HKFRS 9 carrying amount 1 January 2018 HK\$'000
Amortised cost					
Cash and short term funds					
Opening balance		25,164,641			
Subtraction: To FVOCI	(A)		(4,293,424)		
Subtraction: To investments in securities – amortised cost	(A)		(106,799)		
Remeasurement: Expected credit loss (“ECL”) allowance				(7,277)	
Closing balance		<u>25,164,641</u>	<u>(4,400,223)</u>	<u>(7,277)</u>	<u>20,757,141</u>
<u>Placements with banks maturing between one to twelve months</u>					
Opening balance		6,359,004			
Remeasurement: ECL allowance				(3,443)	
Closing balance		<u>6,359,004</u>	<u>–</u>	<u>(3,443)</u>	<u>6,355,561</u>
Advances and other accounts					
Opening balance		90,949,787			
Remeasurement: ECL allowance				(7,352)	
Closing balance		<u>90,949,787</u>	<u>–</u>	<u>(7,352)</u>	<u>90,942,435</u>
Amortised cost					
<u>Investments in securities</u>					
– Amortised cost					
Opening balance					
Addition: From HTM		–	21,284		
Addition: From cash and short term funds			106,799		
Addition: From loans and receivables			62,798		
Remeasurement: ECL allowance				(101)	
Closing balance		<u>–</u>	<u>190,881</u>	<u>(101)</u>	<u>190,780</u>

	Ref	HKAS 39 carrying amount 31 December 2017 HK\$'000	Reclassification HK\$'000	Remeasurements HK\$'000	HKFRS 9 carrying amount 1 January 2018 HK\$'000
<u>Investments in securities</u>					
<u>– loan and receivable</u>					
Opening balance		62,798			
Addition: From held to maturity	(C)		–		
Addition: From cash and short term funds	(A)		–		
Subtraction: To amortised cost			(62,798)		
Remeasurement: ECL allowance				–	
Closing balance		<u>62,798</u>	<u>(62,798)</u>	<u>–</u>	<u>–</u>
<u>Investments in securities – held to maturity</u>					
Opening balance		3,640,146			
Subtraction: To investments in securities – amortised cost	(C)		(21,284)		
Subtraction: To FVOCI	(A)		(3,618,862)		
Closing balance		<u>3,640,146</u>	<u>(3,640,146)</u>	<u>–</u>	<u>–</u>
Total financial assets measured at amortised cost		<u>126,176,376</u>	<u>(7,912,286)</u>	<u>(18,173)</u>	<u>118,245,917</u>
Fair value through profit or loss (FVPL)					
Investments in securities – held for trading					
Opening balance and closing balance		265	–	–	265
Derivative financial instruments					
Opening balance and closing balance		556,793	–	–	556,793
Total financial assets measured at FVPL		<u>557,058</u>	<u>–</u>	<u>–</u>	<u>557,058</u>
Fair value through other comprehensive income (FVOCI)					
<u>Investments in securities – FVOCI (debt instruments)</u>					
Opening balance		–			
Addition: From cash and short term fund	(A)		4,293,424		
Addition: From held to maturity	(A)		3,618,862	41,109	
Addition: From available for sale	(C)		35,362,459		
Closing balance		<u>–</u>	<u>43,274,745</u>	<u>41,109</u>	<u>43,315,854</u>
<u>Investments in securities – FVOCI (equity instruments)</u>					
Opening balance		–			
Addition: From available for sale	(B)		87,833		
Closing balance		<u>–</u>	<u>87,833</u>	<u>–</u>	<u>87,833</u>

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

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

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

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

(B) Designation of equity instruments at FVOCI

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

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

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

- (i) Those previously classified as available for sale and now classified as measured at FVOCI; and
- (ii) Those previously classified as held to maturity and now classified as measured at amortised cost.

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

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

	Loss allowance under HKAS 39/ Provision under HKAS 37 HK\$'000	Reclassification HK\$'000	Remeasurements HK\$'000	Loss allowance under HKFRS 9 HK\$'000
Held to maturity and Loans and receivables (HKAS 39)/Financial assets at amortised cost (HKFRS 9)				
Cash and short-term funds	-	-	7,277	7,277
Placements with banks maturing between one to twelve months	-	-	3,443	3,443
Advances and other accounts	724,032	-	7,352	731,384
Investments in securities	628	-	101	729
	<u>724,660</u>	<u>-</u>	<u>18,173</u>	<u>742,833</u>
Available for sale (HKAS 39)/Financial assets at FVOCI (HKFRS 9)				
Investments in securities	-	-	50,223	50,223
Loan commitments and financial guarantee contracts				
Provision				
- Loan commitment	-	-	9,624	9,624
- Financial guarantee	-	-	21,552	21,552
	<u>-</u>	<u>-</u>	<u>31,176</u>	<u>31,176</u>
Total	<u>724,660</u>	<u>-</u>	<u>99,572</u>	<u>824,232</u>

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

HKFRS 15 Revenue for contracts with customers

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

NEW AND REVISED HKFRSs ISSUED BUT NOT YET EFFECTIVE

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

HKFRS 16 Leases

Nature of change

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

Impact

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

Date of adoption

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

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

SEGMENT INFORMATION

(a) Operating segments

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

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

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

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

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

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

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

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

Operating segment revenues and results

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

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.

Operating segment assets and liabilities as at 31 December 2018

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

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
	<u>66</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>66</u>

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.

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

Operating segment revenues and results

	Corporate and personal banking HK\$'000	Financial markets activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Interest income from external customers	2,559,546	1,183,769	8,429	48,647	–	3,800,391
Interest expense to external customers	(1,037,122)	(254,392)	(125)	(191,624)	–	(1,483,263)
Inter-segment interest income (Note 1)	267,224	–	–	248,507	(515,731)	–
Inter-segment interest expense (Note 1)	–	(515,731)	–	–	515,731	–
Net interest income	1,789,648	413,646	8,304	105,530	–	2,317,128
Fee and commission income	278,031	271	143,456	2,787	–	424,545
Fee and commission expenses	(96,551)	(319)	(204)	–	–	(97,074)
Net income (loss) from trading and investments	6,981	12,659	2,560	(116,138)	–	(93,938)
Other operating income	147,491	543	718	10,143	–	158,895
Segment revenue						
Total operating income	2,125,600	426,800	154,834	2,322	–	2,709,556
Comprising:						
– Segment revenue from external customers	1,858,376	942,531	154,834	(246,185)		
– Inter-segment transactions	267,224	(515,731)	–	248,507		
Operating expenses (Note 2)	(1,060,024)	(97,187)	(96,576)	(62,380)	–	(1,316,167)
Net impairment losses on financial assets	(372,190)	–	–	(320)	–	(372,510)
Net gains on disposal of asset held for sale	–	–	–	2,878	–	2,878
Net (losses) gains on disposal of property and equipment	(19)	–	30,350	624,288	–	654,619
Net gains on disposal of and fair value adjustments on investment properties	–	–	–	12,632	–	12,632
Segment profit	<u>693,367</u>	<u>329,613</u>	<u>88,608</u>	<u>579,420</u>	<u>–</u>	1,691,008
Unallocated corporate expenses						(37,466)
Share of profits of associates						55,723
Profit before taxation						<u>1,709,265</u>

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.

Operating segment assets and liabilities as at 31 December 2017

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

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

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

(b) Geographical information

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

Details of geographical information are set out below:

	2018						
	Total operating income <i>HK\$'000</i>	Profit before taxation <i>HK\$'000</i>	Capital expenditure during the year <i>HK\$'000</i>	Total assets <i>HK\$'000</i>	Total liabilities <i>HK\$'000</i>	Total contingent liabilities and commitments <i>HK\$'000</i>	Non-current assets <i>HK\$'000</i>
Hong Kong	3,003,143	1,868,619	174,028	160,539,779	141,766,681	37,314,868	1,565,789
Macau and Mainland China	682,974	236,596	68,181	30,035,859	26,266,628	201,269	190,984
Total	<u>3,686,117</u>	<u>2,105,215</u>	<u>242,209</u>	<u>190,575,638</u>	<u>168,033,309</u>	<u>37,516,137</u>	<u>1,756,773</u>
	2017						
	Total operating income <i>HK\$'000</i>	Profit before taxation <i>HK\$'000</i>	Capital expenditure during the year <i>HK\$'000</i>	Total assets <i>HK\$'000</i>	Total liabilities <i>HK\$'000</i>	Total contingent liabilities and commitments <i>HK\$'000</i>	Non-current assets <i>HK\$'000</i>
Hong Kong	2,308,139	1,567,409	223,707	143,575,786	129,936,255	26,237,373	1,367,414
Macau and Mainland China	401,417	141,856	69,246	20,171,328	16,377,061	12,071,618	195,974
Total	<u>2,709,556</u>	<u>1,709,265</u>	<u>292,953</u>	<u>163,747,114</u>	<u>146,313,316</u>	<u>38,308,991</u>	<u>1,563,388</u>

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

NET INTEREST INCOME

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Interest income		
Balances and placements with central bank and banks	661,925	523,975
Investments in securities	1,218,849	977,210
Loans and advances	3,221,804	2,299,206
	<u>5,102,578</u>	<u>3,800,391</u>
Interest expense		
Deposits and balances of banks	(145,273)	(125,068)
Deposits from customers	(1,618,178)	(989,745)
Financial assets sold under repurchase agreements	(117,989)	(162,557)
Certificates of deposit	(56,317)	(20,243)
Debt securities issued	(66,666)	(63,161)
Loan capital in issue	(218,193)	(122,489)
	<u>(2,222,616)</u>	<u>(1,483,263)</u>
Net interest income	<u>2,879,962</u>	<u>2,317,128</u>
Included within interest income		
Interest income on impaired loans and advances	<u>9,452</u>	<u>1,701</u>

Included within interest income and interest expense are HK\$5,095,245,000 (2017: HK\$3,800,391,000) and HK\$2,222,616,000 (2017: HK\$1,483,263,000) earned and incurred from financial assets and financial liabilities that are not at fair value through profit or loss, respectively.

Included above is interest income from unlisted investments in debt securities of HK\$1,218,849,000 (2017: HK\$977,210,000).

NET FEE AND COMMISSION INCOME

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Fee and commission income		
Securities dealings	136,791	145,356
Loans, overdrafts and guarantees	72,963	48,282
Trade finance	16,448	16,261
Credit card services	138,773	101,567
Agency services	107,129	85,780
Others	33,444	27,299
Total fee and commission income	505,548	424,545
Less: Fee and commission expenses	(121,054)	(97,074)
Net fee and commission income	384,494	327,471
of which:		
Net fee and commission, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading nor designated at fair value through profit or loss		
– Fee income	236,888	172,967
– Fee expenses	(117,582)	(92,218)
	119,306	80,749

NET INCOME (LOSS) FROM TRADING AND INVESTMENTS

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Foreign exchange gains (losses)	224,337	(216,314)
Net gains on financial instruments at fair value through profit or loss	579	7,016
Net gains (losses) on fair value hedge:		
– Net losses on hedged items attributable to the hedged risk	(145,497)	(113,864)
– Net gains on hedging instruments	147,276	115,287
Net gains on disposal of FVOCI (2017: available-for-sale) securities		
– Debt securities	21,460	106,435
– Equity securities	<u>–</u>	<u>7,502</u>
	<u>248,155</u>	<u>(93,938)</u>

“Foreign exchange gains (losses)” includes gains and losses from spots and forward contracts, swaps and translated foreign currency assets and liabilities, which are not designated as qualifying hedging relationship.

The Group entered into foreign exchange swaps for its liquidity management and funding activities. It involves swapping a currency (“original currency”) into another currency (“swap currency”) at the spot exchange rate for short-term placement and simultaneously entering into a forward contract to convert the funds back to the original currency on maturity of the placement. The exchange difference between the spot and forward contracts as well as the corresponding interest differential between the surplus funds in the original currency and swap currency are recognised as “Foreign exchange gains (losses)”.

“Net income (loss) from trading and investments – foreign exchange” also includes certain translation gains and losses reported in accordance with Hong Kong Accounting Standard 21 “The Effects of Changes in Foreign Exchange Rates” in relation to the Group’s Mainland Operation. There were translation gains of approximately HK\$39 million (2017: losses of HK\$56 million) arising from translation of non-Renminbi net monetary assets maintained in the Mainland branches and there were translation gains of approximately HK\$22 million (2017: losses of HK\$139 million) arising from the translation of Renminbi net monetary liabilities at Head Office level in relation to the working capital provided to the Mainland branches. These translation gains from monetary items had been reported as “net income (loss) from trading and investments – foreign exchange” whereas the corresponding translation gains from the consolidation of the Mainland branches had been reported as part of exchange differences arising on translation under other comprehensive income.

No amortised cost securities was disposed during the year.

OTHER OPERATING INCOME

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Dividend income		
– Listed investments	1,994	2,092
– Unlisted investments	6,449	6,119
	8,443	8,211
Gross rents from investment properties	8,653	8,432
Less: Outgoings	(410)	17
Net rental income	8,243	8,449
Safe deposit box rentals	57,407	53,567
Net insurance income (<i>Note</i>)	13,297	14,269
Other banking services income	71,868	55,734
Gain on retirement benefit	–	323
Others	14,248	18,342
	<u>173,506</u>	<u>158,895</u>

Note: Details of net insurance income are as follows:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Gross insurance premium income	40,240	43,761
Reinsurers' share of gross insurance premium income	(11,543)	(12,838)
	28,697	30,923
Increase in gross outstanding claims	(2,964)	(12,623)
Gross claim paid	(21,688)	(16,418)
	(24,652)	(29,041)
Increase in recoverable from reinsurance of outstanding claims	4,419	7,165
Reinsurance claims recoveries	1,849	1,682
	6,268	8,847
Net insurance commission income	2,984	3,540
Net insurance income	<u>13,297</u>	<u>14,269</u>

OPERATING EXPENSES

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Auditor's remuneration		
– Audit services – current year	7,070	6,263
– Audit services – under provision in prior year	250	–
– Non-audit services	3,128	917
Total auditor's remuneration	10,448	7,180
Staff costs (including directors' emoluments)		
– Salaries and other costs	930,807	789,341
– Retirement benefits scheme contributions	49,944	48,937
– Capitalised to intangible assets	(43,450)	(34,697)
Total staff costs	937,301	803,581
Depreciation of property and equipment	78,929	84,137
– Capitalised to intangible assets	(4,164)	(4,168)
	74,765	79,969
Amortisation of intangible assets	3,561	–
Release of prepaid lease payments for land	66	66
Premises and equipment expenses, excluding depreciation and release of prepaid lease payments for land		
– Rentals and rates for premises	166,304	147,038
– Capitalised to intangible assets	(3,623)	(3,623)
	162,681	143,415
– Others	36,071	33,987
Other operating expenses	325,516	287,004
– Capitalised to intangible assets	(1,569)	(1,569)
	323,947	285,435
	1,548,840	1,353,633

Included in the premises and equipment expenses are minimum lease payments under operating lease of HK\$157,829,000 (2017: HK\$138,286,000).

NET IMPAIRMENT LOSSES ON FINANCIAL ASSETS

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Loans and advances to customers	174,601	371,591
Short-term funds and placement with banks	8,818	–
Investments in securities	15,222	919
Loan commitments and financial guarantee	(20,387)	–
	<u>178,254</u>	<u>372,510</u>

TAXATION

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
The tax charge comprises:		
Hong Kong Profits Tax		
– Current year	245,689	109,377
– (Over) under provision in prior years	(24,111)	312
Overseas taxation		
– Current year	69,205	34,557
– Under provision in prior years	237	–
Deferred tax		
– Current year	15,915	152
– Under provision in prior years	37,893	–
	<u>344,828</u>	<u>144,398</u>

Hong Kong Profits Tax is calculated at 16.5% (2017: 16.5%) of the estimated assessable profit for the year.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

The tax charge for the year can be reconciled to the Group's profit before taxation per the consolidated income statement as follows:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Profit before taxation	<u>2,105,215</u>	<u>1,709,265</u>
Tax at the domestic income tax rate of 16.5% (2017: 16.5%)	347,360	282,029
Tax effect of share of profits of associates	(3,239)	(9,194)
Tax effect of expenses not deductible for tax purpose	37,601	17,852
Tax effect of income not taxable for tax purpose	(36,771)	(120,921)
Under provision in prior years	14,019	312
Effect of different tax rates of subsidiaries and branches operating in other jurisdictions	6,518	3,828
Others	(20,660)	(29,508)
Tax charge for the year	<u>344,828</u>	<u>144,398</u>

Included in the "Others" is mainly the tax effect on deductibility of additional tier 1 capital distribution of HK\$152,845,000 (2017: HK\$151,974,000).

DIVIDENDS

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Dividends recognised as distribution to ordinary shareholders during the year:		
2018 Interim – HK\$0.17 (2017: Interim – HK\$0.15) per share	165,329	97,875
2017 Final – HK\$0.39 (2016: Final – HK\$0.39) per share	254,475	254,475
	419,804	352,350

The final dividend of HK\$0.41 per share, totalling HK\$398,736,000, in respect of the current financial year (2017: HK\$0.39 per share, totalling HK\$254,475,000) has been proposed by the Board and is subject to approval by the shareholders in the forthcoming annual general meeting of the shareholders.

At the board meeting on 14 August 2018, the Board declared a total amount of interim dividend of HK\$165,329,000 (2017: HK\$97,875,000) at a rate of HK\$0.17 (2017: HK\$0.15) per share. The interim dividend was paid on 9 October 2018.

EARNINGS PER SHARE – BASIC AND DILUTED

The calculation of basic earnings per share is based on the profit attributable to equity owners of the Bank of HK\$1,760,387,000 (2017: HK\$1,564,867,000) with deduction of distribution payment for additional equity instruments of HK\$152,845,000 (2017: HK\$151,974,000) on 751,457,000 (2017 (restated): 653,807,000) weighted average ordinary shares in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2018 Number of shares <i>(thousands)</i>	2017 Number of shares <i>(thousands)</i> (restated)
Issued ordinary shares at 1st January	653,807	653,807
Effect of shares issued under General Mandate	25,076	–
Effect of shares issued under Rights Issue	72,574	–
Weighted average number of ordinary shares at 31st December	751,457	653,807

Basic earnings per share for 2017 has been restated to take into account the effect of the new shares issued and rights issue of the Bank completed in the year of 2018.

As at 31 December 2018 and 31 December 2017, there were no potential dilutive instrument in issue.

CASH AND SHORT-TERM FUNDS

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Cash and balances with central bank and banks	5,295,825	9,593,548
Money at call and short notice	20,886,577	11,170,870
Exchange fund bills	–	4,400,223
	<u>26,182,402</u>	<u>25,164,641</u>

Included in the “Cash and balances with central bank and banks” are surplus reserve deposits placed with People’s Bank of China by the Mainland branches of HK\$348,578,000 (2017: HK\$378,234,000).

As a result of the adoption of HKFRS 9, exchange fund bills are included in investments in securities.

DERIVATIVE FINANCIAL INSTRUMENTS

	Notional amount <i>HK\$'000</i>	2018 Fair value		Notional amount <i>HK\$'000</i>	2017 Fair value	
		Assets <i>HK\$'000</i>	Liabilities <i>HK\$'000</i>		Assets <i>HK\$'000</i>	Liabilities <i>HK\$'000</i>
Derivatives held for trading						
– Foreign currency forward contracts	260,404,113	517,316	535,554	148,149,348	361,561	500,892
– Foreign currency options	344,608	887	887	4,490,336	898	898
– Interest rate swaps	15,389,236	23,730	25,136	5,314,612	12,113	12,029
Derivatives designated as hedging instruments						
– Interest rate swaps	31,200,783	354,207	312,040	24,642,872	182,221	368,460
		<u>896,140</u>	<u>873,617</u>		<u>556,793</u>	<u>882,279</u>

As at 31 December 2018 and 31 December 2017, all foreign currency forward contracts have settlement dates within two years (2017: four years) from the end of the reporting period.

The remaining maturity of interest rate swaps held for trading is within 10 years (2017: within 10 years).

The credit risk-weighted amounts of derivative exposures calculated based on the Banking (Capital) Rules of the Hong Kong Banking Ordinance are as follows:

	2018			2017		
	Notional amount <i>HK\$'000</i>	Replacement cost <i>HK\$'000</i>	Credit risk-weighted amount <i>HK\$'000</i>	Notional amount <i>HK\$'000</i>	Replacement cost <i>HK\$'000</i>	Credit risk-weighted amount <i>HK\$'000</i>
Exchange rate contracts	260,748,721	518,203	1,039,483	152,639,684	362,459	699,625
Interest rate contracts	46,590,019	377,937	201,718	29,957,484	194,334	167,938
		<u>896,140</u>	<u>1,241,201</u>		<u>556,793</u>	<u>867,563</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.

Fair value hedge of fixed-rate bonds

The Group designates certain interest rate swaps as fair value hedges of FVOCI (2017: available-for-sale) debt securities with carrying amount of HK\$25,761,758,000 (2017: HK\$20,591,803,000) as at 31 December 2018. The purpose is to minimise its exposure to fair value changes of its fixed-rate bonds by swapping these fixed-rate bonds from fixed rates to floating rates. The interest rate swaps and the corresponding fixed-rate bonds have the same terms. The management of the Group considers that the interest rate swaps are highly effective hedging instruments. The remaining maturity of these interest rate swaps and debt securities ranged from 3 months to 10 years (2017: 3 months to 10 years).

During the years ended 31 December 2018 and 31 December 2017, the above fair value hedges were effective in hedging the fair value exposures to interest rate movements and as a result, both the losses in fair value of the bonds of HK\$195,934,000 (2017: losses of HK\$184,159,000) and gains in fair value of the interest rate swaps of HK\$197,902,000 (2017: gain of HK\$183,949,000) were included in the consolidated income statement.

Fair value hedge of subordinated note issued

The Group designates an interest rate swap as fair value hedge of the interest rate movement of the US\$587 million (2017: US\$587 million) subordinated note issued. The purpose is to minimise its exposure to fair value changes of its fixed-rate note by swapping fixed-rate note from fixed rate to floating rate. The interest rate swap and the hedged subordinated note have the same terms and the management of the Group considers that the interest rate swap is a highly effective hedging instrument.

The hedge was effective in hedging the fair value exposure to interest rate movements and as a result, both the decrease in fair value of the note of HK\$50,438,000 (2017: increase in fair value of HK\$70,295,000) and losses in fair value of the interest rate swap of HK\$50,626,000 (2017: gains of HK\$68,662,000) were included in the consolidated income statement.

INVESTMENTS IN SECURITIES

	Financial assets at fair value through profit or loss <i>HK\$'000</i>	Financial assets at FVOCI <i>HK\$'000</i>	Financial assets at amortised cost <i>HK\$'000</i>	Total <i>HK\$'000</i>
2018				
Equity securities:				
Listed in Hong Kong	215	41,889	–	42,104
Listed overseas	–	2,735	–	2,735
	<u>215</u>	<u>44,624</u>	<u>–</u>	<u>44,839</u>
Unlisted	–	40,954	–	40,954
	<u>215</u>	<u>85,578</u>	<u>–</u>	<u>85,793</u>
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
	<u>115,813</u>	<u>46,292,978</u>	<u>491,542</u>	<u>46,900,333</u>
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
	<u>116,028</u>	<u>46,378,556</u>	<u>491,542</u>	<u>46,986,126</u>
As analysed by issuing entities:				
Central governments and central banks	115,813	15,061,973	470,204	15,647,990
Banks	–	14,677,763	–	14,677,763
Corporate entities	215	16,638,820	21,338	16,660,373
	<u>116,028</u>	<u>46,378,556</u>	<u>491,542</u>	<u>46,986,126</u>

	Financial assets at fair value through profit or loss – Held for trading HK\$'000	Available- for-sale securities HK\$'000	Held-to- maturity securities HK\$'000	Loan and receivable securities HK\$'000	Total HK\$'000
2017					
Equity securities:					
Listed in Hong Kong	265	49,166	–	–	49,431
Listed overseas	–	3,932	–	–	3,932
	265	53,098	–	–	53,363
Unlisted	–	34,735	–	–	34,735
	265	87,833	–	–	88,098
Debt securities:					
Certificates of deposits – unlisted	–	–	–	–	–
Other debt securities – unlisted	–	35,362,459	3,640,146	62,798	39,065,403
	–	35,362,459	3,640,146	62,798	39,065,403
Total:					
Listed in Hong Kong	265	49,166	–	–	49,431
Listed overseas	–	3,932	–	–	3,932
Unlisted	–	35,397,194	3,640,146	62,798	39,100,138
	265	35,450,292	3,640,146	62,798	39,153,501
As analysed by issuing entities:					
Central governments and central banks	–	4,101,191	–	–	4,101,191
Banks	–	13,024,732	836,787	62,798	13,924,317
Corporate entities	265	18,324,369	2,803,359	–	21,127,993
	265	35,450,292	3,640,146	62,798	39,153,501

Debt securities classified as FVOCI (2017: available-for-sale) amounting to HK\$8,719,156,000 (2017: HK\$238,061,000) were issued by the Government of Hong Kong Special Administrative Region and the Mainland.

The debt securities classified as FVOCI (2017: available-for-sale) held by the Group are mainly guaranteed or issued by corporates and financial institutions from the Mainland and Hong Kong.

TRANSFER OF FINANCIAL ASSETS

The following were the Group's debt securities classified as FVOCI (2017: available-for-sale and held-to-maturity) as at 31 December 2018 and 31 December 2017 that were transferred to an entity with terms to repurchase these debt securities at agreed dates and prices. As the Group has retained substantially all the risks and rewards relating to these debt securities, the full carrying amount of these debt securities continued to be recognised. The cash received on the transfer was reported as liabilities under "Financial assets sold under repurchase agreements". The transferred debt securities serve as collateral to secure these liabilities. During the covered period, the legal title of the debt securities are transferred to the counterparty entity and there is no restriction for the counterparty entity to sell or repledge the collateral. These debt securities are either measured at amortised cost or carried at fair value in the consolidated statement of financial position.

	31 December 2018		
	Financial assets measured at FVOCI HK\$'000	Total HK\$'000	
Carrying amount of transferred assets	7,165,740	7,165,740	
Carrying amount of associated liabilities	<u>6,571,696</u>	<u>6,571,696</u>	
	31 December 2017		
	Available- for-sale debt securities HK\$'000	Held-to- maturity debt securities HK\$'000	Total HK\$'000
Carrying amount of transferred assets	11,743,378	1,929,075	13,672,453
Carrying amount of associated liabilities	<u>10,840,377</u>	<u>1,162,612</u>	<u>12,002,989</u>

ADVANCES AND OTHER ACCOUNTS

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Advances to customers		
Bills receivable	753,851	845,295
Trade bills	2,361,920	283,588
Other advances to customers	98,709,456	85,569,489
	<u>101,825,227</u>	<u>86,698,372</u>
Interest receivable	895,015	644,368
Impairment allowances		
– Collectively assessed	–	(329,639)
– Individually assessed	–	(394,393)
– Stage 1	(379,031)	–
– Stage 2	(12,382)	–
– Stage 3	(154,435)	–
	<u>102,174,394</u>	<u>86,618,708</u>
Advances to banks	334,895	107,829
Others	4,299,182	4,223,250
	<u>106,808,471</u>	<u>90,949,787</u>

Included in the “Others” is initial and variation margin of HK\$456,206,000 (2017: HK\$849,906,000) deposited in banks for certain interest rate swaps, foreign currency forward contracts and repurchase agreements and an amount of approximately HK\$3,330,321,000 (2017: HK\$2,657,492,000) placed as reserve funds with banks in the Mainland by the Mainland branches. Among which, HK\$2,756,418,000 (2017: HK\$1,776,005,000) are the mandatory reserve deposits placed with the People’s Bank of China. The mandatory reserve deposits are not available for the Group’s daily operation; HK\$573,903,000 (2017: HK\$881,487,000) are the fixed deposits placed with financial institutions in the Mainland in compliance with the requirements of Regulations Governing Foreign Financial Institutions of the Mainland.

The remaining balance of “Others” amounting to HK\$512,655,000 (2017: HK\$715,852,000) included account receivables from Hong Kong Securities Clearing Company Limited, Hong Kong Futures Exchange Clearing Corporation Limited and brokerage clients in relation to securities dealing of HK\$194,144,000 (2017: HK\$420,605,000).

Details of the impaired loans are as follows:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Gross impaired loans	353,230	398,100
Less: Impairment allowances under Stage 3 (2017: individual assessment)	(154,435)	(394,393)
Net impaired loans	<u>198,795</u>	<u>3,707</u>
Gross impaired loans as a percentage of gross advances to customers	<u>0.35%</u>	<u>0.46%</u>
Market value of collateral pledged	<u>267,720</u>	<u>3,873</u>

Details of the non-performing loans are as follows:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Gross non-performing loans (<i>Note</i>)	354,859	485,492
Less: Impairment allowances under Stage 3 (2017: individual assessment)	(154,435)	(394,393)
Net non-performing loans	200,424	91,099
Gross non-performing loans as a percentage of gross advances to customers	0.35%	0.56%
Market value of collateral pledged	254,310	200,716

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

INTERESTS IN ASSOCIATES

On 20 March 2017, the Group entered into a Share Sale Agreement (the “Agreement”) to sell the Group’s stake in Hong Kong Life Insurance Limited (“HKLI”) to First Origin International Limited (the “Purchaser”) for a consideration of approximately HK\$1,183,333,000 (the “Disposal”). On 15 March 2018, the Group and the Purchaser agreed to extend the long stop date to 30 September 2018. Pursuant to the Agreement, completion of the Disposal is conditional upon satisfaction of certain conditions. The Disposal has been terminated in accordance with the terms of the Agreement on the basis that the conditions have not been satisfied by the long stop date i.e. 30 September 2018. In accordance with the terms of the Agreement, an aggregate deposit of HK\$118,333,000 paid by the Purchaser to the Group has been forfeited in favour of the Group. The amount of HK\$116,655,000 (2017: HK\$Nil), net of expenses, was recognised as other non-operating income of the Group. In view of the termination of the Disposal, the Group continues to hold our stake of ownership in HKLI.

The Group, being one of the existing shareholders of HKLI, continues with its ownership and supports the development of HKLI with proportionate subscription of its new share capital issued amounting to HK\$75,000,000 to maintain the shareholding of 16.7% in December 2018.

INVESTMENT PROPERTIES

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
At 1 January	298,765	282,927
Transfer from land and buildings	5,400	–
Net increase in fair value recognised in the profit or loss	10,250	12,632
Exchange adjustments	(2,473)	3,206
At 31 December	311,942	298,765

All of the Group’s property interests held under operating leases to earn rentals and/or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

Investment properties owned by the Group were revalued at 31 December 2018 by adopting the direct comparison approach (2017: direct comparison approach) and with reference to the recent transactions for similar premises by Vigers Appraisal and Consulting Limited (2017: Vigers Appraisal and Consulting Limited), independent professionally qualified valuers. The fair value is mainly arrived at by reference to comparable market transactions for similar properties.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

One of the key inputs used in valuing the investment properties was the unit sale rate taking into account of time, location and individual factors such as size and levels of building, which ranged from HK\$3,520 to HK\$50,280 (2017: HK\$3,300 to HK\$49,400) per square feet. A decrease in the unit sale rate would result in decrease in fair value measurement of the investment properties by the same percentage decrease and vice versa.

In estimating the fair value of the Group's investment properties, the management of the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the management of the Group engages third party qualified valuers to perform the valuation of the Group's investment properties. At the end of each reporting period, the management of the Group works closely with the qualified external valuers to establish and determine the appropriate valuation techniques and inputs for Level 2 and Level 3 fair value measurement. The management of the Group will first consider and adopt Level 2 inputs where inputs can be derived from observable quoted prices in the active market. When Level 2 inputs are not available, the management of the Group will adopt valuation techniques that include Level 3 inputs. Where there is a material change in the fair value of the assets, the causes of the fluctuations will be reported to the directors of the Bank.

Information about the valuation techniques and inputs in determining the fair value of the Group's investment properties are disclosed above.

Investment properties are classified as Level 3 under fair value hierarchy as at 31 December 2018 and 31 December 2017. There were no transfers into or out of Level 3 during the year.

The carrying amount of investment properties of the Group comprises:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Leasehold properties		
Held in Hong Kong on long-term lease (over 50 years unexpired)	167,500	164,500
Held in Hong Kong on medium-term lease (10 – 50 years unexpired)	96,600	87,500
Held outside Hong Kong on medium-term lease (10 – 50 years unexpired)	47,842	46,765
	311,942	298,765

PROPERTY AND EQUIPMENT

	Leasehold land <i>HK\$'000</i>	Buildings <i>HK\$'000</i>	Equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
COST				
At 1 January 2018	345,257	113,217	825,184	1,283,658
Additions	–	–	55,017	55,017
Disposals	–	–	(44,047)	(44,047)
Transfer to investment properties	(32)	–	–	(32)
Exchange adjustments	–	(724)	(9,252)	(9,976)
At 31 December 2018	345,225	112,493	826,902	1,284,620
ACCUMULATED DEPRECIATION				
At 1 January 2018	83,279	32,987	576,646	692,912
Depreciation	7,827	2,771	68,331	78,929
Eliminated on disposals	–	–	(3,662)	(3,662)
Transfer to investment property	(18)	–	–	(18)
Exchange adjustments	–	90	(4,961)	(4,871)
At 31 December 2018	91,088	35,848	636,354	763,290
CARRYING AMOUNTS				
At 31 December 2018	254,137	76,645	190,548	521,330
At 1 January 2018	261,978	80,230	248,538	590,746

	Leasehold land <i>HK\$'000</i>	Buildings <i>HK\$'000</i>	Equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
COST				
At 1 January 2017	478,312	161,440	705,814	1,345,566
Additions	–	–	133,276	133,276
Disposals	(133,055)	(49,048)	(24,078)	(206,181)
Exchange adjustments	–	825	10,172	10,997
At 31 December 2017	<u>345,257</u>	<u>113,217</u>	<u>825,184</u>	<u>1,283,658</u>
ACCUMULATED DEPRECIATION				
At 1 January 2017	140,206	51,501	520,255	711,962
Depreciation	9,863	3,604	70,670	84,137
Eliminated on disposals	(66,790)	(22,150)	(18,059)	(106,999)
Exchange adjustments	–	32	3,780	3,812
At 31 December 2017	<u>83,279</u>	<u>32,987</u>	<u>576,646</u>	<u>692,912</u>
CARRYING AMOUNTS				
At 31 December 2017	<u>261,978</u>	<u>80,230</u>	<u>248,538</u>	<u>590,746</u>
At 1 January 2017	<u>338,106</u>	<u>109,939</u>	<u>185,559</u>	<u>633,604</u>

The carrying amounts of leasehold land shown above comprise:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Leasehold land in Hong Kong:		
Held on long-term lease (over 50 years unexpired)	28,588	28,881
Held on medium-term lease (10 – 50 years unexpired)	224,717	232,236
Leasehold land outside Hong Kong:		
Held on medium-term lease (10 – 50 years unexpired)	832	861
	<u>254,137</u>	<u>261,978</u>

The carrying amounts of buildings shown above comprise:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Building		
Held in Hong Kong on long-term lease (over 50 years unexpired)	5,238	5,493
Held in Hong Kong on medium-term lease (10-50 years unexpired)	65,737	68,334
Held outside Hong Kong on medium-term lease (10-50 years unexpired)	5,670	6,403
	76,645	80,230

PREPAID LEASE PAYMENTS FOR LAND

The Group's prepaid lease payments for land comprise:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
COST		
Outside Hong Kong held on:		
Leases of between 10-50 years	2,850	2,850
Net book value at 1 January	2,134	2,201
Release of prepaid operating lease payments	(66)	(66)
Exchange adjustments	5	(1)
Net book value at 31 December	2,073	2,134
Analysed as:		
Current portion	66	66
Non-current portion	2,007	2,068
Total	2,073	2,134

FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Analysed by collateral type:		
Debt securities classified as:		
FVOCI (2017: Available-for-sale)	6,571,696	10,840,377
Amortised cost (2017: Held-to-maturity)	–	1,162,612
	6,571,696	12,002,989

As at 31 December 2018, debt securities which are classified as FVOCI (2017: available-for-sale) and amortised cost (2017: held-to-maturity) with carrying amount of HK\$7,165,740,000 (2017: HK\$11,743,378,000) and HK\$Nil (2017: HK\$1,929,075,000) respectively were sold under repurchase agreements with other banks. All repurchase agreements are due within 12 months from the end of the reporting period.

DEPOSITS FROM CUSTOMERS

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Demand deposits and current accounts	11,605,357	12,624,082
Savings deposits	37,250,772	37,667,095
Time, call and notice deposits	94,834,165	68,467,497
	<u>143,690,294</u>	<u>118,758,674</u>

CERTIFICATES OF DEPOSIT AND DEBT SECURITIES ISSUED

The Group has issued certificates of deposit which are measured at amortised cost with a total carrying amount of HK\$2,688,386,000 as at 31 December 2018 (2017: HK\$3,217,451,000). Certificates of deposit bear contractual interest rates between 2.40% to 3.40% (2017: 0.95% to 4.65%) per annum and will mature within 2 years (2017: 3 years). All certificates of deposit issued are not secured by any collateral.

The Group has issued debt securities which are measured at amortised cost with a total carrying amount of HK\$1,707,923,000 as at 31 December 2018 (2017: HK\$1,796,069,000). The debt securities issued bear contractual interest rate at 3.6% per annum (2017: 3.6% per annum) and will mature in May 2019. The debt securities issued are not secured by any collateral.

Analysis of changes in financing cash flows of debt securities issued during the year

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
At 1 January	1,796,069	1,663,774
Changes from financing cash flows:		
Interest paid on debt securities issued	<u>(66,791)</u>	<u>(58,349)</u>
	1,729,278	1,605,425
Exchange adjustments	(90,000)	130,350
Other changes		
Interest expense	66,666	63,161
Other non-cash movements (<i>Note</i>)	<u>1,979</u>	<u>(2,867)</u>
Total other changes	68,645	60,294
At 31 December	<u>1,707,923</u>	<u>1,796,069</u>

Note: Included in “other non-cash movement” mainly represents changes in interest payable.

LOAN CAPITAL

	2018 HK\$'000	2017 HK\$'000
Subordinated notes, at amortised cost with fair value hedge adjustments		
US\$204 million fixed rate subordinated note due 2020 (<i>Notes (a) & (c)</i>)	1,592,297	1,615,531
US\$383 million fixed rate subordinated note due 2027 (<i>Notes (b) & (c)</i>)	2,914,850	2,925,849
	<u>4,507,147</u>	<u>4,541,380</u>

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.

Analysis of changes in financing cash flows of loan capital during the year

	2018 HK\$'000	2017 HK\$'000
At 1 January	4,541,380	1,792,267
Changes from financing cash flows:		
Net proceeds from issue of loan capital	–	2,816,997
Interest paid on loan capital	<u>(221,697)</u>	<u>(102,471)</u>
	4,319,683	4,506,793
Exchange adjustments	10,192	748
Fair value hedge adjustments	(50,438)	(70,295)
Other changes		
Interest expense	218,193	122,489
Other non-cash movements	<u>9,517</u>	<u>(18,355)</u>
Total other changes	227,710	104,134
At 31 December	<u>4,507,147</u>	<u>4,541,380</u>

SHARE CAPITAL

	2018		2017	
	Number of shares (thousands)	Share capital HK\$'000	Number of shares (thousands)	Share capital HK\$'000
Ordinary shares, issued and fully paid:				
At 1 January	652,500	5,435,904	652,500	5,435,904
Shares issued under General Mandate (Note i)	70,126	999,997	–	–
Shares issued under Rights Issue (Note ii)	249,900	3,563,574	–	–
Transaction costs incurred in respect of the shares issued (Note iii)	–	<u>(22,415)</u>	–	–
At 31 December	<u>972,526</u>	<u>9,977,060</u>	<u>652,500</u>	<u>5,435,904</u>

Notes:

(i) Shares issued under General Mandate

During the year ended 31 December 2018, the Bank raised gross proceeds of approximately HK\$999,997,000 pursuant to the subscription agreement entered by the Bank with Guangzhou Metro Investment Finance (HK) Limited (the “Subscriber”) which the Bank has agreed to allot and issue to the Subscriber 70,126,000 subscription shares at the subscription price of HK\$14.26 per subscription share.

(ii) Shares issued under Rights Issue

During the year ended 31 December 2018, the Bank raised gross proceeds of approximately HK\$3,563,574,000 by issuing 249,900,094 rights shares of the Bank to the qualifying shareholders of the Bank at the offer price of HK\$14.26 per rights share of the Bank on the basis of one rights share of the Bank for every two then existing shares of the Bank.

(iii) Transaction costs incurred in respect of the shares issued

The related expenses incurred for the shares issued under General Mandate and rights issue amounted to HK\$22,415,000 and were deducted against the gross proceeds from shares issued.

ADDITIONAL EQUITY INSTRUMENTS

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
US\$300 million undated non-cumulative subordinated additional tier 1 capital securities	2,312,030	2,312,030

On 25 September 2014, the Bank issued undated non-cumulative subordinated additional tier 1 capital securities (“Additional Tier 1 Capital Securities”) with a face value of US\$300 million (equivalent to HK\$2,312,030,000 net of related issuance costs). The Additional Tier 1 Capital Securities are undated and bear a 6.50% coupon until the first call date on 25 September 2019. The coupon will be reset every five years if the Additional Tier 1 Capital Securities are not redeemed to a fixed rate equivalent to the then-prevailing five-year US Treasury rate plus 4.628% per annum.

The coupon shall be payable semi-annually. The Bank has the right to cancel coupon payment (subject to the requirement as set out in the terms and conditions of the Additional Tier 1 Capital Securities) and the coupon cancelled shall not be cumulative. However, the Bank is stopped from declaring dividend to its ordinary shareholders unless the next scheduled coupon payment is paid.

The principal of the Additional Tier 1 Capital Securities will be written off up to the amount as directed or agreed with the HKMA if the HKMA notifies the Bank that in the opinion of the HKMA, the Bank would become non-viable if there is no written off of the principal.

The Bank has a call option to redeem all the outstanding capital securities from 25 September 2019 or any subsequent coupon payment date, but subject to restriction as set out in the terms and conditions.

During the year, a distribution of US\$19,500,000 (2017: US\$19,500,000) (equivalent to HK\$152,845,000 (2017: HK\$151,974,000)) was paid to the securities holders.

DEFERRED TAXATION

For the purpose of presentation in the statements of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Deferred tax assets	19,907	–
Deferred tax liabilities	(19,171)	(50,136)
	736	(50,136)

The following are the major deferred tax assets (liabilities) recognised and movements thereon during the current and prior reporting year:

	Accelerated tax depreciation <i>HK\$'000</i>	Impairment allowance <i>(note)</i> <i>HK\$'000</i>	Investment properties <i>HK\$'000</i>	Revaluation of FVOCI (2017: available- for-sale) securities <i>HK\$'000</i>	Remeasurement of retirement benefits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2018	140	35,997	(13,156)	(68,693)	(4,424)	(50,136)
Changes on initial application of HKFRS 9	–	20,625	–	(6,783)	–	13,842
Restated balance at 1 January 2018	140	56,622	(13,156)	(75,476)	(4,424)	(36,294)
(Charge) credit to income statement for the year	(52,281)	4,832	(6,359)	–	–	(53,808)
Charge to other comprehensive income for the year	–	–	–	89,873	–	89,873
Exchange adjustments	–	–	965	–	–	965
At 31 December 2018	(52,141)	61,454	(18,550)	14,397	(4,424)	736
At 1 January 2017	(2,899)	35,365	(8,473)	(29,074)	(3,492)	(8,573)
Credit (charge) to income statement for the year	3,039	632	(3,823)	–	–	(152)
Charge to other comprehensive income for the year	–	–	–	(39,619)	(932)	(40,551)
Exchange adjustments	–	–	(860)	–	–	(860)
At 31 December 2017	140	35,997	(13,156)	(68,693)	(4,424)	(50,136)

Note: Upon the initial application of HKFRS 9, the Group has recognised deferred tax assets on the additional impairment losses recognised under the ECL model as well as deferred tax liabilities arising on revaluation of financial assets that reclassified to FVOCI securities.

Under the Enterprise Income Tax Law of the People's Republic of China, withholding tax is imposed on profits distributed by the Bank's Mainland branches from 1 January 2008 onwards. Deferred taxation has not been provided in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the Mainland branches amounting to HK\$749,201,000 (2017: HK\$561,562,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

INTANGIBLE ASSETS

	Club Membership HK\$'000	Goodwill HK\$'000	Software HK\$'000	Internally developed software HK\$'000	Total HK\$'000
COST					
At 1 January 2018	–	110,606	–	330,800	441,406
Addition	9,920	–	12,876	–	22,796
Transfer	4,170	–	–	–	4,170
Addition through internal development	–	–	–	164,396	164,396
Exchange adjustment	–	–	(867)	(3,270)	(4,137)
	<u>14,090</u>	<u>110,606</u>	<u>12,009</u>	<u>491,926</u>	<u>628,631</u>
At 31 December 2018	<u>14,090</u>	<u>110,606</u>	<u>12,009</u>	<u>491,926</u>	<u>628,631</u>
ACCUMULATED AMORTISATION					
At 1 January 2018	–	–	–	–	–
Charge for the year	–	–	1,078	2,483	3,561
Exchange adjustment	–	–	(62)	(69)	(131)
	<u>–</u>	<u>–</u>	<u>1,016</u>	<u>2,414</u>	<u>3,430</u>
At 31 December 2018	<u>–</u>	<u>–</u>	<u>1,016</u>	<u>2,414</u>	<u>3,430</u>
ACCUMULATED IMPAIRMENT					
At 1 January and 31 December 2018	<u>–</u>	<u>71,000</u>	<u>–</u>	<u>–</u>	<u>71,000</u>
NET BOOK VALUE					
At 31 December 2018	<u>14,090</u>	<u>39,606</u>	<u>10,993</u>	<u>489,512</u>	<u>554,201</u>
COST					
At 1 January 2017	–	110,606	–	171,123	281,729
Addition through internal development	–	–	–	159,677	159,677
	<u>–</u>	<u>110,606</u>	<u>–</u>	<u>330,800</u>	<u>441,406</u>
At 31 January 2017	<u>–</u>	<u>110,606</u>	<u>–</u>	<u>330,800</u>	<u>441,406</u>
ACCUMULATED AMORTISATION					
At 1 January and 31 December 2017	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
ACCUMULATED IMPAIRMENT					
At 1 January and 31 December 2017	<u>–</u>	<u>71,000</u>	<u>–</u>	<u>–</u>	<u>71,000</u>
NET BOOK VALUE					
At 31 December 2017	<u>–</u>	<u>39,606</u>	<u>–</u>	<u>330,800</u>	<u>370,406</u>

The Group acquired 100% of issued share capital of Chong Hing Insurance Company Limited (“CHI”). The amount of goodwill arising as a result of acquisition was HK\$110,606,000.

For the year ended 31 December 2018, the management has reviewed goodwill for impairment testing purpose. The review comprised a comparison of the carrying amount and the fair value less cost to sell, of an acquired subsidiary (the smallest cash-generating unit) to which the goodwill has been allocated. The acquired subsidiary is involved in insurance business. The fair value of CHI as at 31 December 2018 was estimated by applying market approach based on a price-to-book ratio of 1 (2017: 1).

The management of the Group determines no impairment loss on the goodwill for the year ended 31 December 2018 (2017: Nil).

During the year, there was an addition of HK\$164,396,000 to internally developed software, which is a computer software currently under internal development. Included in the balance as at 31 December 2018, HK\$138,889,000 (2017: HK\$86,083,000) is capitalised from expenditures that directly attributable to the development of the software.

CONTINGENT LIABILITIES AND COMMITMENTS

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Contingent liabilities and commitments		
– contractual amounts		
Direct credit substitutes	592,606	1,315,865
Trade-related contingencies	4,528,485	1,995,688
Forward asset purchases	86,125	82,323
Undrawn formal standby facilities, credit lines and other commitments		
Which are unconditionally cancellable without prior notice	22,860,607	23,797,922
With an original maturity of one year and under	3,011,346	3,738,747
With an original maturity of over one year	6,235,699	7,178,886
Lease commitments	201,269	199,560
	37,516,137	38,308,991

The credit risk-weighted amount of contingent liabilities and commitments is HK\$4,441,022,000 (2017: HK\$5,604,792,000).

The credit risk-weighted amount is calculated based on “standardised approach”. The risk-weights used in the computation of credit risk-weighted amounts range from 0% to 100% (2017: 0% to 100%) which is assessed in accordance with the Banking (Capital) Rules.

Direct credit substitutes include financial guarantees given by the Group.

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

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Within one year	91,364	128,470
In the second to fifth years, inclusive	109,905	71,090
	201,269	199,560

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of three years and rentals are fixed.

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

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of property and equipment	86,125	82,323

At the end of the reporting period, the Group as lessor had contracted with tenants for the following future minimum lease payments:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Within one year	6,578	5,312
In the second to fifth years, inclusive	8,812	6,853
	15,390	12,165

RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following material transactions with related parties:

	Interest, commission and rental income		Interest, rental and other operating expenses	
	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Ultimate holding company	131	12	22,561	18,285
Intermediate holding company	13,626	7,526	2,159	13,953
Fellow subsidiaries	35,348	4,784	82,979	47,555
Associates	71,577	48,848	14,876	1,783
Key management personnel (<i>Note</i>)	1,080	1,962	3,402	1,644

During the year, the Group had net trading income with intermediate holding company and fellow subsidiary of HK\$42,373,000 (2017: HK\$6,674,000).

At the end of reporting period, the Group had the following material outstanding balances with related parties:

	Amounts due from related parties		Amounts due to related parties	
	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
Ultimate holding company	<u>–</u>	<u>–</u>	<u>1,047,143</u>	<u>426,430</u>
Intermediate holding company	<u>798,887</u>	<u>298,008</u>	<u>742,263</u>	<u>53,704</u>
Fellow subsidiaries	<u>1,008,537</u>	<u>835,733</u>	<u>2,824,204</u>	<u>1,766,326</u>
Associates	<u>–</u>	<u>–</u>	<u>234,260</u>	<u>213,367</u>
Key management personnel (<i>Note</i>)	<u>59,118</u>	<u>572,376</u>	<u>238,139</u>	<u>201,155</u>

Note: Includes key management personnel, close family members of key management personnel and entities that are controlled or jointly controlled, directly or indirectly, by key management personnel.

The above outstanding balances bear interest at rates similar to those made available to non-related parties. A portion of the loans to related parties are secured with properties, securities and fixed deposits.

As at 31 December 2018, the Group had operating lease commitments with fellow subsidiaries of HK\$36,560,000 (31 December 2017: HK\$18,411,000).

Amounts due from related parties are included in advances and other accounts on the statements of financial position.

Amounts due to related parties are included in deposits from customers on the statements of financial position.

Compensation of key management personnel

The remuneration of directors and other members of the key management during the year was as follows:

	2018 HK\$'000	2017 HK\$'000
Short-term benefits	180,014	160,161
Post employment benefits	<u>10,415</u>	<u>10,015</u>
	<u>190,429</u>	<u>170,176</u>

The remuneration of directors and key management is reviewed by the Remuneration Committee having regard to the performance of individuals and market trends.

As of 31 December 2018, the Group accrued a bonus for the Group's senior management and employees. The accrued bonus was approved by the Remuneration Committee on 27 February 2019. The Group has not completed the allocation of the bonus to individual senior management. The allocation of accrued bonus included under short-term benefits above represents the best estimate of management for the bonus to be distributed to key management personnel as of the date of approval of the financial statements.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Bank is an authorised institution supervised by the HKMA under the Hong Kong 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 (the “Code”) set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and the module on “Corporate Governance of Locally Incorporated Authorised Institutions” under the Supervisory Policy Manual issued by the HKMA to its corporate governance structure and practices.

Pursuant to the Code, listed issuer must give considered reasons in its annual report for each deviation from any of the code provisions contained in the Code.

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

COMPLIANCE WITH MODEL CODE

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

FINAL DIVIDEND

The Board will recommend at the forthcoming AGM of the Bank to be held on Friday, 17 May 2019 the payment of the final cash dividend for 2018 of HK\$0.41 per share (2017: HK\$0.39 per share). This final cash dividend, if approved, will be paid on Tuesday, 4 June 2019 to the shareholders whose names appear on the register of members of the Bank on Tuesday, 28 May 2019.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of ascertaining the shareholders who are entitled to attend and vote at the 2019 AGM, the register of members of the Bank will be closed from Friday, 10 May 2019 to Thursday, 16 May 2019 (both days inclusive), during which period no transfer of shares can be registered. In order to qualify for attending and voting at the 2019 AGM, all transfer documents, together with the relevant share certificates, must be lodged for registration with the Bank's share registrar and transfer office, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 pm on Thursday, 9 May 2019.

In addition, for the purpose of ascertaining the shareholders who are qualified to receive the final cash dividend, the register of members of the Bank will be closed from Friday, 24 May 2019 to Tuesday, 28 May 2019 (both days inclusive), during which period no transfer of shares can be registered. In order to qualify for receiving the 2018 final cash dividend, all transfer documents, together with the relevant share certificates, must be lodged for registration with the Bank's share registrar and transfer office, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 pm on Thursday, 23 May 2019.

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

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

PUBLICATION OF 2018 FINAL RESULTS AND ANNUAL REPORT

This announcement is published on the websites of the Bank (www.chbank.com) and Hong Kong Exchanges and Clearing Limited (the "HKEX") (www.hkexnews.hk). The 2018 Annual Report will be available on the websites of the Bank and the HKEX, and the printed copies will be despatched to the shareholders of the Bank, both in March 2019.

OTHER FINANCIAL INFORMATION

The Bank has set up a “Regulatory Disclosures” section on its website (www.chbank.com/en/regulatory-disclosures/index.shtml) to house the information relating to the disclosure of regulatory capital to comply with the Banking (Disclosure) Rules. The “Regulatory Disclosures”, together with the disclosures in the Bank’s Annual Report, contained all the disclosures required by the Banking (Disclosure) Rules issued by the HKMA. The “Regulatory Disclosures” together with the Annual Report for 2018 will be available in March 2019.

By Order of the Board
Chong Hing Bank Limited
Lai Wing Nga
Company Secretary

Hong Kong, 28 February 2019

As at the date of this announcement, the Board comprises:

- *Executive Directors*
Mr Zong Jianxin (Deputy Chairman and Chief Executive) and Mr Lau Wai Man (Deputy Chief Executive);
- *Non-executive Directors*
*Mr Zhang Zhaoxing (Chairman), Mr Li Feng, Mr Chow Cheuk Yu Alfred and Ms Chen Jing;
and*
- *Independent Non-executive Directors*
Mr Cheng Yuk Wo, Mr Ma Chiu Cheung Andrew, Mr Lee Ka Lun and Mr Yu Lup Fat Joseph.