



2018

Annual Report

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Corporate Information

Board of Directors

Chairman

Dr FUNG Yuk Bun Patrick JP

Executive Directors

Mr NA Wu Beng (*Chief Executive*)

Ms KNG Hwee Tin

Non-executive Directors

Mr SOON Tit Koon

Mr Samuel N TSIEN

Mr Frank John WANG

Independent Non-executive Directors

Mr CHIM Wai Kin

Mr OOI Sang Kuang

Mr TSE Hau Yin Aloysius

Audit Committee

Mr TSE Hau Yin Aloysius

Mr CHIM Wai Kin

Mr SOON Tit Koon

Remuneration Committee

Mr OOI Sang Kuang

Mr Samuel N TSIEN

Mr TSE Hau Yin Aloysius

Nomination Committee

Mr OOI Sang Kuang

Mr Samuel N TSIEN

Mr TSE Hau Yin Aloysius

Risk Management Committee

Mr CHIM Wai Kin

Mr TSE Hau Yin Aloysius

Mr SOON Tit Koon

Company Secretary

Mr LEUNG Chiu Wah

Auditors

KPMG

Certified Public Accountants

Registered Office

161 Queen's Road Central, Hong Kong

A subsidiary of Oversea-Chinese Banking Corporation Limited

Report of the Directors

The Directors of OCBC Wing Hang Bank Limited (the “Bank”) have pleasure in presenting their report together with the audited consolidated financial statements of the Bank and its subsidiaries (collectively the “Group”) for the year ended 31st December, 2018.

Principal Place of Business

The Bank is a licensed bank incorporated and domiciled in Hong Kong and has its registered office and principal place of business at 161 Queen’s Road Central, Hong Kong.

Principal Activities

The Group is engaged in commercial banking and related financial services.

The analysis of the principal activities and geographical locations of operations of the Group during the year are set out in notes 18 and 33 to the financial statements.

Results and Dividend

The results of the Group for the year ended 31st December, 2018 and the state of affairs of the Group and the Bank as at 31st December, 2018 are set out in the financial statements on pages 18 to 148.

During the financial year ended 31st December, 2018, the Board declared an interim dividend of HK\$1.5 billion (2017: nil) to the sole shareholder of the Bank. The directors did not recommend the payment of final dividend for the year ended 31st December, 2018 (2017: nil).

Reserves

Profit attributable to shareholder of HK\$2,762 million (2017: HK\$2,408 million) has been transferred to reserves. Details of the movements in reserves of the Group during the year are set out in the consolidated statement of changes in equity.

Major Customers

The five largest customers of the Group accounted for less than 30% of the total income of the Group during the year.

Tangible Fixed Assets

Details of the movements in tangible fixed assets of the Group during the year are set out in note 20 to the financial statements.

Share Capital

During the year, the Bank did not issue any ordinary shares (2017: nil). Details of the share capital are set out in note 29 to the financial statements.

Charitable Donations

During the year, the Group made donations for charitable and community purposes amounting to approximately HK\$1.3 million (2017: HK\$1.4 million).

Report of the Directors

Directors

The Directors of the Bank during the year and up to the date of this report are as follows:

Chairman

Dr FUNG Yuk Bun Patrick JP

Executive Directors

Mr NA Wu Beng (*Chief Executive*)

Ms KNG Hwee Tin

Non-executive Directors

Mr SOON Tit Koon

Mr Samuel N TSIEN

Mr Frank John WANG (*redesignated on 6th October 2018*)

Independent Non-executive Directors

Mr CHIM Wai Kin

Mr LAU Hon Chuen Ambrose GBS, JP (*retired on 30th April 2018*)

Mr OOI Sang Kuang

Mr TSE Hau Yin Aloysius

The List of Directors of the Bank's subsidiaries is published on the website of the Bank (www.ocbcwhhk.com).

In accordance with the Bank's Articles of Association and the Tenure Policy, Dr FUNG Yuk Bun Patrick and Mr Frank John WANG will retire from office at the coming Annual General Meeting ("AGM"). Dr FUNG being eligible, has offered himself for re-election at the AGM. Mr WANG will not offer himself for re-election at the forthcoming AGM. The Board confirmed that Mr WANG has no disagreement with the Board and there are no matters relating to his retirement that need to be brought to the attention of shareholder of the Bank. Other remaining Directors of the Bank will continue in office.

No Director proposed for re-election at the forthcoming AGM has an unexpired service contract with the Bank which is not determinable by the Bank (or any of its subsidiaries) within one year without payment of compensation (other than statutory compensation).

Certain directors of the Bank received remuneration from the holding company of the Bank, Oversea-Chinese Banking Corporation Limited ("OCBC") and related corporations as directors or employees of those companies and were entitled to benefits under the OCBC Share Option Scheme 2001, OCBC Deferred Share Plan and/or OCBC Employee Share Purchase Plan (the "Share-Based Payment Schemes") administered by OCBC. During the year, Mr NA Wu Beng, Mr Frank John WANG, Ms KNG Hwee Tin and Mr Samuel N TSIEN were granted options or awards under the Share-Based Payment Schemes for the prior performance year. Details of the Share-Based Payment Schemes are set out in note 36 of the financial statements. Apart from the above, at no time during the year was the Bank, or any of its subsidiaries a party to any arrangements to enable the Directors of the Bank to acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other body corporate.

Indemnity of Directors

The Bank's Articles of Association provide that the Directors and officers are entitled to be indemnified out of the funds of the Bank against certain liabilities incurred by them, to the extent permitted by the Companies Ordinance.

Directors & Officers Liability Insurance has been arranged to indemnify the directors and officers of the Bank and its subsidiaries.

Directors' interests in transactions, arrangements or contracts

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

Purchase, Sale or Redemption of the Bank's Securities

There was no purchase, sale or redemption by the Bank or any of its subsidiaries of the Bank's securities during the year.

Retirement Schemes

Particulars of the retirement schemes of the Group are set out in note 36 to the financial statements.

Corporate Governance

The Bank's corporate governance practices are set out in the Corporate Governance Report.

Compliance with the Banking (Disclosure) Rules

The financial statements for the year ended 31st December, 2018 comply fully with the applicable disclosure provisions of the Banking (Disclosure) Rules.

Auditors

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Bank will be proposed at the coming AGM.

On behalf of the Board

FUNG Yuk Bun Patrick

Chairman

Hong Kong, 30th April, 2019

Corporate Governance Report

Corporate Governance Practices

The Bank has complied with Supervisory Policy Manual CG-1 on Corporate Governance of Locally Incorporated Authorised Institutions ("CG-1") issued by the Hong Kong Monetary Authority ("HKMA") throughout the year ended 31st December, 2018.

Board of Directors

Board Composition

Throughout the year, the Board maintained a balanced composition of Executive and Non-executive Directors, including Independent Non-executive Directors. As at the date of this report, the Board comprises nine members, of whom two are Executive Directors. Amongst the seven Non-executive Directors (including the Chairman), three are independent. The independent element on the Board is strong to facilitate independent judgement. Members of the Board are as follows:

Chairman

Dr FUNG Yuk Bun Patrick JP

Executive Directors

Mr NA Wu Beng (*Chief Executive*)

Ms KNG Hwee Tin

Non-executive Directors

Mr SOON Tit Koon

Mr Samuel N TSIEN

Mr Frank John WANG (*redesignated on 6th October 2018*)

Independent Non-executive Directors

Mr CHIM Wai Kin

Mr LAU Hon Chuen Ambrose GBS, JP (*retired on 30th April 2018*)

Mr OOI Sang Kuang

Mr TSE Hau Yin Aloysius

All Directors have no relationship with each other.

Each Director possesses skills and experiences appropriate to the business of the Group. The Bank appointed three Independent Non-executive Directors representing at least one-third of the Board in accordance with the requirements under CG-1.

Directors' Attendance at Board and Board Committee Meetings

Attendance records of the Directors at meetings of the Board ("BM"), Audit Committee ("ACM"), Risk Management Committee ("RMCM"), Remuneration Committee ("RCM") and Nomination Committee ("NCM") held in 2018 are as follows:

Name of Director	Number of meetings attended/held in 2018				
	BM	ACM	RMCM	RCM	NCM
Dr FUNG Yuk Bun Patrick	4/4	N/A	N/A	N/A	N/A
Mr NA Wu Beng (Note 1)	4/4	N/A	1/1	N/A	N/A
Mr Frank John WANG	4/4	N/A	N/A	N/A	N/A
Ms KNG Hwee Tin	4/4	N/A	N/A	N/A	N/A
Mr SOON Tit Koon	4/4	4/4	4/4	N/A	N/A
Mr Samuel N TSIEN	4/4	N/A	N/A	1/1	1/1
Mr CHIM Wai Kin	4/4	4/4	4/4	N/A	N/A
Mr LAU Hon Chuen Ambrose (Note 2)	2/2	2/2	N/A	1/1	1/1
Mr OOI Sang Kuang	4/4	N/A	N/A	1/1	1/1
Mr TSE Hau Yin Aloysius	4/4	4/4	4/4	Note 3	Note 3

Note 1: Mr NA Wu Beng ceased to be a member of the Risk Management Committee during the year.

Note 2: Mr LAU Hon Chuen Ambrose retired from the Board and ceased to be a member of the Audit Committee, Remuneration Committee and Nomination Committee during the year.

Note 3: No meeting was held by the Remuneration Committee and the Nomination Committee after Mr Tse's appointment in April 2018.

Directors' Continuous Training and Development

Pursuant to requirements under CG-1, the Board should provide sufficient time, budget and other resources for developing and updating its members' knowledge as necessary to enable them to perform their roles effectively.

The Bank has in place training and development arrangements for Directors throughout the year.

During the year, all Directors of the Bank received regular briefings on economic updates, the Group's business, operations, risk management and corporate governance matters as well as rules and regulations applicable to the Group. The Directors also attended seminars on various relevant topics. All Directors have provided the Bank with their training records.

Board Performance

In order to improve the performance of the Board, the Board conducts formal performance evaluation on an annual basis. Each Director completes an evaluation questionnaire and results of the evaluation are presented to the Board. Based on the results of the evaluation and comments received from individual directors, the Board and senior management will take appropriate follow up actions to further improve the performance of the Board.

Corporate Governance Report

Board Diversity Policy

The Bank has established a Board Diversity Policy (the “Policy”). The Policy sets out the approach to diversity on the appointment of Directors to the Board of the Bank.

The Bank recognises and embraces the benefits of having a diverse Board, and sees diversity at Board level as an essential element in maintaining a competitive advantage. A diverse Board will include and make good use of differences in the skills, experiences, background, gender and other qualities of Directors. These differences will be considered in determining the optimum composition of the Board and when possible should be balanced appropriately. All Board appointments are made on merit, in the context of the skills and experience the Board as a whole requires in order to be effective.

Board Committees

Remuneration Committee

The Remuneration Committee is established with specific terms of reference and delegated with the authority and duties which include, amongst others, making recommendations to the Board on the Bank’s remuneration system, policies, structure and practices. In determining the bank-wide remuneration policy, the Remuneration Committee will take into account the Group’s business objectives, people strategy, short-term and long-term performance, business and economic conditions, market practices and risk management factors, in order to ensure the remuneration aligns with business line and individual performances, promotes effective risk management, facilitates retention of quality personnel and is competitive in the market. For top-level business lines, performance criteria and metrics are taken into consideration, including key financial indicators such as pre-tax earnings, loan growth, return on average shareholder’s funds and impaired loans ratio. The remuneration policy is applicable to all staff of the Bank and its subsidiaries, i.e. Macau and Mainland China. In particular, it makes recommendations to the Board in respect of the remuneration packages of the Bank’s Executive Directors, senior management and key personnel.

The terms of reference require that the Remuneration Committee shall comprise not less than three members and a majority of the committee and the Chairman shall be Independent Non-executive Directors. Currently, members of the Remuneration Committee are Messrs OOI Sang Kuang (Chairman), Samuel N TSIEN and TSE Hau Yin Aloysius. One Remuneration Committee meeting was held during 2018. The fees for members of Remuneration Committee for the year are as follows:

HK\$’000

Chairman	50
Member	30
Per meeting	10

Remuneration of Directors, Senior Management and Key Personnel

The Bank's remuneration policy aims to ensure that the level of remuneration is sufficient and market competitive taken into account risk management factors. The remuneration policy was reviewed and approved by the Remuneration Committee in March 2019. The updated remuneration policy mainly reflects the removal of group executive and deputy chief executive roles and the addition of alternate chief executive role according to the organizational structure, and cancellation of options effective from grant year 2019 to align with OCBC Group's deferral framework.

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

HK\$'000		Senior Management		Key Personnel	
		2018	2017	2018	2017
Fixed remuneration	Number of beneficiaries	15	11	8	12
	Total fixed remuneration	53,783	43,617	22,428	29,723
	– Cash (Non-deferred)	53,783	43,617	22,428	29,723
	– Share-based payment (Deferred)	—	—	—	—
Variable remuneration	Number of beneficiaries	15	11	8	12
	Total variable remuneration	54,748	56,872	5,692	10,864
	– Cash				
	Non-deferred	32,546	36,803	4,739	8,928
	Deferred	555	507	—	—
	– Share-based payment				
	Non-deferred	—	—	—	—
	Deferred	21,647	19,562	953	1,936
Total remuneration		108,531	100,489	28,120	40,587

Corporate Governance Report

Aggregate amount of deferred variable remuneration is set out below:

HK\$'000	2018		2017	
	Awarded for performance year 2018	Awarded for prior performance years	Awarded for performance year 2017	Awarded for prior performance years
Senior Management and Key Personnel				
Vested and paid out during the year				
– Cash	—	169	—	—
– Share-based payment	—	12,195	—	2,203
Outstanding and unvested at 31st December				
– Cash	555	338	507	—
– Share-based payment	22,600	49,493	21,498	41,310

Note:

- There was no implicit or explicit adjustments of deferred remuneration and retained remuneration on employee exposures in 2018 and 2017.
- An amount of deferred variable remuneration of HK\$1,119,958 has been forfeited during 2018 (2017: nil).

The share-based payment represented the fair value of deferred shares granted to senior management and key personnel on 19th March, 2019, as deferred variable incentive bonus for 2018. The deferred shares were issued by the Bank's ultimate holding company, OCBC, under its OCBC Deferred Share Plan.

Details of Directors' emoluments are set out in note 9 to the financial statements.

Special Payments for the Financial Year

HK\$'000	Guaranteed bonuses		Sign-on awards		Severance payments	
	Number of beneficiaries	Total amount	Number of beneficiaries	Total amount	Number of beneficiaries	Total amount
Senior Management						
2018	—	—	—	—	—	—
2017	—	—	—	—	—	—
Key Personnel						
2018	—	—	—	—	—	—
2017	—	—	—	—	—	—

The Bank's remuneration package consists of both fixed and variable components. An appropriate balance between fixed and variable remuneration is adopted to reflect the seniority, role and responsibilities of staff members. In general, the proportion of variable remuneration to total remuneration will increase in line with the seniority and responsibilities of staff.

Fixed remuneration includes basic salary, double pay, sign-on payment, allowances and pension contributions.

Variable remuneration comprises deferred and non-deferred components in the form of cash and share awards, to align an employee's incentive awards with long-term value creation and the time horizon of risk. The award of variable remuneration shall depend on the fulfillment of budgeted income, peer group performance comparison and risk control factors. These criteria include both financial and non-financial factors. Performance in relation to non-financial factors such as adherence to risk management policies, compliance with regulatory requirements, code of conduct, values and customer satisfaction shall form a significant part of the overall performance measurement of staff. The performance objectives of staff and annual performance appraisal exercise will take into account these factors. Poor performance (either financial or non-financial) will result in a reduction or elimination of variable remuneration. Comments from risk management, financial control, compliance, internal audit and other units independent of business units shall be obtained.

Variable remuneration comprises cash bonus and share-based payment, the payment of which is subject to the fulfillment of the relevant pre-defined vesting schedule and performance conditions. Claw-back mechanism applies to share-based payment while for senior executives who are defined as material risk takers of the Group, claw-back mechanism will apply to both the cash bonus and share-based payment.

With effect from 2019 grants, options will no longer be granted as part of the deferred bonus.

Senior Management refers to chief executive, alternate chief executive, executive directors and other senior executives who are defined as material risk takers of the Group.

Key Personnel refers to managers as defined and reported under the HKMA's definition of "Managers" whose actions may have a material impact on the risk exposure of the Bank.

The remuneration of staff in risk control functions e.g. risk management, financial control, legal, compliance, internal audit, etc. are determined in accordance with their performance objectives and are independent of the performance of business units which they oversee.

Corporate Governance Report

Nomination Committee

The Nomination Committee is established with specific terms of reference and delegated with the duties that include, amongst others, reviewing and making recommendation to the Board on appointment of Directors, Chairman of the Board, membership of each Board Committee, Chief Executive and Alternate Chief Executive, Chief Financial Officer, Chief Risk Officer, Head of Compliance and other officers as may be delegated by the Board from time to time.

The terms of reference require that the Nomination Committee shall comprise not less than three members and a majority of them and the Chairman of the committee shall be Independent Non-executive Directors. Currently, members of the Nomination Committee are Messrs OOI Sang Kuang (Chairman), Samuel N TSIEN and TSE Hau Yin Aloysius.

Audit Committee

The Audit Committee is delegated by the Board with written terms of reference which specify its authority and duties. The terms of reference require that the Audit Committee shall have at least three Non-executive Directors, the majority of whom including the Chairman shall be independent. Currently, members of the Audit Committee are Messrs TSE Hau Yin Aloysius (Chairman), CHIM Wai Kin and SOON Tit Koon.

The work of the Audit Committee includes review of the financial reporting process of the Group, consideration of the nature and scope of audit, and evaluation of the effectiveness of the systems of internal control, risk management and regulatory compliance and to ensure financial information being relevant, adequate and accurate.

The Audit Committee reviews the external auditors' independence, objectivity and effectiveness of the audit process in accordance with applicable standards.

The Audit Committee also oversees the work and findings of the internal auditors and status of implementation by various units of the recommendations of the internal auditors. The Audit Committee shall report to the Board regularly on any significant matters that require Board attention.

The Bank's Whistle Blowing Program provides a channel for employees and external parties to raise concerns relating to suspected fraud, misconduct or any other irregularities within the Bank. The Audit Committee will be updated on a regular basis on cases received (if any) from whistleblower(s) and appropriate action(s) taken. The whistle blower's interest will be safeguarded at all times, including the right to appeal to the Audit Committee if reprisals are taken against him/her.

Risk Management Committee

The Risk Management Committee is established with specific terms of reference. The terms of reference require that the Risk Management Committee shall comprise not less than three members with a majority being Independent Non-executive Directors. Currently, members of the Risk Management Committee are Messrs CHIM Wai Kin (Chairman), TSE Hau Yin Aloysius and SOON Tit Koon.

The Committee's key role is to oversee the risk management function of the Group. Its key functions include review, advise and recommend for the Board's approval the overall risk appetite, risk tolerance and risk management strategy of the Group. In addition, the Committee also oversees culture related matters of the Group.

Corporate Governance Functions

The Board is responsible for performing the following corporate governance duties:

- review and approve the Bank's policies and practices on corporate governance;
- review and monitor the training and continuous professional development of Directors and senior management;
- review and monitor the Bank's compliance with legal and regulatory requirements; and
- establish, review and approve the code of conduct and compliance policies (if required).

Delegation by the Board

In addition to the Remuneration Committee, Nomination Committee, Audit Committee and Risk Management Committee described above, the Bank has also established other committees, such as the Credit Committee, Management Committee and Asset and Liability Management Committee to oversee the day-to-day operations of the Bank. All committees have specific terms of reference in order to ensure that they discharge their functions properly and to report back to the Board, where appropriate, their decisions and recommendations. Information on these committees is set out below.

The Bank has formalised the functions reserved for the Board and those delegated to senior management. The Bank reviews these arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Bank.

Credit Committee

The Credit Committee is appointed by the Risk Management Committee ("RMC"), as the principal senior management body that supports and is accountable to the RMC in managing the Group's credit risk. The Committee oversees the execution of the Group's credit risk management, framework and policies, to ensure credit risk taking is aligned with the Group's risk appetite and business strategy. It is also responsible to approve all extensions of loans and credit in excess of the levels delegated to the Credit Approving Officers. The Credit Committee comprises the Chief Executive, Chief Risk Officer (North Asia), Chief Risk Officer, Chief Credit Officer and Head of Corporate Banking.

Management Committee

The Management Committee meets regularly to manage the affairs of the Group encompassing all aspects including business, operational, legal, compliance, strategy and planning. The Management Committee comprises the Chief Executive, Alternate Chief Executive, Chief Financial Officer, Chief Information Officer, Chief Operations Officer, Chief Risk Officer (North Asia), Chief Risk Officer, Head of Retail Banking Division, Head of Corporate Banking Division, Head of Treasury Division and Head of Macau Division.

Asset and Liability Management Committee

The Asset and Liability Management Committee is responsible for the implementation and maintenance of the overall risk management framework relating to balance sheet structure, market risk, interest rate risk, funding and liquidity risk management of the Group. It recommends policy and guidelines to the Board for approval. The Asset and Liability Management Committee comprises the Chief Executive, Alternate Chief Executive, Chief Financial Officer, Chief Risk Officer (North Asia), Chief Risk Officer, Head of Treasury Division, Head of Corporate Banking Division, Head of Retail Banking Division and Head of Consumer Banking Department.

Corporate Governance Report

Internal Controls

The Directors are responsible for internal controls of the Bank and its subsidiaries and for reviewing its effectiveness.

Procedures have been designed for safeguarding assets against unauthorized use or disposition; for maintaining proper accounting records; and for ensuring the reliability of financial information used within the business or for publication. The procedures provide reasonable but not absolute assurance against material errors, losses or fraud. Procedures have also been designed to ensure compliance with applicable laws, rules and regulations.

Systems and procedures are in place to identify, control and report on major risks the Group faces. Risk management policies and major risk control limits are approved by the Board.

Business and functional units are responsible for the assessment of risks arising under their areas of responsibility and the management of such risks in accordance with the Group's risk management policies and procedures.

More detailed discussions on the policies and procedures for management of major risks the Group faces, including credit, market, liquidity and operational risks as well as capital management, are included in note 35 to the financial statements.

A review of the effectiveness of the Bank's internal control system covering all key controls, including financial, operational, compliance and risk management controls, is conducted annually. The review result is reported to the Risk Management Committee and the Board.

Internal audit plays an important role in the Bank's internal control framework. It provides independent assurance on the effectiveness of the Bank's internal control and compliance with policies and standards across all business and operational units. Senior management is required to provide internal audit with evidence to verify that it has acted fully on all the recommendations made by external auditors and regulatory authorities. Internal audit also advises senior management on operational efficiency and risk management issues. The work of the internal audit function focuses on areas of higher risk to the Group as determined by a risk-based audit methodology. The Chief Internal Auditor reports to the Audit Committee. The Chairman of the Audit Committee shall report to the Board regularly on any significant matters that require Board attention.

Directors' Responsibility for the Preparation of the Financial Statements

The Directors acknowledge their responsibility for the preparation of the financial statements of the Group and ensure that the financial statements are in accordance with statutory requirements and applicable accounting standards. The statement of the Bank's auditors about their responsibility on the financial statements is included in the Independent Auditor's Report.

Auditors' Remuneration

Details of auditors' remuneration are set out in note 5 to the financial statements.

Hong Kong, 30th April, 2019

Independent Auditor's Report



Independent auditor's report to the member of OCBC Wing Hang Bank Limited
(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of OCBC Wing Hang Bank Limited ("the Bank") and its subsidiaries ("the Group") set out on pages 18 to 148, which comprise the consolidated statement of financial position as at 31st December, 2018, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

Information other than the consolidated financial statements and auditor's report thereon

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

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

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

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

Independent Auditor's Report

Responsibilities of the directors for the consolidated financial statements

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

KPMG

Certified Public Accountants

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

30th April, 2019

Consolidated Statement of Profit or Loss

For the year ended 31st December, 2018

(Expressed in millions of Hong Kong dollars unless otherwise stated)

	Notes	2018	2017
Interest income calculated using the effective interest method	5(a)	8,849	7,028
Other interest income	5(a)	489	226
Interest expense	5(b)	(4,299)	(2,845)
Net interest income		5,039	4,409
Fees and commissions (net)	5(c)	938	820
Dividends	5(d)	11	12
Rental income	5(e)	9	12
Other income	5(f)	549	403
Other operating income		1,507	1,247
Operating income		6,546	5,656
Operating expenses	5(g)	(3,071)	(2,963)
Operating profit before expected credit loss/ impairment losses and allowances		3,475	2,693
Impairment losses and allowances on advances to customers	15	–	28
Change in expected credit loss and other credit impairment charges	15	(245)	–
Operating profit after expected credit loss/ impairment losses and allowances		3,230	2,721
Realised gains on subordinated liabilities		–	44
Share of net gains of associated companies	19	57	65
Profit before taxation		3,287	2,830
Taxation	6(a)	(525)	(422)
Profit for the year attributable to equity shareholder of the Bank	7	2,762	2,408

The notes on pages 24 to 148 form part of these financial statements. Details of dividends payable to equity shareholder of the Bank are set out in note 8.

Consolidated Statement of Comprehensive Income

For the year ended 31st December, 2018

(Expressed in millions of Hong Kong dollars unless otherwise stated)

	Notes	2018	2017
Profit for the year		2,762	2,408
Other comprehensive income for the year (after tax and reclassification adjustments)			
Items that will not be reclassified to profit or loss			
– Surplus on revaluation of bank premises	20	488	605
– Deferred taxes	6(d)	(5)	(28)
– Share of surplus on revaluation of bank premises of associated companies	19	25	14
		508	591
– Equity securities measured at fair value through other comprehensive income			
– Fair value changes		570	–
– Deferred taxes	6(d)	6	–
		576	–
		1,084	591
Items that are or may be reclassified subsequently to profit or loss			
– Exchange adjustments on translation of financial statements of subsidiaries		(404)	541
		(404)	541
– Available-for-sale financial assets			
– Fair value changes			
– on debt securities		–	(58)
– on equity securities		–	202
– Transfer to consolidated statement of profit or loss			
– gains on disposal	5(f)	–	(251)
– Deferred taxes	6(d)	–	46
– Share of fair value changes of available-for-sale financial assets of associated companies	19	–	9
		–	(52)

Consolidated Statement of Comprehensive Income

	Notes	2018	2017
– Debt securities measured at fair value through other comprehensive income			
– Fair value changes		184	–
– Transfer to consolidated statement of profit or loss			
– gains on disposal	5(f)	(51)	–
– expected credit loss recognised		20	–
– Deferred taxes	6(d)	(46)	–
– Exchange adjustments		6	–
– Share of fair value changes of financial assets of associated companies	19	(45)	–
		68	–
– Cash flow hedging reserve			
– Fair value changes taken to equity		6	(6)
– Deferred taxes	6(d)	(1)	1
		5	(5)
– Unappropriated profits			
– Bank premises			
– Deferred taxes	6(d)	14	11
		(317)	495
Other comprehensive income for the year, net of tax		767	1,086
Total comprehensive income for the year attributable to equity shareholder of the Bank		3,529	3,494

The notes on pages 24 to 148 form part of these financial statements.

Consolidated Statement of Financial Position

As at 31st December, 2018

(Expressed in millions of Hong Kong dollars unless otherwise stated)

	Notes	2018	2017 (restated)
ASSETS			
Cash and balances with banks, central banks and other financial institutions	10	10,357	10,951
Placements with banks, central banks and other financial institutions	11	3,836	7,996
Amounts due from ultimate holding company, fellow subsidiaries and fellow associates	34	18,562	8,745
Trading assets	12	6,069	8,787
Financial assets designated at fair value through profit or loss	13	–	20
Advances to customers and other accounts	14(a)	200,207	191,142
Available-for-sale financial assets	16	–	85,731
Financial assets measured at fair value through other comprehensive income	17	71,648	–
Investments in associated companies	19	550	406
Tangible fixed assets	20		
– Investment properties		268	360
– Other properties, plants and equipment		5,691	5,305
Goodwill	21	1,306	1,306
Current tax recoverable	6(c)	89	–
Deferred tax assets	6(d)	38	175
Assets of a disposal group classified as held for sale	19, 22	–	–
Total assets		318,621	320,924
EQUITY AND LIABILITIES			
Deposits and balances of banks, central banks and other financial institutions	23	4,215	4,458
Amounts due to ultimate holding company and fellow subsidiaries	34	37,673	44,422
Deposits from customers	24	221,854	222,459
Certificates of deposit and fixed rate note issued	25	7,320	4,380
Trading liabilities	26, 31	3,400	3,782
Current tax payable	6(c)	384	341
Deferred tax liabilities	6(d)	170	192
Other accounts and provisions	27	3,588	4,336
Total liabilities		278,604	284,370
Share capital	29(a)	7,308	7,308
Reserves		31,209	29,246
Perpetual capital securities issued	29(b)	1,500	–
Total equity		40,017	36,554
Total equity and liabilities		318,621	320,924

Approved and authorised for issue by the Board of Directors on 30th April, 2019.

FUNG Yuk Bun Patrick
NA Wu Beng

Chairman
Executive Director and Chief Executive

The notes on pages 24 to 148 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2018

(Expressed in millions of Hong Kong dollars unless otherwise stated)

	2018									
	At 31st December, 2017	Opening balance adjustment arising from change in accounting policies	At 1st January, 2018 after opening balance adjustment	Issuance of perpetual capital securities*	Transfer to/(from) reserve	Capital distribution	Dividends paid for the year	Profit for the year	Other comprehensive income for the year	At 31st December, 2018
Share capital	7,308	-	7,308	-	-	-	-	-	-	7,308
Capital reserve	349	-	349	-	30	-	-	-	-	379
Statutory reserve	430	-	430	-	-	-	-	-	-	430
General reserve	2,154	-	2,154	-	-	-	-	-	(404)	1,750
Bank premises revaluation reserve	3,448	-	3,448	-	(48)	-	-	-	508	3,908
Investment revaluation reserve (recycling)	284	(417)	(133)	-	-	-	-	-	68	(65)
Investment revaluation reserve (non-recycling)	-	425	425	-	-	-	-	-	576	1,001
Cash flow hedging reserve	-	-	-	-	-	-	-	-	5	5
Unappropriated profits	22,581	(35)	22,546	(1)	18	(38)	(1,500)	2,762	14	23,801
Perpetual capital securities*	-	-	-	1,500	-	-	-	-	-	1,500
Total equity	36,554	(27)	36,527	1,499	-	(38)	(1,500)	2,762	767	40,017

* During the year, the Bank issued HK\$1,500 million non-cumulative Subordinated Additional Tier 1 capital securities. Direct issuance costs of HK\$1 million are accounted for as a deduction from the equity instruments.

	2017				
	At 1st January	Transfer to/(from) reserve	Profit for the year	Other comprehensive income for the year	At 31st December
Share capital	7,308	-	-	-	7,308
Capital reserve	336	13	-	-	349
Statutory reserve	399	31	-	-	430
General reserve	1,613	-	-	541	2,154
Bank premises revaluation reserve	2,890	(33)	-	591	3,448
Investment revaluation reserve	336	-	-	(52)	284
Cash flow hedging reserve	5	-	-	(5)	-
Unappropriated profits	20,173	(11)	2,408	11	22,581
Total equity	33,060	-	2,408	1,086	36,554

The notes on pages 24 to 148 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31st December, 2018

(Expressed in millions of Hong Kong dollars unless otherwise stated)

	Notes	2018	2017
Net cash inflow from operating activities	32(a)	13,010	11,797
Investing activities			
Purchase of financial assets measured at fair value through other comprehensive income		(30,715)	–
Purchase of available-for-sale financial assets		–	(33,286)
Sale and redemption of financial assets measured at fair value through other comprehensive income		19,060	–
Sale and redemption of available-for-sale financial assets		–	32,497
Investment in an associated company	19	(150)	–
Dividends received from associated companies		43	35
Purchase of properties and equipment	20	(127)	(90)
Sale of properties and equipment		2	4
Distribution of an investment properties		5	–
Net cash outflow from investing activities		(11,882)	(840)
Financing activities			
Redemption of subordinated liabilities		–	(3,111)
Issue of new fixed rate note	32(c)	2,251	–
Net proceeds from issue of perpetual capital securities	32(c)	1,500	–
Dividends paid		(1,500)	–
Interest paid on subordinated liabilities		–	(56)
Net cash inflow/(outflow) from financing activities		2,251	(3,167)
Increase in cash and cash equivalents		3,379	7,790
Cash and cash equivalents at 1st January		26,235	17,896
Effects of foreign exchange rate changes		(374)	549
Cash and cash equivalents at 31st December	32(b)	29,240	26,235
Analysis of the balances of cash and cash equivalents			
Cash and balances with banks, central banks and other financial institutions		10,311	10,202
Placements with banks, central banks and other financial institutions with an original maturity within three months		3,442	7,423
Amounts due from ultimate holding company, fellow subsidiaries and fellow associates with an original maturity within three months		14,323	6,425
Treasury bills with an original maturity within three months		1,164	2,185
		29,240	26,235
Cash flows from operating activities included:			
Interest received		8,989	7,170
Interest paid		4,233	2,237
Dividend received		11	13

The notes on pages 24 to 148 form part of these financial statements.

Notes to the Financial Statements

For the year ended 31st December, 2018
(Expressed in millions of Hong Kong dollars unless otherwise stated)

1. Principal activities

The Bank and its subsidiaries (together referred to as “the Group”) are engaged in commercial banking and related financial services.

2. Principal accounting policies

(a) Statement of compliance

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

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Bank. The adoption of these new and revised HKFRSs do not result in significant changes to the Group’s and the Bank’s accounting policies applied in these financial statements for the year presented. Note 4 provides information on the changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31st December, 2018 comprise the Bank and its subsidiaries and the Group’s interest in associated companies. The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

- financial instruments measured at fair value through profit or loss (“FVTPL”) and measured at fair value through other comprehensive income (“FVOCI”) (note 2(f)(2));
- investment property (note 2(k)(vi));
- other freehold land and buildings (note 2(k)(v)); and
- other leasehold land and buildings, for which the fair values cannot be measured separately at the inception of the lease and the entire lease is classified as finance lease (notes 2(k) and 2(l)).

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 3.

2. Principal accounting policies *(continued)*

(c) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in the statement of profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of financial assets (see note 2(f)) or, when appropriate, the cost on initial recognition of an investment in an associated company (see note 2(d)).

In the Bank's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses, if any (see note 2(o)).

(d) Associated companies

An associated company is an entity in which the Group or Bank has significant influence, but not control, or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associated company is accounted for in the consolidated financial statements under the equity method unless it is included in a disposal group that is classified as held for sale (see note 2(t)). Under the equity method, the investment is initially recorded at cost and adjusted for any excess of the Group's share of the acquisition-date fair values of the associated company's identifiable net assets over the cost of the investment (if any). Therefore, the investment is adjusted for the post acquisition change in the Group's share of the associated company's net assets and any impairment loss relating to the investment (see note 2(o)). Any acquisition-date excess over cost, the Group's share of the post-acquisition post-tax results of the associated companies and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax results of the associated companies' other comprehensive income is recognised in the consolidated statement of comprehensive income.

Notes to the Financial Statements

2. Principal accounting policies *(continued)*

(d) Associated companies *(continued)*

Unrealised profits and losses resulting from transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated company, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the statement of profit or loss.

When the Group ceases to have significant influence over an associated company, it is accounted for as a disposal of the entire interest in that associated company, with a resulting gain or loss being recognised in the statement of profit or loss. Any interest retained in that former associated company at the date when significant influence is lost is recognised at fair value, and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(f)).

In the Bank's statement of financial position, its investments in associated companies are stated at cost less impairment losses, if any (note 2(o)).

(e) Goodwill

Goodwill represents the excess of

- (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over
- (ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), this excess is recognised immediately in the statement of profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or group of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (note 2(o)).

On disposal of a cash-generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(f) Financial assets and financial liabilities

(1) Policy applicable before 1st January, 2018

(i) Initial recognition

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

2. Principal accounting policies *(continued)*

(f) Financial assets and financial liabilities *(continued)*

(1) Policy applicable before 1st January, 2018 *(continued)*

(i) Initial recognition *(continued)*

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

The Group recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument. A regular purchase or sale of financial assets and financial liabilities is recognised using settlement date accounting. Any gains and losses arising from changes in fair value of the financial assets or financial liabilities at fair value through profit or loss are recorded.

(ii) Classification

Fair value through profit or loss

This category comprises financial assets and financial liabilities held for trading, and those designated at fair value through profit or loss upon initial recognition, but exclude those investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured.

Trading financial instruments are financial assets or financial liabilities which are acquired or incurred principally for the purpose of trading, or are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

The Group has the option to designate financial instruments at fair value through profit or loss upon initial recognition when:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise;
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract; or
- the separation of the embedded derivatives from the financial instrument is not prohibited.

Financial assets and financial liabilities under this category are carried at fair value. Changes in the fair value are included in the statement of profit or loss in the period in which they arise. Upon disposal or repurchase, the difference between the net sale proceeds or net payment and the carrying value is included in the statement of profit or loss.

Notes to the Financial Statements

2. Principal accounting policies *(continued)*

(f) Financial assets and financial liabilities *(continued)*

(1) Policy applicable before 1st January, 2018 *(continued)*

(ii) Classification *(continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than (1) those that the Group intends to sell immediately or in the short term, which will be classified as held for trading; (2) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or (3) those for which the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available-for-sale. Loans and receivables mainly comprise loans and advances to customers and banks, and placements with banks, central banks and other financial institutions.

Securities classified as loans and receivables typically comprise securities issued by the same customers with whom the Group has a lending relationship that are not quoted in an active market. Investment decisions for credit substitute securities are subject to the same credit approval processes as loans, and the Group bears the same customer risk as it does for loans extended to those customers. Additionally, the yield and maturity terms are generally directly negotiated by the Group with the issuer. These securities include commercial paper, short term debentures and preference shares issued by the borrower.

Loans and receivables, and securities classified as loans and receivables, are carried at amortised cost using the effective interest method, less impairment losses, if any (note 2(o)).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other two categories above. They include financial assets intended to be held for an indefinite period of time, but which may be sold in response to needs for liquidity or changes in the market environment.

Available-for-sale financial assets are carried at fair value. Unrealised gains and losses arising from changes in the fair value are recognised in other comprehensive income and accumulated separately in equity, except for impairment losses and foreign exchange gains and losses on monetary items such as debt securities which are recognised in the statement of profit or loss.

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be measured reliably, and derivatives that are linked to and must be settled by delivery of such unquoted equity securities are carried at cost less impairment losses, if any (note 2(o)). Interest income from debt securities calculated using the effective interest method and dividend income from equity securities are recognised in the statement of profit or loss as set out in notes 5(a) and 5(d) respectively.

When the available-for-sale financial assets are sold, gains or losses on disposal include the difference between the net sale proceeds and the carrying value, and the accumulated fair value adjustments which are previously recognised in other comprehensive income shall be reclassified from equity to the statement of profit or loss.

2. Principal accounting policies *(continued)*

(f) Financial assets and financial liabilities *(continued)*

(1) Policy applicable before 1st January, 2018 *(continued)*

(ii) Classification *(continued)*

Other financial liabilities

Financial liabilities, other than trading liabilities and those designated at fair value through profit or loss, are measured at amortised cost using the effective interest method.

(iii) Fair value measurement principles

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

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

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

(2) Policy applicable after 1st January, 2018

(i) Classification and measurement of financial assets

On initial recognition, a non-derivative financial asset is either measured at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL).

(a) Business model assessment

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;

Notes to the Financial Statements

2. Principal accounting policies *(continued)*

(f) Financial assets and financial liabilities *(continued)*

(2) Policy applicable after 1st January, 2018 *(continued)*

(i) Classification and measurement of financial assets *(continued)*

(a) Business model assessment *(continued)*

- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy of how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading and whose performance is evaluated or managed on a fair value basis are measured at FVTPL because they are neither within the business model to hold to collect contractual cash flows, nor within the business model to hold both to collect contractual cash flows and to sell financial assets.

(b) Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

(ii) Debt instruments measured at FVOCI

A debt financial instrument is measured at FVOCI if it meets both of the following conditions and is not designated at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial asset; and
- its contractual terms give rise to cash flows that are solely payments of principal and interest on the principal outstanding.

Debt instruments classified at FVOCI are subject to the expected credit loss requirements in accordance with HKFRS 9. Interest earned whilst holding the financial assets is included in interest income.

2. Principal accounting policies *(continued)*

(f) Financial assets and financial liabilities *(continued)*

(2) Policy applicable after 1st January, 2018 *(continued)*

(ii) Debt instruments measured at FVOCI *(continued)*

At the reporting date, the Group recognises unrealised fair value gains and losses on revaluing these assets in other comprehensive income (OCI) and presents the cumulative gains and losses in fair value reserve within equity, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses, which are recognised in the consolidated statement of profit or loss. At maturity or upon disposal, the cumulative gain or loss previously recognised in OCI is reclassified from fair value reserve to the consolidated statement of profit or loss.

(iii) Debt instruments measured at FVTPL

Debt instruments that do not meet the requirements to be measured at amortised cost or at FVOCI are measured at FVTPL. At the reporting date, the Group recognises realised and unrealised gains and losses as trading income in the consolidated statement of profit or loss. Interest earned while holding the assets are included in interest income.

(iv) Designation at FVTPL

On initial recognition, the Group may irrevocably designate a financial asset, which otherwise meets the requirements to be measured at amortised cost or at FVOCI, at FVTPL if doing so, it eliminates or significantly reduces an accounting mismatch that would otherwise arise. Upon designation, financial assets are measured at fair value on each reporting date until maturity or derecognition. Realised and unrealised fair value changes are recognised in the consolidated statement of profit or loss.

(v) Equity instruments

Equity instruments held for trading are classified at FVTPL. Equity instruments that are not held for trading may be classified as FVOCI based on an irrevocable election on initial recognition on an investment-by-investment basis.

At the reporting date, realised and unrealised fair value gains or losses on revaluing the equity instruments classified at FVTPL are recognised in the consolidated statement of profit or loss. Realised and unrealised fair value gains or losses on revaluing the equity instruments classified at FVOCI are recognised in other comprehensive income and are never reclassified to the consolidated statement of profit or loss.

Dividend earned whilst holding the equity instruments classified at FVTPL is reported as dividend income in the consolidated statement of profit or loss. Dividend from equity instruments classified at FVOCI is recognised as dividend income in the consolidated statement of profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment.

(vi) Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period when the Group changes its business model for managing its financial assets.

The existing notes 2(f)(2)(vii) to (xi) designated under HKAS 39 as at 31st December, 2017 are aligned accordingly to the requirements of HKFRS 9.

Notes to the Financial Statements

2. Principal accounting policies *(continued)*

(f) Financial assets and financial liabilities *(continued)*

(2) Policy applicable after 1st January, 2018 *(continued)*

(vii) Derecognition

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

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

The Group uses the first-in first-out method to determine realised gains or losses to be recognised in the statement of profit or loss on derecognition.

(viii) Offsetting

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

(ix) Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. Derivatives may be embedded in another contractual arrangement (a host contract). The Group accounts for an embedded derivative separately from the host contract when:

- the host contract is not an asset in the scope of IFRS 9 (policy applicable from 1st January, 2018);
- the host contract is not itself carried at FVTPL;
- the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship. Separated embedded derivatives are presented in the statement of financial position together with the host contract.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities, or commitments (fair value hedge); or, (2) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

2. Principal accounting policies *(continued)*

(f) Financial assets and financial liabilities *(continued)*

(2) Policy applicable after 1st January, 2018 *(continued)*

(ix) Embedded derivatives *(continued)*

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents the assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(x) Fair value hedging

Changes in the fair value of derivatives that are designated and that qualify as fair value hedging instruments are recorded in the statement of profit or loss, together with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk. If the hedge relationship is terminated, the fair value adjustment to the hedged item continues to be reported as part of the carrying value of the asset or liability and is amortised to the statement of profit or loss as a yield adjustment over the remaining maturity of the asset or liability.

(xi) Cash flow hedging

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedging instruments are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the statement of profit or loss.

Amounts accumulated in equity are recycled to the statement of profit or loss in the periods in which the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss recognised in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the statement of profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in equity is immediately transferred to the statement of profit or loss.

(g) Repurchase and reverse repurchase transactions

Assets sold subject to a simultaneous agreement to repurchase these assets at a certain later date at a fixed price (repurchase agreements) are retained in the financial statements and measured in accordance with their original measurement principles. The proceeds from the sale are reported as liabilities to the counterparties and are carried at amortised cost.

Assets purchased under agreements to resell (reverse repurchase agreements) are reported not as purchases of the assets, but as receivables from the counterparties and are carried in the statement of financial position at amortised cost.

Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements are recognised as interest income and interest expense respectively, over the life of each agreement using the effective interest method.

Notes to the Financial Statements

2. Principal accounting policies *(continued)*

(h) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the statement of profit or loss as follows:

(i) Interest income

(1) Policy applicable before 1st January, 2018

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

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Cash rebates granted in relation to residential mortgage loans are capitalised and amortised to the statement of profit or loss over their expected life.

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

(2) Policy applicable after 1st January, 2018

Effective interest rate

Interest income is recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of the financial asset.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset.

2. Principal accounting policies *(continued)*

(h) Revenue recognition *(continued)*

(i) Interest income *(continued)*

(2) Policy applicable after 1st January, 2018 *(continued)*

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset is the amount at which the financial asset is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1st January, 2018).

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income

The effective interest rate of a financial asset is calculated on initial recognition of a financial asset. In calculating interest income, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired). The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see note (o).

(ii) Fees and commission income

(1) Policy applicable before 1st January, 2018

Fees and commission income is recognised in the statement of profit or loss when the corresponding service is provided, except where the fee is charged to cover the costs of a continuing service to, or risk borne for, the customer, or is interest in nature. In these cases, the fee is recognised as income in the accounting period in which the costs or risk is incurred and is accounted for as interest income.

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

Notes to the Financial Statements

2. Principal accounting policies *(continued)*

(h) Revenue recognition *(continued)*

(ii) Fees and commission income *(continued)*

(2) Policy applicable after 1st January, 2018

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.

Other fee and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – is recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

A contract with a customer that results in a recognised financial instrument in the Group's financial statements may be partially in the scope of HKFRS 9 and partially in the scope of HKFRS 15. If this is the case, then the Group first applies HKFRS 9 to separate and measure the part of the contract that is in the scope of HKFRS 9 and then applies HKFRS 15 to the residual.

Other fee and commission expenses relating mainly to transaction and service fees which are expensed as the services are received.

(iii) Finance income from finance lease and hire purchase contract

Finance income implicit in finance lease and hire purchase payments is recognised as interest income over the period of the leases so as to produce an approximately constant periodic rate of return on the outstanding net investment in the leases for each accounting period. Contingent rentals receivable are recognised as income in the accounting period in which they are earned. Commission paid to dealers for acquisition of finance lease loans or hire purchase contracts is included in the carrying value of the assets and amortised to the statement of profit or loss over the expected life of the lease as an adjustment to interest income.

(iv) Rental income from operating lease

Rental income receivable under operating leases is recognised as other operating income in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised in the statement of profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals receivable are recognised as income in the accounting period in which they are earned.

(v) Dividend income

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established. Dividend income from listed investments is recognised when the share price of the investment is quoted ex-dividend.

2. Principal accounting policies *(continued)*

(i) Income tax

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

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

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

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

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 2(k), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are not discounted.

Notes to the Financial Statements

2. Principal accounting policies *(continued)*

(i) **Income tax** *(continued)*

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

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

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

- in the case of current tax assets and liabilities, the Bank and the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(j) **Translation of foreign currencies**

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

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

The results of an overseas operation are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statements of financial position items are translated into Hong Kong dollars at the foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the reserve.

On disposal of an overseas operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to the statement of profit or loss when the profit or loss on disposal is recognised.

2. Principal accounting policies *(continued)*

(k) Tangible fixed assets and depreciation

- (i) Bank premises that are held for the Group's administrative use are stated in the statement of financial position at their revalued amount, being their fair values at the date of revaluation less any subsequent accumulated depreciation. Revaluations are performed with sufficient regularity by professional qualified valuers to ensure that the carrying amount does not differ materially from that which would be determined using fair values at the end of the reporting period. Changes arising on the revaluation are generally dealt with in other comprehensive income and are accumulated separately in equity in the bank premises revaluation reserve. The only exceptions are as follows:
 - when a deficit arises on revaluation, it will be charged to the statement of profit or loss to the extent that it exceeds the amount held in the reserve in respect of that same asset immediately prior to the revaluation; and
 - when a surplus arises on revaluation, it will be credited to the statement of profit or loss to the extent that a deficit on revaluation in respect of that same asset had previously been charged to the statement of profit or loss.
- (ii) Bank premises that are not held for the Group's administrative use are stated in the statement of financial position at cost less accumulated depreciation and impairment losses. In preparing these financial statements, advantage has been taken of the transitional provisions set out in paragraph 80AA of HKAS 16, *Property, plant and equipment*, issued by the HKICPA, with the effect that bank premises that are not held for administrative use have not been revalued to fair value at the reporting date.
- (iii) Gains or losses arising from the retirement or disposal of bank premises are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in the statement of profit or loss on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits and is not reclassified to the statement of profit or loss.
- (iv) Equipment, comprising furniture, plant and other equipment, is stated at cost less depreciation calculated on a straight-line basis to write off the assets over their estimated useful lives, which are generally between three to ten years.
- (v) No amortisation is provided on freehold land. Leasehold land (note 2(l)) is amortised in equal annual instalments over the remaining term of the lease. Buildings are depreciated by equal instalments over the estimated useful lives which in no case exceed fifty years.
- (vi) Investment properties are land and/or buildings which are owned and/or held under a leasehold interest (note 2(l)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use, which are stated in the statement of financial position at their fair values which are assessed annually by professional qualified valuers. Any gain or loss arising from a change in fair value or from the retirement or disposal of investment properties is recognised in the statement of profit or loss.

Notes to the Financial Statements

2. Principal accounting policies *(continued)*

(I) Finance and operating leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Finance leases

Where the Group is a lessor under finance leases, an amount representing the net investment in the lease is included in the statement of financial position as “Advances to customers”. Hire purchase contracts having the characteristics of finance leases are accounted for in the same manner as finance leases. Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(o).

(iii) Operating leases

Where the Group leases out assets under operating leases, the assets are included in the statement of financial position according to their nature and, where applicable, are depreciated in accordance with the Group’s depreciation policies, as set out in note 2(k) except where the asset is classified as an investment property. Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(o). Revenue arising from operating leases is recognised in accordance with the Group’s revenue recognition policies, as set out in note 2(h) (iv).

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

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property (note 2(k)(vi)).

2. Principal accounting policies *(continued)*

(m) Repossessed assets

In the recovery of impaired loans and advances, the Group may take possession of the collateral assets through court proceedings or voluntary delivery of possession by the borrowers. In accordance with the Group's accounting policy set out in note 2(o), expected credit loss/impairment allowances for impaired loans and advances are maintained after taking into account the net realisable value of the repossessed assets. Repossessed assets continue to be treated as securities for loans and advances. The Group does not hold the repossessed assets for its own use.

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

(n) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee ("the holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee to customers, the fair value of the guarantee is initially recognised as deferred income within other liabilities. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where the Bank issues a financial guarantee to its subsidiaries, the fair value of the guarantee is estimated and capitalised as the cost of investment in subsidiaries and deferred income within "Other accounts and provisions".

The amount of the guarantee initially recognised as deferred income is amortised in the statement of profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(o)(2)(iii) if and when (1) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee; and (2) the amount of that claim on the Group is expected to exceed the amount currently carried in other liabilities in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

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

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

Notes to the Financial Statements

2. Principal accounting policies *(continued)*

(o) Impairment of assets

(1) Policy applicable before 1st January, 2018

The carrying amounts of the Group's assets are reviewed at each reporting date to determine whether there is objective evidence of impairment. Objective evidence that financial assets are impaired includes observable data that comes to the attention of the Group about one or more of the following loss events which have an impact on the future cash flows on the assets that can be estimated reliably:

- significant financial difficulty of the issuer or borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the borrower;
- disappearance of an active market for financial assets because of financial difficulties; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, the carrying amount is reduced to the estimated recoverable amount by means of a charge to the statement of profit or loss.

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

(i) Loans and receivables

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

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

2. Principal accounting policies *(continued)*

(o) Impairment of assets *(continued)*

(1) Policy applicable before 1st January, 2018 *(continued)*

(i) Loans and receivables *(continued)*

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

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

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

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

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

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

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

Notes to the Financial Statements

2. Principal accounting policies *(continued)*

(o) Impairment of assets *(continued)*

(1) Policy applicable before 1st January, 2018 *(continued)*

(ii) Available-for-sale financial assets

When there is objective evidence that an available-for-sale financial asset is impaired, the cumulative loss that had been recognised in the investment revaluation reserve is reclassified to the statement of profit or loss. The amount of the cumulative loss that is recognised in the statement of profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in the statement of profit or loss.

For unquoted available-for-sale equity securities that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the equity securities and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Such impairment losses are not reversed.

Impairment losses recognised in the statement of profit or loss in respect of available-for-sale equity securities are not reversed through the statement of profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in the statement of profit or loss.

(iii) Other assets

Internal and external sources of information are reviewed at each reporting date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- tangible fixed assets (other than properties carried at revalued amounts);
- investments in subsidiaries and associated companies; and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

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

2. Principal accounting policies *(continued)*

(o) Impairment of assets *(continued)*

(1) Policy applicable before 1st January, 2018 *(continued)*

(iii) Other assets *(continued)*

– Recognition of impairment losses

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

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

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

(2) Policy applicable after 1st January, 2018

HKFRS 9 replaces the existing HKAS 39 loan provisioning requirements with a forward-looking expected credit loss (ECL) model.

(i) Scope

Under HKFRS 9, the expected credit loss model is applied to debt financial assets classified at amortised cost or FVOCI, except for equity investments, and certain off-balance sheet loan commitments and financial guarantees which were previously provided for under HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

(ii) Expected credit loss impairment model

Under HKFRS 9, credit loss allowances are measured on each reporting date according to a three-stage expected credit loss impairment model:

- Stage 1 – On initial recognition, expected credit loss will be that resulting from default events that are possible over the next 12 months (12-month ECL).
- Stage 2 – Following a significant increase in credit risk of the financial assets since its initial recognition, the credit loss allowance will be that resulting from default events that are possible over the expected life of the asset (Lifetime ECL).
- Stage 3 – When a financial asset exhibits objective evidence of impairment and is considered to be credit-impaired, the credit loss allowance will be the full lifetime expected credit loss.

Notes to the Financial Statements

2. Principal accounting policies *(continued)*

(o) Impairment of assets *(continued)*

(2) Policy applicable after 1st January, 2018 *(continued)*

(iii) Measurement

ECL are probability-weighted estimates of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

The key inputs used in the measurement of ECL are:

- Probability of default (PD) – This is an estimate of the likelihood of default over a given time horizon;
- Exposure at default (EAD) – This is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest as well as expected drawdowns on committed facilities;
- Loss given default (LGD) – This is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the Group would expect to receive, including from any collateral.

ECL for exposures in Stage 1 are calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying lifetime PD by LGD and EAD.

Loans and bills receivables that are collectively assessed are grouped on the basis of shared credit risk characteristics such as account loan type, industry, geographical location of the borrower, collateral type and other relevant factors.

All key inputs (PD, LGD and EAD) used to estimate Stage 1 and Stage 2 expected credit loss are modelled based on three macroeconomic scenarios (or changes in macroeconomic variables) that are most closely correlated with expected credit loss in the relevant portfolio.

2. Principal accounting policies *(continued)*

(o) Impairment of assets *(continued)*

(2) Policy applicable after 1st January, 2018 *(continued)*

(iii) Measurement *(continued)*

The three macroeconomic scenarios represent a most likely “Base” outcome, and two other less likely “Upside” and “Downside” scenarios. These scenarios are probability-weighted and underlying key macroeconomic assumptions are based on independent external and in-house views. The assumptions are subject to regular management reviews to reflect current economic situations.

Each macroeconomic scenario used in the expected credit loss calculation includes a projection of all relevant macroeconomic variables used in the models for the lifetime period, reverting to long-run averages generally after 3 to 5 years periods. Depending on their usage in the models, macroeconomic variables are projected at a country or more granular level which differ by portfolio. The primary macroeconomic variables adopted are Gross Domestic Product, Unemployment rate, Property Price Index and Interest rate.

The definition of default used in the measurement of expected credit losses is consistent with the definition of default used for credit risk management purposes. The default definition has been applied consistently to model the PD, LGD and EAD throughout Group’s expected credit loss calculations.

The Group considers a financial asset to be in default by assessing both quantitative and qualitative criteria such as days past due and the terms of financial covenants. A default occurs when the borrower or bond issuer is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held) or when the financial asset is more than 90 days past due.

The maximum period considered when estimating ECL are the maximum contractual period over which the Group is exposed to credit risk.

Financial assets are written off against their related impairment allowances when all feasible recovery actions have been exhausted or when the recovery prospects are considered remote.

(iv) Movement between stages

Movements between Stage 1 and Stage 2 are based on whether an instrument’s credit risk as at the reporting date has increased significantly since its initial recognition.

In accordance with HKFRS 9, financial assets are classified in Stage 2 where there is a significant increase in credit risk since initial recognition, where the expected credit loss will be measured using lifetime ECL.

Notes to the Financial Statements

2. Principal accounting policies *(continued)*

(o) Impairment of assets *(continued)*

(2) Policy applicable after 1st January, 2018 *(continued)*

(iv) Movement between stages *(continued)*

The Group considers both qualitative and quantitative parameters in the assessment of whether this is a significant increase in credit risk. These include the following:

- (a) The Group has established thresholds for significant increases in credit risk based on both a relative and absolute change in lifetime PD relative to initial recognition.
- (b) The Group conducts qualitative assessment to ascertain if there has been significant increase in credit risk.
- (c) The Group uses days past due as a further indication of significant increase in credit risk.

Movements between Stage 2 and Stage 3 are based on whether financial assets are credit-impaired as at the reporting date. The determination of whether a financial asset is credit-impaired under HKFRS 9 will be based on objective evidence of impairment.

The assessments for a significant increase in credit risk since initial recognition and credit-impairment are performed independently as at each reporting period. Assets can move in both directions through the stages of the impairment model. After a financial asset has migrated to Stage 2, if it is no longer considered that credit risk has significantly increased relative to initial recognition in a subsequent reporting period, it will move back to Stage 1. A modification of the terms of a financial asset that does not result in derecognition will result in the financial asset being transferred out of Stage 3 if the indicators of it being identified as credit-impaired is no longer met and that the evidence for its transfer out of Stage 3 solely relates to events such as up-to-date and timely payment occurring in the subsequent periods.

If a modified financial asset results in derecognition, the new financial asset will be recognised under Stage 1, unless it is assessed to be credit-impaired at time of the modification.

(p) Related parties

(i) A person, or a close member of that person's family, is related to the Group if that person:

- (1) has control or joint control of the Group;
- (2) has significant influence over the Group; or
- (3) is a member of the key management personnel of the Group or the Group's parent.

2. Principal accounting policies *(continued)*

(p) Related parties *(continued)*

(ii) An entity is related to the Group if any of the following conditions applies:

- (1) the entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
- (2) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member);
- (3) both entities are joint ventures of the same third party;
- (4) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (5) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (6) the entity is controlled or jointly controlled by a person identified in note 2(p)(i);
- (7) a person identified in note 2(p)(i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); or
- (8) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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

(q) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's chief operating decision maker for the purposes of allocating resources to, and assessing the performance of the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

(r) Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with banks, central banks and other financial institutions, and short-term, highly liquid inter-bank placements and investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Balances of banks, central banks and other financial institutions that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purposes of the consolidated cash flow statement.

Notes to the Financial Statements

2. Principal accounting policies *(continued)*

(s) Employee benefits

- (i)** Salaries, annual bonuses, paid annual leave and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group.
- (ii)** Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Funds Scheme Ordinance are recognised as an expense in the statement of profit or loss when incurred.
- (iii)** The Bank's ultimate holding company, Oversea-Chinese Banking Corporation Limited, granted equity instruments under the OCBC Deferred Share Plan ("DSP") and OCBC Share Option Scheme 2001 ("2001 Scheme") to eligible employees of the Group as deferred compensation plans.

The compensation plans are recognised as expense in the statement of profit or loss based on the fair value of the equity instruments at the date of the grant. The expense is recognised in the statement of profit or loss over the vesting period of the grant.

At each reporting date, the Group revises its estimates of the number of equity instruments expected to be vested, and the impact of the change to the original estimates, if any, is recognised in the statement of profit or loss over the remaining vesting period.

On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of equity instruments that vest. Details of the plans are set out in note 36.

(t) Assets of a disposal group classified as held for sale

A disposal group is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the disposal group is available for sale in its present condition. A disposal group is a Group of assets to be disposed of together as a Group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

Immediately before classification as held for sale, the measurement of all individual assets and liabilities in a disposal group is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the disposal groups are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group and the Bank are concerned are deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries, associates and joint ventures) and investment properties. These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 2.

Impairment losses on initial classification as held for sale, and on subsequent re-measurement while held for sale, are recognised in the statement of profit or loss. As long as a non-current asset is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortised.

3. Accounting estimates and judgements

Notes 20, 21 and 37 contain information about the assumptions and their risk factors relating to valuation of investment property and bank premises held for administrative use, goodwill impairment and fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Key sources of estimation uncertainty

Policy applicable to both before and after 1st January, 2018

(i) Fair value estimation

Fair value is derived from quoted market prices or valuation techniques which maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The fair values of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) are determined by using valuation techniques. Where unobservable data inputs have a significant impact on the value obtained from the valuation model, such a financial instrument is initially recognised at the transaction price, which is the best indicator of fair value. The difference between the transaction price and the model value, commonly referred to as “day one profit and loss” is not recognised immediately in the consolidated statement of profit or loss.

The timing of recognition of the deferred day one profit and loss is determined individually. It is amortised over the life of the transaction, released when the instrument’s fair value can be determined using market observable inputs, or when the transaction is derecognised.

Policy applicable before 1st January, 2018

Impairment losses

(i) Loans and advances

Loan portfolios are reviewed periodically to assess whether impairment losses exist. The Group makes judgements as to whether there is any objective evidence that a loan portfolio is impaired, i.e. whether there is a decrease in estimated future cash flows. Objective evidence for impairment is described in accounting policy (note 2(o)). If management has determined, based on their judgement, that objective evidence of impairment exists, expected future cash flows are estimated based on historical loss experience for assets with credit risk characteristics similar to those of the Group. Historical loss experience is adjusted on the basis of the current observable data. Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss experience.

(ii) Available-for-sale equity securities

The Group determines that available-for-sale equity securities are impaired when there has been a significant or prolonged decline in the fair value below cost. The determination of when a decline in fair value below cost is not recoverable within a reasonable time period is judgmental by nature, so profit and loss could be affected by differences in this judgement.

Notes to the Financial Statements

3. Accounting estimates and judgements *(continued)*

(a) Key sources of estimation uncertainty *(continued)*

Policy applicable after 1st January, 2018

(i) Impairment of financial assets

In determining whether the credit risk of the Group's financial exposures has increased significantly since initial recognition, the Group will consider reasonable and supportable information that is readily available without undue cost or effort. This includes both quantitative and qualitative information such as the Group's historical credit assessment experience and available forward-looking information. ECL estimates are produced for all relevant instruments based on probability-weighted forward-looking economic scenarios. The measurement of ECL is primarily calculated based on the probability of default, loss given default and exposure at default. These are parameters derived from internal rating models after adjusting them to be unbiased and forward-looking. Where internal rating models are not available, such estimates are based on comparable internal rating models after adjusting for portfolio differences.

The PD, LGD and EAD models which support these determinations are reviewed regularly in light of differences between loss estimates and actual loss experience.

(b) Critical accounting judgements in applying the Group's accounting policies

Certain critical accounting judgements in applying the Group's accounting policies are described below:

(i) Investment property

The Group has temporarily sub-let certain vacant properties but has decided not to treat the properties as investment properties because it is not the Group's intention to hold the properties in the long-term for capital appreciation or rental income. Accordingly, the properties have still been treated as a building held for own use.

4. Changes in accounting policies

The Hong Kong Institute of Certified Public Accountants has issued a number of amendments, new standards and interpretations which are effective for the accounting periods beginning on or after 1st January, 2018.

HKFRS 9, *Financial instruments*

With effect from 1st January, 2018, HKFRS 9 supersedes HKAS 39, *Financial Instruments: Recognition and Measurement*. HKFRS 9 prescribes new accounting requirements for classification and measurement of financial instruments, a new expected credit loss model of measuring impairment of financial assets, and new general hedge accounting requirements.

The date of transition to HKFRS 9, *Financial Instruments* was 1st January, 2018, as the Group elected to apply the exemptions granted under HKFRS 1 not to restate the financial information of its comparative period in respect of financial instruments. The Group was also exempted from the application of HKFRS 7, *Financial Instruments: Disclosures* for the comparative period to the extent the disclosures relate to items in scope of HKFRS 9.

The Group was required to recognise the cumulative effect of first-time adopting HKFRS 9 in Unappropriated Profit as at 1st January, 2018.

The accounting policies for financial instruments under HKFRS 9 from 1st January, 2018 is disclosed below.

The following sets out information on the significant changes in accounting policies for the current and opening balances reflected in this financial report.

Notes to the Financial Statements

4. Changes in accounting policies (continued)

HKFRS 9, Financial instruments (continued)

(a) Restatement of opening balances

The following table discloses the adjustments that have been made in accordance with the transitional provision of the respective HKFRS to each line item in the consolidated statement of financial position reported for the year ended 31st December, 2017.

	At 31st December, 2017	Opening balance adjustment on HKFRS 9	At 1st January, 2018
ASSETS			
Cash and balances with banks, central banks and other financial institutions	10,951	–	10,951
Placements with banks, central banks and other financial institutions	7,996	(6)	7,990
Amounts due from ultimate holding company, fellow subsidiaries and fellow associates	8,745	–	8,745
Trading assets	8,787	–	8,787
Financial assets designated at fair value through profit or loss	20	–	20
Advances to customers and other accounts	191,142	155	191,297
Available-for-sale financial assets	85,731	(85,731)	–
Financial assets measured at fair value through other comprehensive income	–	85,731	85,731
Investments in associated companies	406	–	406
Tangible fixed assets			
– Investment properties	360	–	360
– Other properties, plants and equipment	5,305	–	5,305
Goodwill	1,306	–	1,306
Deferred tax assets	175	(46)	129
Total assets	320,924	103	321,027
EQUITY AND LIABILITIES			
Deposits and balances of banks, central banks and other financial institutions	4,458	–	4,458
Amounts due to ultimate holding company and fellow subsidiaries	44,422	–	44,422
Deposits from customers	222,459	–	222,459
Certificates of deposit issued	4,380	–	4,380
Trading liabilities	3,782	–	3,782
Current tax payable	341	–	341
Deferred tax liabilities	192	(35)	157
Other accounts and provisions	4,336	165	4,501
Total liabilities	284,370	130	284,500
Share capital	7,308	–	7,308
Reserves			
– Capital reserve	349	–	349
– Statutory reserve	430	–	430
– General reserve	2,154	–	2,154
– Bank premises revaluation reserve	3,448	–	3,448
– Investment revaluation reserve (recycling)	284	(417)	(133)
– Investment revaluation reserve (non-recycling)	–	425	425
– Cash flow hedging reserve	–	–	–
– Unappropriated profits	22,581	(35)	22,546
Total reserves	29,246	(27)	29,219
Total equity	36,554	(27)	36,527
Total equity and liabilities	320,924	103	321,027

4. Changes in accounting policies (continued)

HKFRS 9, *Financial instruments* (continued)

(b) Classification and measurement: financial assets and financial liabilities

On initial recognition, a non-derivative financial asset is either measured at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit and loss (FVTPL).

The following table shows the original measurement categories in accordance with HKAS 39 and the new measurement categories under HKFRS 9 for the Group's financial assets and financial liabilities as at 1st January, 2018.

	Original classification under HKAS 39	New classification under HKFRS 9	Original carrying amount under HKAS 39	New carrying amount under HKFRS 9
Financial assets				
Cash and balances with banks, central banks and other financial institutions	Loans and receivables	Amortised cost	10,951	10,951
Placements with banks, central banks and other financial institutions	Loans and receivables	Amortised cost	7,996	7,990
Amounts due from ultimate holding company, fellow subsidiaries and fellow associates	Loans and receivables	Amortised cost	7,911	7,911
Amounts due from ultimate holding company, fellow subsidiaries and fellow associates	Available-for-sale	FVOCI	834	834
Trading assets	FVTPL	FVTPL	8,787	8,787
Financial assets designated at fair value through profit or loss	FVTPL	FVTPL	20	20
Advances to customers and other accounts	Loans and receivables	Amortised cost	191,142	191,297
Available-for-sale financial assets	Available-for-sale	FVOCI	85,731	–
Financial assets measured at fair value through other comprehensive income	Available-for-sale	FVOCI	–	85,731
Total financial assets			313,372	313,521
Financial liabilities				
Deposits and balances of banks, central banks and other financial institutions	Amortised cost	Amortised cost	4,458	4,458
Amounts due to ultimate holding company and fellow subsidiaries	Amortised cost	Amortised cost	44,422	44,422
Deposits from customers	Amortised cost	Amortised cost	222,459	222,459
Certificates of deposit issued	Amortised cost	Amortised cost	4,380	4,380
Trading liabilities	FVTPL	FVTPL	3,782	3,782
Total financial liabilities			279,501	279,501

Notes to the Financial Statements

4. Changes in accounting policies *(continued)*

HKFRS 9, *Financial instruments* *(continued)*

(b) Classification and measurement: financial assets and financial liabilities *(continued)*

The accounting policies for financial instruments under HKFRS 9 are disclosed in notes 2(f) and 2(o). The application of these policies resulted in the reclassifications set out in the table above and explained below.

(1) Available-for-sales to FVOCI

Debt securities that are reclassified within this category are held by the Group to maintain everyday liquidity needs. The Group manages the returns in this separate portfolio by collecting contractual payments or selling these securities. The equity securities within the FVOCI classification are not held for trading and represent investments that the Group intend to hold for long term strategic purposes.

4. Changes in accounting policies (continued)

HKFRS 9, Financial instruments (continued)

- (c) The following table reconciles the carrying amounts under HKAS 39 to the carrying amounts under HKFRS 9 on transition to HKFRS 9 on 1st January, 2018.

	HKAS 39 carrying amount 31st December, 2017	Reclassification	Remeasurement	HKFRS 9 carrying amount 1st January, 2018
Financial assets				
Amortised cost				
Cash and balances with banks, central banks and other financial institutions:				
Opening balance	10,951	–	–	10,951
Remeasurement	–	–	–	–
Closing balance				10,951
Placements with banks, central banks and other financial institutions:				
Opening balance	7,996	–	–	7,996
Remeasurement	–	–	(6)	(6)
Closing balance				7,990
Amounts due from ultimate holding company, fellow subsidiaries and fellow associates:				
Opening balance	7,911	–	–	7,911
Remeasurement	–	–	–	–
Closing balance				7,911
Advances to customers and trade bills:				
Opening balance	182,901	–	–	182,901
Remeasurement	–	–	155	155
Closing balance				183,056
Advances to banks:				
Opening balance	4,922	–	–	4,922
Remeasurement	–	–	–	–
Closing balance				4,922
Total amortised cost	214,681	–	149	214,830

Notes to the Financial Statements

4. Changes in accounting policies *(continued)*

HKFRS 9, *Financial instruments* *(continued)*

- (c) The following table reconciles the carrying amounts under HKAS 39 to the carrying amounts under HKFRS 9 on transition to HKFRS 9 on 1st January, 2018. *(continued)*

	HKAS 39 carrying amount 31st December, 2017	Reclassification	Remeasurement	HKFRS 9 carrying amount 1st January, 2018
Available-for-sale				
Investment securities:				
Opening balance	85,731	–	–	85,731
To FVOCI – equity	–	(572)	–	(572)
To FVOCI – debt securities	–	(85,159)	–	(85,159)
Closing balance				–
Amounts due from ultimate holding company, fellow subsidiaries and fellow associates				
Investment securities:				
Opening balance	834	–	–	834
To FVOCI-amounts due from ultimate holding company, fellow subsidiaries and fellow associates	–	(834)	–	(834)
Closing balance				–
Total available-for-sale	86,565	(86,565)	–	–
FVOCI – Debt securities				
Investment securities:				
Opening balance	–	–	–	–
From available-for-sale	–	85,159	–	85,159
Closing balance				85,159

4. Changes in accounting policies *(continued)*

HKFRS 9, *Financial instruments* *(continued)*

- (c) The following table reconciles the carrying amounts under HKAS 39 to the carrying amounts under HKFRS 9 on transition to HKFRS 9 on 1st January, 2018. *(continued)*

	HKAS 39 carrying amount 31st December, 2017	Reclassification	Remeasurement	HKFRS 9 carrying amount 1st January, 2018
FVOCI – Equity				
Investment securities:				
Opening balance	–	–	–	–
From available-for-sale	–	572	–	572
Closing balance				572
Amounts due from ultimate holdings company, fellow subsidiaries and fellow associates				
Investment securities:				
Opening balance	–	–	–	–
From available-for-sale – amount due from ultimate holding company, fellow subsidiaries and fellow associates	–	834	–	834
Closing balance				834
Total FVOCI	–	86,565	–	86,565
FVTPL				
Trading assets	8,787	–	–	8,787
Financial assets designated at fair value through profit or loss	20	–	–	20
Total FVTPL	8,807			8,807

Notes to the Financial Statements

4. Changes in accounting policies *(continued)*

HKFRS 9, *Financial instruments* *(continued)*

- (c) The following table reconciles the carrying amounts under HKAS 39 to the carrying amounts under HKFRS 9 on transition to HKFRS 9 on 1st January, 2018. *(continued)*

	HKAS 39 carrying amount 31st December, 2017	Reclassification	Remeasurement	HKFRS 9 carrying amount 1st January, 2018
Financial liabilities				
Amortised cost				
Deposits and balances of banks, central banks and other financial institutions	4,458	–	–	4,458
Amounts due to ultimate holding company and fellow subsidiaries	44,422	–	–	44,422
Deposits from customers	222,459	–	–	222,459
Certificates of deposit issued	4,380	–	–	4,380
Total amortised cost	275,719	–	–	275,719
FVTPL				
Trading liabilities	3,782	–	–	3,782
Total FVTPL	3,782	–	–	3,782

4. Changes in accounting policies *(continued)*

HKFRS 9, *Financial instruments* *(continued)*

- (c) The following table reconciles the carrying amounts under HKAS 39 to the carrying amounts under HKFRS 9 on transition to HKFRS 9 on 1st January, 2018. *(continued)*

	Impact of adopting HKFRS 9 at 1st January, 2018
Investment revaluation reserve (recycling)	
Closing balance under HKAS 39 (31st December, 2017)	284
Reclassification of equity measured at cost from available-for-sale to FVOCI	(425)
Recognition of expected credit losses under HKFRS 9 for debt securities financial assets measured at FVOCI	8
Opening balance under HKFRS 9 (1st January, 2018)	(133)
Investment revaluation reserve (non-recycling)	
Closing balance under HKAS 39 (31st December, 2017)	–
Transferred from investment revaluation reserve (recycling) relating to equity securities measured at FVOCI	425
Opening balance under HKFRS 9 (1st January, 2018)	425
Unappropriated profits	
Closing balance under HKAS 39 (31st December, 2017)	22,581
Recognition of expected credit losses under HKFRS 9 (including debt securities financial assets measured at FVOCI, loan commitments and financial guarantee contracts)	(24)
Related tax	(11)
Opening balance under HKFRS 9 (1st January, 2018)	22,546

Notes to the Financial Statements

4. Changes in accounting policies (continued)

HKFRS 9, *Financial instruments* (continued)

- (c) The following table reconciles the carrying amounts under HKAS 39 to the carrying amounts under HKFRS 9 on transition to HKFRS 9 on 1st January, 2018. (continued)

The following table reconciles:

- the closing impairment allowance for financial assets in accordance with HKAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as at 31st December, 2017; to
- the opening ECL allowance determined in accordance with HKFRS 9 as at 1st January, 2018.

	31st December, 2017 (HKAS 39/ HKAS 37)	Remeasurement	1st January, 2018 (HKFRS 9)
Loans and receivables under HKAS 39/financial assets measured at amortised cost under HKFRS 9	649	(149)	500
Available-for-sale debt securities under HKAS 39/debt securities financial assets measured at FVOCI under HKFRS 9	–	8	8
Loan commitments and financial guarantee contracts issued	–	165	165
Total	649	24	673

5. Operating profit

(a) Interest income

	2018	2017
Interest income calculated using the effective interest method:		
– financial assets not measured at fair value through profit or loss	8,849	7,028
Other interest income:		
– trading assets	489	226
	9,338	7,254

of which:

– interest income from listed investments	670	1,450
– interest income from unlisted investments	1,943	481
– interest income from impaired financial assets	26	25

The above interest income from impaired financial assets includes interest income on unwinding of discount on expected credit loss of HK\$11 million (2017: loan impairment loss of HK\$16 million) (note 15) for the year ended 31st December, 2018.

(b) Interest expense

	2018	2017
Interest expense arising from:		
– financial liabilities not measured at fair value through profit or loss	3,954	2,696
– trading liabilities	345	93
– financial liabilities designated at fair value through profit or loss	–	56
	4,299	2,845

of which:

– interest expense for certificates of deposit issued	138	123
– interest expense for fixed rate note issued (note 32(a))	9	–
– interest expense for deposits from customers	2,846	1,991
– interest expense for deposits and balances of banks, central banks and other financial institutions	961	582
– interest expense for subordinated liabilities (note 32(a))	–	56

Notes to the Financial Statements

5. Operating profit *(continued)*

(c) Fee and commission (net)

	2018	2017
Fees and commission		
Credit commission and fees	216	189
Credit card related fees	230	239
Trade related fees	79	66
Insurance commission	162	130
Stockbroking fees	123	126
Wealth management fees	53	48
Other fees and commission income	213	144
Less: Fees and commission expenses	(138)	(122)
	938	820
of which:		
Net fees and commission, other than amounts included in determining the effective interest rate, arising from financial instruments that are not held for trading nor designated at fair value through profit or loss		
– fees and commission income	319	285
– fees and commission expenses	–	–
	319	285

(d) Dividends

	2018	2017
Dividend income from available-for-sale financial assets		
– Unlisted financial assets	–	11
– Listed financial assets	–	1
Dividend income from financial assets measured at fair value through other comprehensive income		
– Unlisted financial assets	11	–
	11	12

5. Operating profit *(continued)*

(e) Rental income

	2018	2017
Rental income from investment properties less direct expenses of HK\$0.2 million (2017: HK\$0.3 million)	9	12

(f) Other income

	2018	2017
Foreign exchange*	50	19
Hedging activities		
– Fair value hedges		
– hedged items (note 31(d))	60	(19)
– hedging instruments	(57)	16
Interest rate and other derivatives	116	34
Trading securities	80	8
Financial assets designated at fair value through profit or loss	1	9
Others	1	1
Net trading income	251	68
Gains transferred from investment revaluation reserve upon disposal	51	251
Gains on disposal of available-for-sale financial assets	–	37
Losses on disposal of financial assets measured at fair value through other comprehensive income	(32)	–
Total gains on disposal of financial assets measured at fair value through other comprehensive income/total gains on disposal of available-for-sale financial assets (note 32(a))	19	288
Revaluation of investment properties (note 20 & 32(a))	8	21
Disposal of tangible fixed assets	(2)	(13)
Others (note 22)	273	39
	549	403

* Included the net interest expenses element of HK\$267 million (2017: net interest expenses for HK\$156 million) on the cross currency funding swap classified as "Other income".

Notes to the Financial Statements

5. Operating profit *(continued)*

(g) Operating expenses

	2018	2017
Staff costs		
Salaries and other staff costs	1,940	1,823
Retirement benefit costs (note 36(a))	88	84
Share-based payment expenses (note 36(b))	33	33
	2,061	1,940
Premises and equipment expenses, excluding depreciation	475	499
Depreciation (notes 20 & 32(a))	225	225
Other expenses		
Auditor's remuneration		
Audit services	7	7
Other services	2	2
Others	301	290
	310	299
	3,071	2,963

6. Taxation

(a) Taxation in the consolidated statement of profit or loss represents:

	2018	2017
Current tax – Provision for Hong Kong profits tax		
Provision for the year	353	313
Overprovision in respect of prior years	1	(4)
	354	309
Current tax – Provision for tax outside Hong Kong		
Provision for the year	50	296
Overprovision in respect of prior years	–	(4)
	50	292
Deferred taxation		
Origination and reversal of temporary differences	121	(179)
	525	422

6. Taxation *(continued)*

(a) Taxation in the consolidated statement of profit or loss represents: *(continued)*

The provision for Hong Kong profits tax for 2018 is calculated at 16.5% (2017: 16.5%) of the Group's estimated assessable profits for the year. The provision for taxation outside Hong Kong is provided at the appropriate current rates of taxation ruling in the regions in which the relevant units of the Group operate.

(b) Reconciliation between tax expenses and accounting profit at applicable tax rates:

	2018	2017
Profit before tax	3,287	2,830
Notional tax on profit before tax, calculated at the rates applicable to profits in the region concerned	568	464
Tax effect of non-deductible expenses	14	6
Tax effect of non-taxable revenue	(72)	(60)
Overprovision in respect of prior years	1	(8)
Others	14	20
Actual tax expense	525	422

(c) Current tax recoverable and payable

The components of current tax recoverable and payable in the statement of financial position are as follows:

	2018	2017
Current tax recoverable		
Provision for Hong Kong profits tax	8	1
Provisional profits tax paid	(11)	(1)
	(3)	–
Provision for tax outside Hong Kong	(86)	–
	(89)	–
Current tax payable		
Provision for Hong Kong profits tax	345	312
Provisional profits tax paid	(11)	(233)
	334	79
Provision for tax outside Hong Kong	50	262
	384	341

All current tax recoverable and payable are expected to be settled within one year.

Notes to the Financial Statements

6. Taxation (continued)

(d) Deferred tax assets and liabilities recognised

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

	2018						
	Depreciation allowances in excess of related depreciation	Revaluation of properties	Revaluation of financial assets measured at fair value through other comprehensive income	Revaluation of cash flow hedges	Expected credit loss	Others	Total
At 31st December	130	157	38	–	4	(312)	17
Opening balance							
adjustment arising from change in accounting policy	–	–	–	–	11	–	11
At 1st January	130	157	38	–	15	(312)	28
Charged/(credited) to consolidated statement of profit or loss	4	–	(6)	–	(52)	175	121
Credited to unappropriated profits	–	(14)	–	–	–	–	(14)
Charged to reserves	–	5	40	1	–	–	46
Capital distribution	–	(56)	–	–	–	–	(56)
Exchange adjustments	–	–	–	–	(1)	8	7
At 31st December	134	92	72	1	(38)	(129)	132

	2017						
	Depreciation allowances in excess of related depreciation	Revaluation of properties	Revaluation of available-for-sale financial assets	Revaluation of cash flow hedges	Impairment allowances for loans and advances	Others	Total
At 1st January	120	140	84	1	(33)	(86)	226
Charged/(credited) to consolidated statement of profit or loss	10	–	–	–	37	(226)	(179)
Credited to unappropriated profits	–	(11)	–	–	–	–	(11)
Charged/(credited) to reserves	–	28	(46)	(1)	–	–	(19)
At 31st December	130	157	38	–	4	(312)	17

	2018	2017
Net deferred tax assets recognised on the statement of financial position	(38)	(175)
Net deferred tax liabilities recognised on the statement of financial position	170	192
	132	17

7. Profit attributable to the shareholder of the Bank

The profit attributable to the shareholder of the Bank includes an amount of HK\$2,056 million (2017: HK\$1,650 million) which has been dealt with in the financial statements of the Bank.

Details of dividends paid and payable to equity shareholder of the Bank are set out in note 8.

8. Dividends

(a) Dividends attributable to the year

The Bank declared and paid interim dividend of HK\$1,500 million for the year ended 31st December, 2018 (2017: nil). The Bank did not propose the payment of final dividend for the year ended 31st December, 2018 (2017: nil).

(b) Dividends attributable to the previous year, approved and paid during the year

The Bank did not propose any payment of dividends in respect of the prior year during the year ended 31st December, 2018 (2017: nil).

9. Directors' emoluments

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

	2018	2017
Directors' fee	7	7
Salaries, allowances and benefits in kind*	18	25
Pension contributions	1	2
Performance bonuses	14	21
Share-based payments	11	10
	51	65

*Note: The non-cash benefits to directors mainly include housing allowances.

10. Cash and balances with banks, central banks and other financial institutions

	2018	2017
Cash balances	996	915
Balances with central banks	7,735	9,318
Balances with banks	1,627	718
Expected credit loss (Stage 1) (note 15)	(1)	–
	10,357	10,951

Notes to the Financial Statements

11. Placements with banks, central banks and other financial institutions

	2018	2017
Remaining maturity		
– Within 1 month	3,727	7,762
– Over 1 month but within 1 year	109	234
Expected credit loss (Stage 1) (note 15)	–	–
	3,836	7,996

12. Trading assets

	2018	2017
Debt securities:		
Listed in Hong Kong	243	762
Listed outside Hong Kong	1,577	3,843
	1,820	4,605
Unlisted	928	941
	2,748	5,546
Equity securities listed in Hong Kong	–	1
Total trading securities	2,748	5,547
Positive fair values of derivative financial instruments held for trading (note 31(a)(i))	3,321	3,240
	6,069	8,787
Trading debt securities include:		
Treasury bills	1,424	832
Certificates of deposit held	–	1,719
Other trading debt securities	1,324	2,995
	2,748	5,546

Trading securities analysed by counterparty are as follows:

	2018	2017
Issued by:		
Sovereigns	1,424	832
Banks	1,017	3,985
Corporates	307	730
	2,748	5,547

13. Financial assets designated at fair value through profit or loss

	2018	2017
Debt securities:		
Listed outside Hong Kong	–	20
Debt securities designated at fair value through profit or loss	–	20

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

	2018	2017
Issued by:		
Banks	–	20

14. Advances to customers and other accounts

(a) Advances to customers and other accounts

	2018	2017
Gross advances to customers	193,403	179,584
Expected credit loss (Stages 1 and 2)/collective impairment allowances for loans and advances (note 15)	(371)	(476)
Expected credit loss (Stage 3)/individual impairment allowances for impaired loans and advances (note 15)	(248)	(173)
Net advances to customers	192,784	178,935
Gross trade bills	1,652	3,317
Expected credit loss (Stages 1)/collective impairment allowances for trade bills (note 15)	(4)	–
Expected credit loss (Stage 3)/individual impairment allowances for impaired trade bills (note 15)	(1)	–
Net trade bills	1,647	3,317
Advances to banks	2,368	4,922
Expected credit loss (Stages 1)/collective impairment allowances for advances to banks (note 15)	(1)	–
Net advances to banks	2,367	4,922
Customer liability under acceptances	981	1,622
Interest receivables	1,092	742
Positive fair values of derivative financial instruments held for hedging (note 31(a)(ii))	61	27
Other accounts	1,275	1,577
	200,207	191,142

Notes to the Financial Statements

14. Advances to customers and other accounts *(continued)*

(b) Advances to customers analysed by industry sectors

The information concerning advances to customers by industry sectors is prepared by classifying the advances according to the usage of the advances and is stated gross of any expected credit loss/impairment allowances.

	2018			2017		
	Gross advances to customers	% of gross advances covered by collateral	Impaired advances to customers	Gross advances to customers	% of gross advances covered by collateral	Impaired advances to customers
Advances for use in Hong Kong						
Industrial, commercial and financial						
– Property development	5,053	47.5	–	5,390	25.3	–
– Property investment	27,728	95.4	–	22,124	97.8	14
– Financial concerns	6,210	12.4	–	4,844	9.1	–
– Stockbrokers	2,590	30.2	–	4,501	57.1	–
– Wholesale and retail trade	11,132	41.6	57	5,614	65.2	54
– Manufacturing	2,810	68.7	33	2,985	52.2	65
– Transport and transport equipment	7,208	97.9	17	7,390	98.4	18
– Information technology	57	79.6	–	52	42.7	–
– Share financing	285	94.2	–	369	89.2	–
– Recreational activities	3	80.0	–	–	–	–
– Others	5,350	56.3	6	4,078	64.7	15
Individuals						
– Advances for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme or their respective successor schemes	1,355	100.0	1	1,601	100.0	–
– Advances for the purchase of other residential properties	44,304	100.0	37	40,838	100.0	18
– Credit card advances	242	0.7	1	265	0.9	1
– Others	13,166	70.1	15	14,471	70.2	13
	127,493	80.2	167	114,522	82.1	198
Trade finance	4,784	52.7	47	4,920	47.4	38
Advances for use outside Hong Kong						
– Mainland China	33,339	54.2	892	32,978	57.7	624
– Macau	21,906	91.6	21	20,434	91.8	11
– Others	5,881	99.9	–	6,730	99.3	–
	61,126	72.0	913	60,142	73.9	635
	193,403	76.9	1,127	179,584	78.4	871

14. Advances to customers and other accounts *(continued)*

(c) Impaired advances to customers

The gross impaired advances to customers, market value of collateral held with respect to such advances and expected credit loss (Stage 3)/individual impairment allowances are as follows:

	2018	2017
Gross impaired advances to customers	1,127	871
Gross impaired advances to customers as a percentage of total advances to customers	0.58%	0.48%
Market value of collateral held with respect to impaired advances to customers	618	744
Expected credit loss (Stage 3)/individual impairment allowances	248	173

Impaired advances to customers are individually assessed loans with objective evidence of impairment on an individual basis. Individually assessed expected credit loss (Stage 3)/impairment allowances were made after taking into account the net present value of future recoverable amounts in respect of such loans and advances, and the collateral held mainly comprised properties and vehicles.

There are no impaired advances to banks nor expected credit loss (Stage 3)/individual impairment allowances made on advances to banks as at 31st December, 2018 and 31st December, 2017.

(d) Net investments in finance leases and hire purchase contracts

Advances to customers include net investment in equipment leased to customers under finance leases and hire purchase contracts having the characteristics of finance leases. The total minimum lease payments receivable under finance leases and hire purchase contracts, and their present values are as follows:

	2018		2017	
	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments
Amount receivable:				
Within 1 year	4,516	4,955	4,749	5,198
After 1 year but within 5 years	6,454	6,832	6,615	6,984
After 5 years	6	6	2	2
	10,976	11,793	11,366	12,184
Unearned future income on finance lease	–	(817)	–	(818)
	10,976	10,976	11,366	11,366
Expected credit loss (Stage 3)/individual impairment allowances for impaired loans and advances	(21)		(29)	
Expected credit loss (Stage 1 and 2)/collective impairment allowances for loans and advances	(32)		(5)	
Net investment in finance leases and hire purchase contracts	10,923		11,332	

Notes to the Financial Statements

14. Advances to customers and other accounts *(continued)*

(e) Repossessed assets

During the year ended 31st December, 2018, the Group has taken possession of collateral it holds as security as follows:

Nature	2018	2017
Industrial properties	–	33
Residential properties	89	166
Vehicles	21	23
Others	1	12
	111	234

The amount represents the market value of the repossessed assets.

Repossessed assets obtained are intended to be realised in an orderly fashion to repay the impaired advances to customers and are not held for the own use of the Group.

At 31st December, 2018, repossessed assets obtained as securities for impaired advances to customers totalled HK\$148 million (2017 (restated): HK\$196 million) for the Group.

15. Expected credit loss/impairment allowances

(a) Reconciliation of expected credit loss/impairment allowances

	Stage 1	Stage 2	2018 Stages 1 and 2/ Collective	Stage 3/ Individual	Total
At 31st December, 2017	–	–	476	173	649
Opening balance adjustment arising from change in accounting policy (note 4(c))	–	–	24	–	24
At 1st January, 2018, after opening balance adjustment	438	62	500	173	673
Transfers of financial instruments					
– transfers from Stage 1 to Stage 2	(48)	48	–	–	–
– transfers from Stage 2 to Stage 1	83	(83)	–	–	–
– transfers to Stage 3	(2)	(24)	(26)	26	–
– transfers from Stage 3	4	4	8	(8)	–
Net re-measurement of expected credit loss	(127)	127	–	205	205
New financial assets originated or purchased assets derecognised, repayments and further lending	146	(58)	88	(10)	78
Amounts written off	–	–	–	(127)	(127)
Unwind of discount of expected credit losses	–	–	–	(11)	(11)
Exchange adjustments	(8)	–	(8)	1	(7)
At 31st December, 2018	486	76	562	249	811
Representing expected credit loss for:					
Balances and placement with central banks	–	–	–	–	–
Balances and placement with banks (note 10)	1	–	1	–	1
Advances to customers (note 14(a))	319	52	371	248	619
Trade bills (note 14(a))	4	–	4	1	5
Advances to banks (note 14(a))	1	–	1	–	1
Contingent liabilities and commitments to extend credit (note 27)	143	14	157	–	157
Financial assets measured at fair value through other comprehensive income	18	10	28	–	28
	486	76	562	249	811

Notes to the Financial Statements

15. Expected credit loss/impairment allowances *(continued)*

(a) Reconciliation of expected credit loss/impairment allowances *(continued)*

	Collective	2017 Individual	Total
At 1st January	571	220	791
Additions	–	254	254
Releases	(159)	(123)	(282)
Net (releases)/charges to consolidated statement of profit or loss	(159)	131	(28)
Unwind of discount of loan impairment losses (note 5(a))	–	(16)	(16)
Recoveries of advances written off in prior years	–	49	49
Amounts written off	–	(220)	(220)
Currency translation	64	9	73
At 31st December	476	173	649
Representing impairment allowances for:			
Trade bills (note 14(a))	–	–	–
Advances to customers (note 14(a))	476	173	649
	476	173	649

15. Expected credit loss/impairment allowances *(continued)*

(b) Impairment allowances on financial assets

The following tables set out information on the credit quality of financial assets and other liabilities.

	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
Cash and balances with banks, central banks and other financial institutions					
Pass	10,358	–	–	10,358	10,951
Less: Impairment allowances	(1)	–	–	(1)	–
Carrying amount	10,357	–	–	10,357	10,951
Placements with banks, central banks and other financial institutions					
Pass	3,836	–	–	3,836	7,996
Less: Impairment allowances	–	–	–	–	–
Carrying amount	3,836	–	–	3,836	7,996
Advances to customers					
Pass	178,272	13,404	–	191,676	177,387
Special mention	–	600	–	600	1,326
Substandard	–	–	604	604	222
Doubtful	–	–	403	403	371
Loss	–	–	120	120	278
Less: Impairment allowances	(319)	(52)	(248)	(619)	(649)
Carrying amount	177,953	13,952	879	192,784	178,935
Trade bills					
Pass	1,608	1	–	1,609	3,317
Special mention	–	5	–	5	–
Substandard	–	–	38	38	–
Doubtful	–	–	–	–	–
Loss	–	–	–	–	–
Less: Impairment allowances	(4)	–	(1)	(5)	–
Carrying amount	1,604	6	37	1,647	3,317
Advances to banks					
Pass	2,056	312	–	2,368	4,922
Less: Impairment allowances	(1)	–	–	(1)	–
Carrying amount	2,055	312	–	2,367	4,922
Available-for-sale financial assets					
Pass	–	–	–	–	85,731
Less: Impairment allowances	–	–	–	–	–
Carrying amount	–	–	–	–	85,731
Financial assets measured at fair value through other comprehensive income					
Pass	66,803	3,702	–	70,505	–
Impairment allowances	(18)	(10)	–	(28)	–
For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed:					
Contingent liabilities and commitments to extend credit					
Pass	41,826	1,634	–	43,460	42,981
Impairment allowances	(143)	(14)	–	(157)	–

Notes to the Financial Statements

16. Available-for-sale financial assets

	2018	2017
Available-for-sale debt securities:		
Listed in Hong Kong	–	10,048
Listed outside Hong Kong	–	42,928
	–	52,976
Unlisted	–	32,183
	–	85,159
Available-for-sale equity securities:		
Listed outside Hong Kong	–	–
Unlisted	–	572
	–	572
	–	85,731
Available-for-sale debt securities include:		
Treasury bills	–	18,125
Certificates of deposit held	–	43,883
Other available-for-sale debt securities	–	23,151
	–	85,159

Available-for-sale financial assets analysed by counterparty are as follows:

	2018	2017
Issued by:		
Sovereigns	–	18,125
Public sector entities	–	67
Banks	–	55,163
Corporates	–	12,376
	–	85,731

17. Financial assets measured at fair value through other comprehensive income

	2018	2017
Debt securities:		
Listed in Hong Kong	13,531	—
Listed outside Hong Kong	31,492	—
	45,023	—
Unlisted	25,482	—
	70,505	—
Equity securities:		
Listed outside Hong Kong	—	—
Unlisted	1,143	—
	1,143	—
	71,648	—
Debt securities include:		
Treasury bills	13,967	—
Certificates of deposit held	21,574	—
Other debt securities	34,964	—
	70,505	—

Financial assets measured at fair value through other comprehensive income analysed by counterparty are as follows:

	2018	2017
Issued by:		
Sovereigns	13,967	—
Public sector entities	72	—
Banks	42,247	—
Corporates	15,362	—
	71,648	—

Notes to the Financial Statements

18. Investments in subsidiaries

The following list contains the particulars of principal subsidiaries:

Name of company	Place of incorporation and operation	Nominal value of issued ordinary shares	Group's effective interest	Principal activities
Banco OCBC Weng Hang, S.A.	Macau	MOP120,000,000	100%	Banking
OCBC Wing Hang Bank (China) Limited	People's Republic of China	RMB5,467,000,000	100%	Banking
OCBC Inchroy Credit Corporation Limited	Hong Kong	HK\$25,000,000	100%	Hire Purchase
OCBC Wing Hang Finance Company Limited	Hong Kong	HK\$130,000,000	100%	Hire Purchase
OCBC Wing Hang Credit Limited	Hong Kong	HK\$20,000,000	100%	Consumer Lending
OCBC Wing Hang Insurance Brokers Limited	Hong Kong	HK\$100,000	100%	Insurance Broker
OCBC Wing Hang Insurance Agency Limited	Hong Kong	HK\$50,000	100%	Insurance Agency
OCBC Wing Hang Shares Brokerage Co. Limited	Hong Kong	HK\$10,000,000	100%	Securities Dealing
OCBC Wing Hang (Nominees) Limited	Hong Kong	HK\$10,000	100%	Nominee Services
Cheuk Woo Enterprises Company Limited	Hong Kong	HK\$10,000	100%	Property Investment

19. Investments in associated companies

	2018	2017 (restated)
Share of net assets	550	406

On 20th March, 2017, the Bank entered into a share sale agreement with an independent third party to dispose of the Group's interest in 33.33% of the issued share capital of Hong Kong Life Insurance Limited for a cash consideration of approximately HK\$2,367 million before transaction related expenses.

On 30th September, 2018, the Bank together with the other sellers terminated the sale in accordance with the terms of the share sale agreement on the basis that the closing conditions have not been satisfied by the long stop date. In accordance with the terms of the share sale agreement, an aggregate deposit paid by the purchaser, First Origin International Limited, has been forfeited. The Bank retained the ownership of Hong Kong Life Insurance Limited.

Interest in Hong Kong Life Insurance Limited of HK\$272 million was re-classified from "Assets of a disposal group classified as held for sale" to "Investments in associated companies" at 31st December, 2018 retrospectively.

On 31st December, 2018, all shareholders of Hong Kong Life Insurance Limited completed the subscription of additional shares. The Bank contributed an additional capital of HK\$150 million to Hong Kong Life Insurance Limited. There was no dilutive effect to the Group's effective interest in Hong Kong Life Insurance Limited.

The following list contains the particulars of material associated companies:

Name of company	Note	Form of business structure	Place of incorporation and operation	Nominal value of issued ordinary shares	Group's effective interest	Voting power	Principal activities
Bank Consortium Holding Limited	1	Incorporated	Hong Kong	HK\$150,000,000	27%	2 out of 7*	Services for Retirement Schemes
Hong Kong Life Insurance Limited	2	Incorporated	Hong Kong	HK\$870,000,000	33%	1 out of 3*	Insurance

* Representing the Group's number of votes on the board of directors of the respective associated companies.

Note 1: Bank Consortium Holding Limited, a major provider of retirement plans and pension fund services in Hong Kong, enables the Group to enhance its Mandatory Provident Fund services.

Note 2: Hong Kong Life Insurance Limited, a major insurance company in Hong Kong, enables the Group to expand the customer base for its insurance services.

All of the above associated companies are accounted for using the equity method in the consolidated financial statements.

Notes to the Financial Statements

19. Investments in associated companies (continued)

In respect of the year ended 31st December, 2018 the share of the results of Bank Consortium Holding Limited and Hong Kong Life Insurance Limited were included in these financial statements based on accounts drawn up to 30th November, 2018. The Group has taken advantage of the provision contained in HKAS 28, *Investments in Associates*, whereby it is permitted to include the attributable share of associates' results based on accounts drawn up to a non-coterminous period and where the difference is not greater than three months.

Summarised financial information of the material associated companies, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

	Bank Consortium Holding Limited		Hong Kong Life Insurance Limited	
	2018	2017	2018	2017 (restated)
Gross amounts of the associated companies				
Assets	899	814	17,409	16,508
Liabilities	88	88	16,126	15,614
Net assets	811	726	1,283	894
Total operating income	683	597	1,549	1,943
Profit after tax	203	160	(16)	49
Other comprehensive income	–	1	(61)	66
Total comprehensive income	203	161	(77)	115
Dividends received from the associated companies	41	33	–	–
Reconciled to the Group's interests in the associated companies				
Gross amounts of net assets of the associated companies	811	726	1,283	894
Group's effective interest	27%	27%	33%	33%
Group's share of net assets of the associated companies	216	194	428	298
Dividends received from the associated companies	(41)	(33)	–	–
Elimination of unrealised gain on transfer of bank premises to the associated companies	(38)	(38)	(26)	(26)
Carrying amount in the consolidated financial statements	137	123	402	272

19. Investments in associated companies *(continued)*

Aggregate information of an associated company that is not individually material:

	2018	2017 (restated)
Aggregate carrying amount of individually immaterial associated company in the consolidated financial statements	11	11
Aggregate amounts of the Group's share of net assets of the associated company	11	11
Total operating income	124	150
Profit after tax	1	23
Total comprehensive income	1	23
Reconciliation of carrying amounts to the Group's total interests in the associated companies		
Carrying amount of material associated companies		
– Bank Consortium Holding Limited	137	123
– Hong Kong Life Insurance Limited	402	272
Carrying amount of the individually immaterial associated company	11	11
Investment in associated companies in the consolidated financial statements	550	406

Notes to the Financial Statements

20. Tangible fixed assets

	2018				
	Investment properties	Bank premises	Equipment	Bank premises and equipment	Total
Cost or valuation					
At 1st January	388	5,359	1,508	6,867	7,255
Additions	–	15	112	127	127
Disposals	–	(4)	(112)	(116)	(116)
Distribution	(106)	–	–	–	(106)
Surplus on revaluation					
– credited to bank premises revaluation reserve	–	488	–	488	488
– credited to consolidated statement of profit or loss (note 5(f))	8	–	–	–	8
Elimination of accumulated depreciation on revalued bank premises	–	(73)	–	(73)	(73)
Exchange adjustment	(1)	(8)	(2)	(10)	(11)
At 31st December	289	5,777	1,506	7,283	7,572
The analysis of cost or valuation of the above assets is as follows:					
At cost	–	1,358	1,506	2,864	2,864
At valuation 2018 (note 20(a))	289	4,419	–	4,419	4,708
	289	5,777	1,506	7,283	7,572
Accumulated depreciation					
At 1st January	28	354	1,208	1,562	1,590
Charge for the year (note 5(g))	–	116	109	225	225
Written back on disposals	–	(9)	(107)	(116)	(116)
Written back on distribution	(6)	–	–	–	(6)
Elimination of accumulated depreciation on revalued bank premises	–	(73)	–	(73)	(73)
Exchange adjustment	(1)	(3)	(3)	(6)	(7)
At 31st December	21	385	1,207	1,592	1,613
Net book value					
At 31st December	268	5,392	299	5,691	5,959

20. Tangible fixed assets *(continued)*

	2017				
	Investment properties	Bank premises	Equipment	Bank premises and equipment	Total
Cost or valuation					
At 1st January	364	4,812	1,599	6,411	6,775
Additions	–	6	84	90	90
Disposals	–	–	(176)	(176)	(176)
Surplus on revaluation					
– credited to bank premises revaluation reserve	–	605	–	605	605
– credited to consolidated statement of profit or loss (note 5(f))	21	–	–	–	21
Elimination of accumulated depreciation on revalued bank premises	–	(65)	–	(65)	(65)
Exchange adjustment	3	1	1	2	5
At 31st December	388	5,359	1,508	6,867	7,255
The analysis of cost or valuation of the above assets is as follows:					
At cost	–	1,355	1,508	2,863	2,863
At valuation					
2017 (note 20(a))	388	4,004	–	4,004	4,392
	388	5,359	1,508	6,867	7,255
Accumulated depreciation					
At 1st January	25	322	1,238	1,560	1,585
Charge for the year (note 5(g))	1	97	127	224	225
Written back on disposals	–	–	(160)	(160)	(160)
Elimination of accumulated depreciation on revalued bank premises	–	(65)	–	(65)	(65)
Exchange adjustment	2	–	3	3	5
At 31st December	28	354	1,208	1,562	1,590
Net book value					
At 31st December	360	5,005	300	5,305	5,665

Notes to the Financial Statements

20. Tangible fixed assets *(continued)*

(a) Fair value measurement of properties

(i) Fair value hierarchy

The following table presents the fair value of the Group's properties measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data is not available.
- Level 3: Fair value measured using significant unobservable inputs.

	2018			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Investment properties	–	–	289	289
Bank premises held for administrative use	–	–	4,419	4,419
	–	–	4,708	4,708

	2017			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Investment properties	–	–	388	388
Bank premises held for administrative use	–	–	4,004	4,004
	–	–	4,392	4,392

During the year ended 31st December, 2018, there were no transfers between Level 1 and Level 2, nor transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

All of the Group's investment properties and bank premises held for administrative use were revalued by independent firms of surveyors, Savills Valuation and Professional Services Limited, who have among their staff Fellows of the Hong Kong Institute of Surveyors, and Shanghai BDGH Chartered Valuation Surveyors Co., Ltd, who is registered with the Royal Institution of Chartered Surveyors. Both firms have recent experience in the location and category of the properties being valued.

20. Tangible fixed assets *(continued)*

(a) Fair value measurement of properties *(continued)*

(ii) Information about Level 3 fair value measurements

	Valuation techniques	Unobservable inputs	Ranges
Investment properties and bank premises held for administrative use	Direct comparison approach	Premium (discount) on quality of the properties	-37% to 30% (2017: -25% to 25%)

The fair value of investment properties and bank premises are determined using the direct comparison approach by reference to recent sales prices of comparable properties on a price per square foot basis, adjusted for a premium or a discount specific to the quality of the Group's properties compared to the recent sales. The valuations take into account characteristics of the properties including the location, size, view, floor level, year of completion and other factors collectively. Higher premiums for higher quality properties will result in a higher fair value measurement.

The movements during the period in the balance of these Level 3 fair value measurements are as follows:

	2018		2017	
	Investment properties	Bank premises	Investment properties	Bank premises
Cost or valuation				
At 1st January	388	4,004	364	3,464
Disposals	(106)	–	–	–
Depreciation charge for the year	–	(73)	–	(65)
Surplus on revaluation				
– credited to bank premises revaluation reserve	–	488	–	605
– credited to consolidated statement of profit or loss	8	–	21	–
Exchange difference	(1)	–	3	–
At 31st December	289	4,419	388	4,004

Fair value adjustment of investment properties is recognised in the line item "Other income" on the face of the consolidated statement of profit or loss.

Surplus on revaluation of bank premises is recognised in other comprehensive income as "Bank premises revaluation reserve".

All the gains recognised in the statement of profit or loss for the year arise from the properties held at the end of the reporting period.

Notes to the Financial Statements

20. Tangible fixed assets *(continued)*

(a) Fair value measurement of properties *(continued)*

- (iii) The surplus on revaluation on bank premises held for administrative use net of deferred tax of HK\$483 million (2017: HK\$577 million) have been recognised in other comprehensive income and accumulated in the bank premises revaluation reserve of the Group.
- (iv) The carrying amount of the Group's bank premises held for administrative use would have been HK\$794 million (2017: HK\$814 million) had they been stated at cost less accumulated depreciation.

(b) The net book value of investment properties and bank premises is as follows:

	2018	2017
FREEHOLD		
– Held outside Hong Kong	278	274
LEASEHOLD		
– Held in Hong Kong		
Long-term leases (over 50 years unexpired)	2,751	2,442
Medium-term leases (10 to 50 years unexpired)	1,818	1,718
– Held outside Hong Kong		
Long-term leases (over 50 years unexpired)	4	5
Medium-term leases (10 to 50 years unexpired)	439	564
Short-term leases (less than 10 years unexpired)	369	362
	5,659	5,365

(c) Fixed assets leased out under operating leases

The Group leases out investment properties under operating leases. The leases typically run for an initial period of two to three years. None of the leases includes contingent rentals.

All properties held under operating leases that would otherwise meet the definition of investment property are classified as investment properties.

The Group's total future minimum lease payments of all fixed assets under non-cancellable operating leases are receivables as follows:

	2018	2017
Within 1 year	6	12
After 1 year but within 5 years	3	7
	9	19

21. Goodwill

(a) Goodwill

	2018	2017
Cost		
At 1st January/31st December	1,307	1,307
Accumulated impairment loss		
At 1st January/31st December	1	1
Net book value		
At 31st December	1,306	1,306

(b) Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the Group's cash-generating units ("CGU") identified according to region of operation and reportable segment as follows:

	2018	2017
Hong Kong:		
Retail banking business acquired	1,019	1,019
Corporate banking business acquired	234	234
Treasury business acquired	53	53
	1,306	1,306

The recoverable amount of the CGU is determined based on value in use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimate growth rate beyond initial cash flows projection of 3.00% (2017: 3.00%). The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates. The cash flows are discounted using a discount rate of 12.31% (2017: 12.28%). The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

22. Assets of a disposal group classified as held for sale

On 20th March, 2017, the Bank entered into a share sale agreement with an independent third party to dispose of the Group's interest in 33.33% of the issued share capital of Hong Kong Life Insurance Limited for a cash consideration of approximately HK\$2,367 million before transaction related expenses. The Bank has received a deposit of HK\$237 million, being 10% of the consideration.

On 30th September, 2018, the Bank together with the other sellers terminated the sale in accordance with the terms of the share sale agreement on the basis that the closing conditions have not been satisfied by the long stop date for their satisfaction. In accordance with the terms of the share sale agreement, an aggregate deposit paid by the purchaser has been forfeited and credited to other income. The Bank will continue with the ownership of Hong Kong Life Insurance Limited.

Accordingly, interest in Hong Kong Life Insurance Limited was re-classified from "Assets of a disposal group classified as held for sale" to "Investments in associated companies" retrospectively in note 19.

Notes to the Financial Statements

23. Deposits and balances of banks, central banks and other financial institutions

	2018	2017
Deposits from central banks	29	645
Deposits from banks	4,186	3,813
	4,215	4,458

24. Deposits from customers

	2018	2017
Demand deposits and current accounts	55,305	52,751
Savings deposits	29,030	31,780
Time, call and notice deposits	137,519	137,928
	221,854	222,459

25. Certificates of deposit and fixed rate note issued

	2018	2017
Certificates of deposit issued at amortised cost	5,038	4,380
Fixed rate note issued at amortised cost	2,282	–
	7,320	4,380

26. Trading liabilities

Trading liabilities represent negative fair values of derivative financial instruments held for trading. Details are set out in note 31(a).

27. Other accounts and provisions

	2018	2017
Acceptances outstanding	981	1,622
Interest payable	575	509
Negative fair value of derivative financial instruments held for hedging (note 31(a)(ii))	136	2
Other payables	1,739	2,203
Expected credit loss (Stage 1 and 2) on contingent liabilities and commitments to extend credit (note 15)	157	–
	3,588	4,336

28. Maturity profile

The following maturity profiles of the assets and liabilities of the Group are based on the remaining periods to repayment at the reporting date.

	2018							
	Repayable on demand	Within 1 month	Over 1 month but within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Undated	Total
Assets								
Cash and balances with banks, central banks and other financial institutions	10,357	–	–	–	–	–	–	10,357
Placements with banks, central banks and other financial institutions	–	3,727	–	109	–	–	–	3,836
Amounts due from ultimate holding company, fellow subsidiaries and fellow associates	–	12,964	3,133	2,084	381	–	–	18,562
Trading assets	–	928	35	642	988	155	3,321	6,069
Financial assets designated at fair value through profit or loss	–	–	–	–	–	–	–	–
Advances to customers	2,907	25,490	12,924	23,211	54,387	73,468	397	192,784
Trade bills	6	785	752	67	–	–	37	1,647
Advances to banks	–	412	426	1,529	–	–	–	2,367
Financial assets measured at fair value through other comprehensive income	–	6,807	5,774	25,828	30,514	1,582	1,143	71,648
Other assets	1	1,641	725	167	524	9	8,284	11,351
Total assets	13,271	52,754	23,769	53,637	86,794	75,214	13,182	318,621
Liabilities								
Deposits and balances of banks, central banks and other financial institutions	105	4,096	13	1	–	–	–	4,215
Amounts due to ultimate holding company and fellow subsidiaries	484	13,225	13,484	7,964	2,516	–	–	37,673
Deposits from customers	84,119	61,132	52,466	22,573	1,564	–	–	221,854
Certificates of deposit and fixed rate note issued	–	–	415	4,123	2,582	200	–	7,320
Trading liabilities	–	–	–	–	–	–	3,400	3,400
Other liabilities	–	1,709	1,269	263	251	41	609	4,142
Total liabilities	84,708	80,162	67,647	34,924	6,913	241	4,009	278,604
Net assets/(liabilities) gap	(71,437)	(27,408)	(43,878)	18,713	79,881	74,973	9,173	40,017

of which:

Certificates of deposit held

– included in financial assets

measured at fair value through other comprehensive income

– 3,305 1,799 16,470 – – – 21,574

Debt securities

– included in trading assets

– 928 35 642 988 155 – 2,748

– included in financial assets

measured at fair value through other comprehensive income

– 3,502 3,975 9,358 30,514 1,582 – 48,931

Notes to the Financial Statements

28. Maturity profile (continued)

			2017					
	Repayable on demand	Within 1 month	Over 1 month but within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Undated	Total
Assets								
Cash and balances with banks, central banks and other financial institutions	10,951	–	–	–	–	–	–	10,951
Placements with banks, central banks and other financial institutions	–	7,762	234	–	–	–	–	7,996
Amounts due from ultimate holding company, fellow subsidiaries and fellow associates	–	4,641	3,104	592	408	–	–	8,745
Trading assets	–	1,359	674	2,156	949	408	3,241	8,787
Financial assets designated at fair value through profit or loss	–	–	–	20	–	–	–	20
Advances to customers	2,468	20,371	10,863	25,928	47,791	71,294	220	178,935
Trade bills	6	1,099	1,757	444	–	–	11	3,317
Advances to banks	–	284	3,894	744	–	–	–	4,922
Available-for-sale financial assets	–	12,510	21,038	32,779	17,299	1,533	572	85,731
Other assets	2	1,800	1,317	157	203	7	7,762	11,248
Assets of a disposal group classified as held for sale	–	–	–	–	–	–	272	272
Total assets	13,427	49,826	42,881	62,820	66,650	73,242	12,078	320,924
Liabilities								
Deposits and balances of banks, central banks and other financial institutions	1,261	3,184	13	–	–	–	–	4,458
Amounts due to ultimate holding company and fellow subsidiaries	574	8,451	7,643	21,666	6,088	–	–	44,422
Deposits from customers	84,407	58,184	53,836	24,066	1,966	–	–	222,459
Certificates of deposit issued	–	781	778	110	2,511	200	–	4,380
Trading liabilities	–	–	–	–	–	–	3,782	3,782
Other liabilities	–	1,824	1,596	562	385	–	502	4,869
Total liabilities	86,242	72,424	63,866	46,404	10,950	200	4,284	284,370
Net assets/(liabilities) gap	(72,815)	(22,598)	(20,985)	16,416	55,700	73,042	7,794	36,554
of which:								
Certificates of deposit held								
– included in trading assets	–	596	536	587	–	–	–	1,719
– included in available-for-sale financial assets	–	8,727	13,845	20,301	1,010	–	–	43,883
Debt securities								
– included in trading assets	–	763	138	1,569	949	408	–	3,827
– included in financial assets designated at fair value through profit or loss	–	–	–	20	–	–	–	20
– included in available-for-sale financial assets	–	3,783	7,193	12,478	16,289	1,533	–	41,276

29. Share capital and reserves

(a) Share capital

	2018		2017	
	No. of shares		No. of shares	
Issued and fully paid:				
At 1st January	353	7,308	353	7,308
At 31st December	353	7,308	353	7,308

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

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

(b) Perpetual capital securities issued

	2018
HK\$1,500 million perpetual non-cumulative subordinated Additional Tier 1 capital securities at amortised cost	1,500

On 12th December, 2018, the Bank issued non-cumulative subordinated Additional Tier 1 capital securities with a face value of HK\$1,500 million to the ultimate holding company. The securities bear interest at a coupon rate of 5.3% per annum for the first 5 years until the optional call dated 12th December, 2023 and is resetttable on year 5 and every 5 years thereafter at the prevailing 5-year Hong Kong Dollar Swap Offer Rate plus a fixed initial spread.

Notes to the Financial Statements

29. Share capital and reserves (continued)

(c) Reserves

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Bank's individual components of equity between the beginning and the end of the year are set out below:

	General reserve	Bank premises revaluation reserve	Investment revaluation reserve (recycling)	The Bank 2018 Investment revaluation reserve (non- recycling)	Cash flow hedging reserve	Unappro- priated profits	Total
At 1st January	1,802	2,601	158	–	(1)	16,649	21,209
Opening balance adjustment arising from change in accounting policies	–	–	(196)	204	–	(171)	(163)
	1,802	2,601	(38)	204	(1)	16,478	21,046
Issuance of perpetual capital securities	–	–	–	–	–	(1)	(1)
Transfer from subsidiary	–	–	–	–	–	216	216
Dividend paid for the period	–	–	–	–	–	(1,500)	(1,500)
Transfer (from)/to reserve	–	(28)	–	–	–	28	–
	–	(28)	–	–	–	(1,257)	(1,285)
Other comprehensive income:							
– fair value changes on cash flow hedges net of deferred tax	–	–	–	–	5	–	5
– fair value changes on financial assets measured at fair value through other comprehensive income net of deferred tax	–	–	(107)	321	–	–	214
– fair value changes on financial assets measured at fair value through other comprehensive income transferred to statement of profit or loss on disposal net of deferred tax	–	–	(5)	–	–	–	(5)
– surplus on revaluation net of deferred tax	–	432	–	–	–	–	432
– expected credit losses on debt securities	–	–	8	–	–	–	8
– profit attributable to shareholder of the Bank for the year	–	–	–	–	–	2,056	2,056
Total comprehensive income for the year, net of tax	–	432	(104)	321	5	2,056	2,710
At 31st December	1,802	3,005	(142)	525	4	17,277	22,471

29. Share capital and reserves (continued)

(c) Reserves (continued)

	The Bank 2017					
	General reserve	Bank premises revaluation reserve	Investment revaluation reserve	Cash flow hedging reserve	Unappro- priated profits	Total
At 1st January	1,802	2,116	170	5	14,977	19,070
Transfer (from)/to reserve	–	(22)	–	–	22	–
	–	(22)	–	–	22	–
Other comprehensive income:						
– fair value changes on cash flow hedges net of deferred tax	–	–	–	(5)	–	(5)
– fair value changes on available-for-sale financial assets net of deferred tax	–	–	185	–	–	185
– fair value changes on available-for-sale financial assets transferred to statement of profit or loss on disposal net of deferred tax	–	–	(198)	–	–	(198)
– surplus on revaluation net of deferred tax	–	507	–	–	–	507
– profit attributable to shareholder of the Bank for the year	–	–	–	–	1,650	1,650
Total comprehensive income for the year, net of tax	–	507	(13)	(5)	1,650	2,139
At 31st December	1,802	2,601	157	–	16,649	21,209

The Group's unappropriated profits as at 31st December, 2018 included the accumulated gains of HK\$468 million (2017: HK\$411 million) of the associated companies and a regulatory reserve of HK\$1,950 million (2017: HK\$1,787 million). The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes by earmarking amounts in respect of losses which the Group will or may incur on advances to customers in addition to impairment losses recognised. Movements in the reserve are earmarked directly through unappropriated profits and in consultation with the Hong Kong Monetary Authority ("HKMA").

The capital reserve of the Group comprises unappropriated profits capitalised on the issue of bonus shares by subsidiaries in prior years and reserves established by Banco OCBC Weng Hang, S.A. and OCBC Wing Hang Bank (China) Limited in accordance with the local banking regulations and are not available for distribution.

The statutory reserve of the Group is calculated as a percentage of the total risk assets at the reporting date of OCBC Wing Hang Bank (China) Limited to cover its potential losses that are not yet incurred as required by the relevant requirements issued by the Ministry of Finance of the People's Republic of China and is not available for distribution.

Notes to the Financial Statements

29. Share capital and reserves *(continued)*

(c) Reserves *(continued)*

The general reserve of the Group was set up from the transfer of unappropriated profits and exchange differences arising from the translation of the financial statements of overseas subsidiaries (note 2(j)).

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flow in accordance with the accounting policy adopted for cash flow hedges (note 2(f)).

Revaluation reserves have been set up and are dealt with in accordance with the accounting policies adopted for the revaluation of bank premises and financial assets measured at fair value through other comprehensive income/available-for-sale financial assets (notes 2(k) and (f)). Bank premises revaluation reserve do not represent realised profits and are not available for distribution.

At 31st December, 2018, the aggregate amount of reserves available for distribution to equity shareholder of the Bank as calculated under the provision of Part 6 of the Hong Kong Companies Ordinance and including the distributable amounts disclosed in the cash flow hedging reserve was HK\$17,790 million (2017: HK\$16,618 million).

The Bank and its financial subsidiaries operate under regulatory jurisdictions which require the maintenance of minimum capital ratios which could therefore potentially restrict the amount of general reserve and unappropriated profits, which are available for distribution, to be distributed to equity shareholder.

30. Contingent liabilities and commitments

(a) Contingent liabilities and commitments to extend credit

Contingent liabilities and commitments arise from forward asset purchases, amounts owing to partly paid-up shares and securities, forward deposits placed, asset sales or other transactions with recourse, as well as credit-related instruments which include letters of credit, guarantees and commitments to extend credit. The risk involved in these credit-related instruments is essentially the same as the credit risk involved in extending loan facilities to customers. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client default. Since a significant portion of guarantees and commitments are expected to expire without being drawn upon, the total of the contractual amounts is not representative of future cash flows.

The risk weights used in the computation of credit risk weighted amounts range from 0% to 100%.

30. Contingent liabilities and commitments *(continued)*

(a) Contingent liabilities and commitments to extend credit *(continued)*

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

	2018	2017
Direct credit substitutes	3,654	3,291
Transaction-related contingencies	1,095	605
Trade-related contingencies	1,266	1,648
Forward forward deposits	78	–
Other commitments:		
With an original maturity of not more than one year	112	320
With an original maturity over one year	5,042	3,660
Which are unconditionally cancellable	32,213	33,457
Total	43,460	42,981
Credit risk weighted amounts	6,490	5,379

(b) Capital commitments

Capital commitments for acquisition of tangible fixed assets outstanding at 31st December, 2018 not provided for in the financial statements are as follows:

	2018	2017
Expenditure authorised and contracted for	61	55
Expenditure authorised but not contracted for	–	–
Total	61	55

Notes to the Financial Statements

30. Contingent liabilities and commitments *(continued)*

(c) Lease commitments

At 31st December, 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2018	2017
Properties		
Within 1 year	134	114
After 1 year but within 5 years	189	103
After 5 years	15	14
	338	231
Others		
Within 1 year	3	3
After 1 year but within 5 years	2	2
	5	5

The Group leases a number of properties and items of equipment under operating leases. The leases run for an initial period of one to ten years, with an option to renew the lease when all terms are renegotiated. Lease payments are periodically adjusted to reflect market rentals. None of the leases include contingent rentals.

31. Derivative financial instruments

Derivatives refer to financial contracts for which the value depends on the value of one or more underlying assets or indices.

Derivative financial instruments arise from forward, swap and option transactions undertaken by the Group in the foreign exchange, interest rate and equity markets.

Derivative financial instruments are also used to manage the Group's own exposures to market risk as part of its asset and liability management process. The principal derivatives instruments used by the Group are interest and foreign exchange rate related contracts, which are primarily over-the-counter ("OTC") derivatives. The Group also participates in exchange-traded derivatives. Most of the Group's derivative positions have been entered into to meet customer demand and to hedge these and other trading positions. For accounting purposes, derivatives are classified as held for trading or held for hedging.

The notional amounts of these instruments indicate the volume of transactions outstanding at the reporting date and do not represent amounts at risk.

31. Derivative financial instruments *(continued)*

The following table is a summary of the notional amounts of each significant type of derivative.

		2018	
	Qualifying for hedge accounting	Others, including held for trading	Total
Exchange rate contracts			
Forwards	–	231,847	231,847
Options purchased	–	8,399	8,399
Options written	–	8,416	8,416
Interest rate contracts			
Swaps	26,375	240,767	267,142
Equity contracts			
Options purchased	–	916	916
Options written	–	916	916
Credit derivative contracts			
Credit defaults swaps purchased	–	3,046	3,046
Credit defaults swaps written	–	3,046	3,046
	26,375	497,353	523,728

		2017	
	Qualifying for hedge accounting	Others, including held for trading	Total
Exchange rate contracts			
Forwards	–	224,770	224,770
Options purchased	–	21,684	21,684
Options written	–	20,205	20,205
Interest rate contracts			
Swaps	8,605	191,979	200,584
Equity contracts			
Options purchased	–	109	109
Options written	–	107	107
Credit derivative contracts			
Credit defaults swaps purchased	–	5,238	5,238
Credit defaults swaps written	–	5,202	5,202
	8,605	469,294	477,899

Notes to the Financial Statements

31. Derivative financial instruments *(continued)*

The trading transactions include the Group's positions arising from the execution of trade orders from customers or transactions undertaken to hedge these positions.

(a) Use of derivative financial instruments

- (i) The following is a summary of the fair values of derivative financial instruments held for trading purposes by type of derivative entered into by the Group:

	2018		2017	
	Assets	Liabilities	Assets	Liabilities
Exchange rate contracts	2,052	2,235	2,776	3,330
Interest rate contracts	1,206	1,102	461	449
Equity contracts	61	61	1	1
Credit derivative contracts	2	2	2	2
Total (notes 12 and 26)	3,321	3,400	3,240	3,782

- (ii) The following is a summary of the fair values of derivative financial instruments held for hedging purposes by type of derivative entered into by the Group:

	2018		2017	
	Assets	Liabilities	Assets	Liabilities
Interest rate contracts (notes 14 and 27)	61	136	27	2
	61	136	27	2

(b) Remaining life of derivative financial instruments

The following tables provide an analysis of the notional amounts of derivatives of the Group by relevant maturity groupings based on the remaining periods to settlement at the reporting date.

	2018			Total
	Within 1 year	Over 1 year but within 5 years	Over 5 years	
Exchange rate contracts	245,590	3,072	–	248,662
Interest rate contracts	162,374	103,084	1,684	267,142
Equity contracts	130	1,702	–	1,832
Credit derivative contracts	5,870	222	–	6,092
	413,964	108,080	1,684	523,728

31. Derivative financial instruments *(continued)*

(b) Remaining life of derivative financial instruments *(continued)*

	2017			Total
	Within 1 year	Over 1 year but within 5 years	Over 5 years	
Exchange rate contracts	256,660	9,999	–	266,659
Interest rate contracts	132,095	67,212	1,277	200,584
Equity contracts	216	–	–	216
Credit derivative contracts	9,736	704	–	10,440
	398,707	77,915	1,277	477,899

(c) The credit risk weighted amounts are as follows:

	2018	2017
Exchange rate contracts	2,707	3,169
Interest rate contracts	138	193
Equity contracts	15	1
Credit derivative contracts	–	1
	2,860	3,364

The risk weights used in the computation of credit risk weighted average amounts range from 0% to 100%. These amounts do not take into account the effects of bilateral netting arrangements.

(d) Fair value hedges

The fair value hedges principally consist of interest rate swaps. The interest rate swaps are used to protect against changes in the fair value of certain fixed rate assets due to movements in market interest rates. At 31st December, 2018, the net negative fair value of derivatives held as fair value hedges was HK\$80 million (2017: net positive fair value of HK\$26 million).

The losses on the hedging instruments for the year were HK\$57 million (2017: gains of HK\$16 million). The gains on the hedged items attributable to the hedged risk for the year were HK\$60 million (2017: losses of HK\$19 million).

(e) Cash flow hedges

The cash flow hedges principally consist of interest rate contracts that are used to hedge against the variability in cash flows of certain floating rate assets and fixed rate liabilities. At 31st December, 2018, the net positive fair value of derivatives held as cash flow hedges was HK\$5 million (2017: net negative fair value of HK\$1 million). During the year, there was no ineffectiveness recognised in the statement of profit or loss that arose from cash flow hedges (2017: nil).

Notes to the Financial Statements

31. Derivative financial instruments *(continued)*

(e) Cash flow hedges *(continued)*

The time periods in which the hedged cash flows are expected to occur and affect the consolidated statement of profit or loss are as follows:

	2018			Total
	Less than 1 year	1 to 5 years	Over 5 years	
Forecast receivable cash flows	134	445	–	579
Forecast payable cash flows	(108)	(358)	–	(466)
Forecast net receivable cash flows	26	87	–	113

	2017			Total
	Less than 1 year	1 to 5 years	Over 5 years	
Forecast receivable cash flows	–	230	–	230
Forecast payable cash flows	–	(112)	–	(112)
Forecast net receivable cash flows	–	118	–	118

32. Notes to the consolidated cash flow statement

(a) Reconciliation of operating profit to net cash inflow from operating activities

	2018	2017
Operating profit	3,230	2,721
Depreciation (note 5(g))	225	225
Interest expense on subordinated liabilities (note 5(b))	–	56
Impairment losses and allowances on advances to customers	–	28
Change in expected credit loss and other credit impairment charges	245	–
Interest expense on fixed rate note issued (note 5(b))	9	–
Losses on disposal of tangible fixed assets	2	13
Net gains from disposal of financial assets measured at fair value through other comprehensive income (note 5(f))	(19)	–
Net gains from disposal of available-for-sales financial instruments (note 5(f))	–	(288)
Gains on revaluation of investment properties (note 5(f))	(8)	(21)
Profits tax paid	(443)	(418)
Change in treasury bills with original maturity of three months or above	2,545	(444)
Change in placements with banks, central banks and other financial institutions with original maturity of three months or above	179	1,022
Change in amounts due from ultimate holding company and fellow subsidiaries maturing after three months	(2,086)	1,778
Change in certificates of deposit held	24,028	(29,887)
Change in trading assets	1,596	(1,311)
Change in financial assets designated at fair value through profit or loss	20	2,273
Change in advances to customers and other accounts	(9,146)	(23,660)
Change in deposits and balances of banks, central banks and other financial institutions	458	1,347
Change in amounts due to ultimate holding company and fellow subsidiaries	(6,582)	26,783
Change in deposits from customers	(605)	29,306
Change in certificates of deposit issued	657	537
Change in trading liabilities	(382)	1,297
Change in other accounts and provision	(913)	440
Net cash inflow from operating activities	13,010	11,797

Notes to the Financial Statements

32. Notes to the consolidated cash flow statement *(continued)*

(b) Reconciliation of cash and cash equivalents with the consolidated statement of financial position

	2018	2017
Cash and balances with banks, central banks and other financial institutions	10,358	10,951
Placements with banks, central banks and other financial institutions	3,836	7,996
Amounts due from ultimate holding company and fellow subsidiaries	18,107	7,910
Treasury bills	15,391	18,957
Amounts shown in the consolidated statement of financial position	47,692	45,814
Less: Amounts with an original maturity of three months or above	(18,235)	(18,494)
Deposits and balances of banks, central banks and other financial institutions that are repayable on demand	(217)	(1,085)
Cash and cash equivalents in the consolidated cash flow statement	29,240	26,235

(c) Reconciliation of liabilities arising from financing activities:

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the cash flow statement as cash flows from financing activities.

	2018	2017
At 1st January	–	3,147
Issue of perpetual capital securities	1,500	–
Issue of fixed rate note	2,251	–
Redemption of subordinated liabilities	–	(3,111)
Exchange adjustment	31	8
Interest expenses on fixed rate note (note 5(b))	9	–
Realised gain on subordinated liabilities	–	(44)
At 31st December	3,791	–

33. Segment reporting

The Group manages its businesses by divisions, which are organised by a mixture of both business lines and geography. The segment disclosure is based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters.

Hong Kong segment

This is mainly composed of retail banking activities, corporate banking activities and treasury activities.

Retail banking activities include acceptance of deposits, residential mortgages, hire purchase, consumer loans, wealth management, stock brokerage and insurance services.

Corporate banking activities include advance of commercial and industrial loans, trade financing and institutional banking.

Treasury activities include foreign exchange services, management of investment securities and trading activities.

Mainland China segment

This comprises the business of OCBC Wing Hang Bank (China) Limited, for which the main business is corporate banking and treasury activities.

Macau segment

This comprises the business of Banco OCBC Weng Hang, S.A., for which the main business is retail banking activities.

For the purposes of assessing segment performance and allocating resources between segments, the Group's chief operating decision maker monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include tangible assets (including equipment of the Group and overseas bank premises), balance and placement with banks, central banks and other financial institutions and advances to customers and banks which have been reported under Mainland China and Macau segments and financial assets with the exception of goodwill, interest in associated companies, taxation and other assets. Segment liabilities include deposits and financial liabilities.

Revenue and expenses are allocated to the reportable segments with reference to interest and fees and commission income generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation of assets attributable to those segments.

The identification of reportable segments also considered geographical information which has been classified by the geographical location of the principal operations of the subsidiaries, or in the case of the Bank itself, of the geographical location of the branch responsible for reporting the results or booking the assets and liabilities.

Specified non-current assets of the Group include tangible fixed assets, goodwill and investments in associated companies.

"Others" in the reconciliation to the reported amount on the consolidated statement of profit or loss and consolidated statement of financial position mainly represent the management of shareholders' funds and equity shares.

Notes to the Financial Statements

33. Segment reporting *(continued)*

(a) Segment results, assets and liabilities

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the year is set out below.

	2018				Mainland China	Macau	Total
	Hong Kong			Total			
	Retail banking	Corporate banking	Treasury				
Net interest income	1,918	419	278	2,615	1,393	541	4,549
Non-interest income	597	76	185	858	259	183	1,300
Reportable segment revenue	2,515	495	463	3,473	1,652	724	5,849
Operating expenses	(1,318)	(241)	(123)	(1,682)	(973)	(327)	(2,982)
Operating profit before expected credit losses	1,197	254	340	1,791	679	397	2,867
Change in expected credit loss and other credit impairment charges	(39)	(10)	(8)	(57)	(177)	(11)	(245)
Operating profit	1,158	244	332	1,734	502	386	2,622
Share of net gains of associated companies	–	–	–	–	–	–	–
Reportable segment profit before tax	1,158	244	332	1,734	502	386	2,622
Depreciation	18	–	2	20	81	27	128
Reportable segment assets	84,987	54,057	47,225	186,269	70,632	37,045	293,946
Addition to non-current segment assets	10	–	–	10	52	18	80
Reportable segment liabilities	155,598	493	3,194	159,285	61,400	32,762	253,447

33. Segment reporting *(continued)*

(a) Segment results, assets and liabilities *(continued)*

	2017				Mainland China	Macau	Total
	Hong Kong			Total			
	Retail banking	Corporate banking	Treasury				
Net interest income	1,735	438	349	2,522	1,205	554	4,281
Non-interest income	719	47	316	1,082	(84)	241	1,239
Reportable segment revenue	2,454	485	665	3,604	1,121	795	5,520
Operating expenses	(1,266)	(194)	(103)	(1,563)	(988)	(332)	(2,883)
Operating profit before impairment losses and allowances	1,188	291	562	2,041	133	463	2,637
Impairment losses and allowances	(34)	(1)	–	(35)	69	(6)	28
Operating profit	1,154	290	562	2,006	202	457	2,665
Realised gains on subordinated liabilities	–	–	44	44	–	–	44
Reportable segment profit before tax	1,154	290	606	2,050	202	457	2,709
Depreciation	23	–	4	27	82	27	136
Reportable segment assets	82,253	46,293	54,188	182,734	94,765	32,839	310,338
Addition to non-current segment assets	7	–	–	7	46	16	69
Reportable segment liabilities	152,296	769	9,444	162,509	85,583	28,951	277,043

Notes to the Financial Statements

33. Segment reporting *(continued)*

(a) Segment results, assets and liabilities *(continued)*

Reconciliations of reportable segment revenue, profit before taxation, assets and liabilities:

	2018	2017
Revenue		
Reportable segment revenue	5,849	5,520
Other revenue	1,107	328
Elimination of inter-segment revenue	(410)	(192)
Consolidated operating income	6,546	5,656
	2018	2017
Profit before taxation		
Reportable segment profit before taxation	2,622	2,709
Share of net gains of associated companies	57	65
Other net gains	817	56
Elimination of inter-segment profit	(209)	–
Consolidated profit before taxation	3,287	2,830
	2018	2017
Assets		
Reportable segment assets	293,946	310,338
Balance and placements with banks, central banks and other financial institutions	13,198	3,356
Amounts due from ultimate holding company and fellow subsidiaries	16,774	2,612
Investments in associated companies	550	134
Tangible fixed assets	4,703	4,281
Goodwill	1,306	1,306
Deferred tax assets	39	12
Assets of a disposal group classified as held for sale	–	272
Other assets	4,891	11,122
Elimination of inter-segment assets	(16,786)	(12,509)
Consolidated total assets	318,621	320,924

33. Segment reporting *(continued)*

(a) Segment results, assets and liabilities *(continued)*

	2018	2017
Liabilities		
Reportable segment liabilities	253,447	277,043
Deposits and balances of banks, central banks and other financial institutions	161	852
Amounts due to ultimate holding company and fellow subsidiaries	18,756	2,787
Current tax payable	338	83
Deferred tax liabilities	7	79
Other liabilities	10,420	4,808
Elimination of inter-segment liabilities	(4,525)	(1,282)
Consolidated total liabilities	278,604	284,370

(b) Other geographical information

	2018				
	Hong Kong	Mainland China	Macau	Less: inter-segment elimination	Total
Specified non-current assets	6,593	535	676	11	7,815
Contingent liabilities and commitments (note 30(a))	17,654	22,834	3,636	(664)	43,460
	2017				
	Hong Kong	Mainland China	Macau	Less: inter-segment elimination	Total
Specified non-current assets	5,766	666	663	11	7,106
Contingent liabilities and commitments (note 30(a))	16,925	22,544	4,214	(702)	42,981

Notes to the Financial Statements

34. Material related party transactions

(a) Ultimate holding company

The Oversea-Chinese Banking Corporation Limited ("OCBC")

During the year, transactions with OCBC were entered into by the Group in the ordinary course of business and on normal commercial terms. The income and expenses during the year and average on-balance sheet outstanding during the year as a related company and on-balance sheet and off-balance sheet outstanding at the reporting date were:

	2018	2017
(i) Income and expense during the year		
Interest income	176	164
Interest expense	729	460
(ii) Average on-balance sheet outstanding during the year		
Amounts due from ultimate holding company	8,995	6,294
Amounts due to ultimate holding company	34,671	43,895
(iii) On-balance sheet outstanding at the reporting date		
Amounts due from ultimate holding company	17,695	7,473
Amounts due to ultimate holding company	37,602	44,345
(iv) Derivative financial instruments outstanding (notional amounts) at the reporting date		
Exchange rate contracts	24,412	40,394
Interest rate contracts	52,595	28,874
Equity contracts	916	107
Credit derivative contracts	3,046	5,238

On 30th June, 2018, the Group entered into an agreement to distribute an investment property held by OCBC Wing Hang Bank (China) Limited to OCBC with a carrying amount of HK\$106 million at a consideration of HK\$5 million.

34. Material related party transactions *(continued)*

(b) Fellow companies

(1) Fellow subsidiaries

During the year, transactions with OCBC fellow subsidiaries are entered into by the Group in the ordinary course of business and on normal commercial terms. The income and expenses during the year and average on-balance sheet outstanding during the year as related parties and on-balance sheet outstanding at the reporting date are:

	2018	2017
(i) Income and expense during the year		
Interest income	20	20
Interest expense	1	20
Other operating income	17	–
Operating expense	1	–
(ii) Average on-balance sheet outstanding during the year		
Amounts due from fellow subsidiaries	427	423
Amounts due to fellow subsidiaries	69	63
(iii) On-balance sheet outstanding at the reporting date		
Amounts due from fellow subsidiaries	413	438
Amounts due to fellow subsidiaries	71	77

(2) Fellow associates

During the year, transactions with OCBC fellow associates are entered into by the Group in the ordinary course of business and on normal commercial terms. The income and expenses during the year and average on-balance sheet outstanding during the year as related parties and on-balance sheet and off-balance sheet outstanding at the reporting date are:

	2018	2017
(i) Income and expense during the year		
Interest income	42	3
(ii) Average on-balance sheet outstanding during the year		
Amounts due from fellow associates	863	629
Amounts due to fellow associates	3	–
(iii) On-balance sheet outstanding at the reporting date		
Debt securities issued by fellow associates	454	834

Notes to the Financial Statements

34. Material related party transactions *(continued)*

(c) Subsidiaries

During the year, the Bank entered into transactions with subsidiaries owned by the Bank in the ordinary course of business and on normal commercial terms. The income and expenses during the year, average on-balance sheet outstanding during the year, on-balance sheet and off-balance sheet outstanding at the reporting date are as follows:

	2018	2017
(i) Income and expense during the year		
Interest income	635	528
Interest expense	128	66
Other operating income	370	155
Operating expense	76	77

The interest rates in connection with amounts due from subsidiaries and due to subsidiaries are under terms and conditions normally applicable to customers of comparable standing.

Other operating income represents income from providing management services, information technology services, rental services, share brokerage services, financial control and other administration services to the Bank's subsidiaries by the Bank.

Operating expense represents rental services and share brokerage services fees paid to the Bank's subsidiaries by the Bank.

All income and expense on these transactions are determined on an arm's length basis.

(ii) Average on-balance sheet outstanding during the year

Amounts due from subsidiaries	27,462	23,724
Amounts due to subsidiaries	8,194	6,055

(iii) On-balance sheet outstanding at the reporting date

Amounts due from subsidiaries	31,554	26,551
Amounts due to subsidiaries	10,567	6,696

During the year, no expected credit loss (Stage 3) has been made in respect of these balances as at 31st December, 2018 (2017 individual impairment allowances: nil).

34. Material related party transactions *(continued)*

(c) Subsidiaries *(continued)*

	2018	2017
(iv) Off-balance sheet outstanding (contract amounts) at the reporting date		
Direct credit substitutes	8	128
Other commitments	769	1,597
(v) Derivative financial instruments outstanding (notional amounts) at the reporting date		
Exchange rate contracts	1,710	2,679
Interest rate contracts	751	516
Equity contracts	–	2

(d) Associated companies

During the year, the Bank entered into transactions with associated companies in the ordinary course of business and on normal commercial terms. The income and expenses during the year, average on-balance sheet outstanding during the year and on-balance sheet and off-balance sheet outstanding at the reporting date are as follows:

	2018	2017
(i) Income and expense during the year		
Interest expense	12	5
(ii) Average on-balance sheet outstanding during the year		
Deposits from customers	1,007	713
(iii) On-balance sheet outstanding at the reporting date		
Deposits from customers	1,262	675

Notes to the Financial Statements

34. Material related party transactions *(continued)*

(e) Key management personnel

During the year, the Group entered into a number of transactions with the Group's key management personnel and their close family members and companies controlled or significantly influenced by them. All the transactions are in the ordinary course of business and under terms and conditions normally applicable to customers of comparable standing. The income, expenses and emoluments during the year, average on-balance sheet outstanding during the year and on-balance sheet outstanding at the reporting date are as follows:

	2018	2017
(i) Income and expense during the year		
Interest expense	28	34
(ii) Average on-balance sheet outstanding during the year		
Advances to customers	11	9
Deposits from customers	1,675	2,769
(iii) On-balance sheet outstanding at the reporting date		
Advances to customers	8	13
Deposits from customers	1,970	2,284
(iv) Derivative financial instruments outstanding (notional amounts) at the reporting date		
Exchange rate contracts	62	—
(v) Emoluments for the year		
Remuneration for key management personnel, including amounts paid to the Bank's directors as disclosed in note 9 is as follows:		
	2018	2017
Short-term employee benefits	51	65
Post-employment benefits	2	2
Equity compensation benefits	15	13
	68	80

34. Material related party transactions *(continued)*

(f) Loans to directors

Loans to directors of the company disclosed pursuant to section 383(1)(d) of the Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2018	2017
Aggregate amount of relevant loans outstanding at 31st December	4	3
The maximum aggregate amount of relevant loans outstanding during the year	10	4

- (g) During the year, no expected credit loss (Stage 3) has been made in respect of the above advances to related parties (2017 individual impairment allowances: nil).

35. Management of risks

The Group has established policies, procedures and limits to manage various types of risk that the Group is exposed to. Risk management processes and management information systems are in place to identify, measure, monitor and control credit risk, liquidity risk, market risk and operational risk. The risk management policies, procedures and limits are approved by the Board of Directors or its designated committee and are monitored and reviewed regularly by relevant risk management committees, such as the Credit Committee and the Asset and Liability Management Committee ("ALCO"). Internal auditors perform regular audits and independent checking to ensure compliance with the policies and procedures.

The following notes present information about the Group's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risks, and management of capital.

(a) Credit risk management

Credit risk arises from the possibility that the counterparty in a transaction may default. It arises from the lending, trade finance, treasury, derivatives and other activities undertaken by the Group. The Board of Directors has delegated the Group's credit risk management to the Credit Committee, which is chaired by the Bank's Chief Executive.

The credit risk management function is independent of the business units. It oversees the implementation of credit policies and ensures the quality of credit evaluation and approval. Credit approval is conducted in accordance with the Group's Credit Policy, which defines the credit extension criteria, the credit approval and monitoring processes, the loan classification system and impairment policy. The Credit Policy also takes into account the requirements of the Hong Kong Banking Ordinance, guidelines issued by the HKMA and accounting standards issued by the HKICPA with respect to large exposures and impairment requirements.

Notes to the Financial Statements

35. Management of risks *(continued)*

(a) Credit risk management *(continued)*

Guidelines to manage credit risk are laid down in the Group's Credit Policy, which is regularly reviewed and approved by the Credit Committee. The Credit Policy covers the delegated lending authorities, credit extension criteria, credit monitoring process, loan classification system, credit recovery and impairment policy.

(i) Corporate credit risk

Corporate credit exposures are diversified among corporates, middle market borrowers and SMEs. Large corporate exposures are generally concentrated among highly rated customers. The principal means of managing credit risk is the credit approval process. The Group has policies and procedures to evaluate the potential credit risk of a particular counterparty or transaction and to approve the transaction. For corporate clients, the Group has a detailed credit review system that is applied to each counterparty on a regular basis. The Group also has limits for exposure to individual industries and for borrowers and groups of borrowers, regardless of whether the exposure is in the form of loans or non-funded exposures. The Group also has a review process that ensures the proper level of review and approval depending on the size of the facility and risk grading of the credit.

The Group undertakes ongoing credit review and monitoring at various levels. The Credit Policy promotes early detection of counterparty, industry or product exposures that require special attention. The Credit Committee oversees the overall portfolio risk as well as individual problem loans and potential problem loans on a regular basis.

(ii) Retail credit risk

The Group's retail credit policy and approval processes are designed based on the characteristics of the retail banking products: small value, high volume, and relatively homogeneous transactions. Monitoring the credit risk of retail exposures is based primarily on statistical analyses and portfolio review with respect to different products and types of customers. The Group reviews and revises the product terms and customer profiles on a continual basis according to the performance of respective portfolios and market practices.

(iii) Credit risk for treasury transactions

Credit risk of counterparties of the Group's treasury transactions is managed in the same manner as the Group manages its corporate lending risk. The Group assesses and assigns an internal risk grading to the counterparties and sets individual counterparty limits.

There is in place policy for managing and mitigating counterparty credit risk. Credit risk mitigation includes entering master netting agreements and other collateral arrangements with counterparties.

(iv) Credit-related commitments

The risks involved in credit-related commitments and contingencies are essentially the same as the credit risks involved in extending loan facilities to customers. These transactions are, therefore, subject to the same credit application, portfolio maintenance and collateral requirements as for customers applying for loans.

35. Management of risks *(continued)*

(a) Credit risk management *(continued)*

(v) Master netting arrangements

To mitigate credit risks, the Group enters into master netting arrangements with counterparties whenever possible. Netting agreements provide that, if an event of default occurs, all outstanding transactions with the counterparty will be terminated and all amounts outstanding will be settled on a net basis.

The following table sets out the carrying amounts of recognised financial instruments that are subject to the above agreements:

	2018					
	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amount
				Financial instruments	Cash collateral received	
Financial assets						
Amounts due from ultimate holding company, fellow subsidiaries and fellow associates	3,225	–	3,225	(3,225)	–	–
Positive fair values of derivative financial instruments held for trading	3,381	–	3,381	(266)	(34)	3,081
Interest receivable	57	(44)	13	–	–	13
	6,663	(44)	6,619	(3,491)	(34)	3,094

	2018					
	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amount
				Financial instruments	Cash collateral pledged	
Financial liabilities						
Deposits from banks	69	–	69	(69)	–	–
Amounts due to ultimate holding company, fellow subsidiaries and fellow associates	3,225	–	3,225	(3,225)	–	–
Deposits from customers	128	–	128	(128)	–	–
Negative fair values of derivative financial instruments held for trading	3,526	–	3,526	(266)	(203)	3,057
Interest payable	69	(44)	25	–	–	25
	7,017	(44)	6,973	(3,688)	(203)	3,082

Notes to the Financial Statements

35. Management of risks (continued)

(a) Credit risk management (continued)

(v) Master netting arrangements (continued)

	2017					
	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amount
				Financial instruments	Cash collateral received	
Financial assets						
Amounts due from ultimate holding company, fellow subsidiaries and fellow associates	3,435	–	3,435	(3,435)	–	–
Positive fair values of derivative financial instruments held for trading	540	–	540	(191)	(260)	89
Interest receivable	9	(9)	–	–	–	–
	3,984	(9)	3,975	(3,626)	(260)	89

	2017					
	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not set off in the statement of financial position		Net amount
				Financial instruments	Cash collateral pledged	
Financial liabilities						
Deposits from banks	70	–	70	(70)	–	–
Amounts due to ultimate holding company, fellow subsidiaries and fellow associates	3,435	–	3,435	(3,435)	–	–
Negative fair values of derivative financial instruments held for trading	244	–	244	(191)	(31)	22
Interest payable	15	(9)	6	–	–	6
	3,764	(9)	3,755	(3,696)	(31)	28

35. Management of risks *(continued)*

(a) Credit risk management *(continued)*

(vi) Concentration of credit risk

Concentration of credit risk exists when changes in geographic, economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is material in relation to the Group's total exposures. The Group's portfolio is diversified along geographic, industry and product sectors in accordance with the established limits approved by the relevant risk committees. The information of the advances to customers analysed by industry sectors and by geographical area is disclosed in note 14(b) of "Notes to the financial statements" and note (b) of "Unaudited supplementary financial information" respectively.

(1) *Maximum exposure*

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

	2018	2017
Cash and balances with banks, central banks and other financial institutions	10,357	10,951
Placements with banks, central banks and other financial institutions	3,836	7,996
Amounts due from ultimate holding company, fellow subsidiaries and fellow associates	18,562	8,745
Trading assets	6,069	8,787
Financial assets designated at fair value through profit or loss	–	20
Advances to customers	192,784	178,935
Trade bills	1,647	3,317
Advances to banks	2,367	4,922
Available-for-sale financial assets	–	85,731
Financial assets measured at fair value through other comprehensive income	71,621	–
Financial guarantees and other credit related contingent liabilities	6,062	5,544
Loan commitments and other credit related commitments	37,241	37,437

Notes to the Financial Statements

35. Management of risks *(continued)*

(a) Credit risk management *(continued)*

(vi) Concentration of credit risk *(continued)*

(2) Credit quality of loans and advances

Advances to banks are only made to banks with good credit standing. Loans to associated companies are granted on the basis that our associated companies have good credit standing. At 31st December, 2018 and 2017, no advances to banks and loans to associated companies are past due nor impaired. The credit quality of advances to customers can be analysed as follows:

	2018	2017
Gross advances to customers		
– neither past due nor impaired	189,856	174,099
– past due but not impaired	2,420	4,614
– impaired (note 14(c))	1,127	871
	193,403	179,584

of which:

Gross advances to customers		
– Grade 1: Pass	191,676	178,027
– Grade 2: Special mention	600	686

The Group classifies the loans and advances in accordance with the loan classification system required to be adopted for reporting to the HKMA.

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

	2018	2017
Gross advances to customers that are past due but not impaired		
– past due 3 months or less	2,393	4,587
– 6 months or less but over 3 months	25	20
– 1 year or less but over 6 months	2	7
	2,420	4,614

At 31st December, 2018, advances to customers that were past due or impaired had the terms not been renegotiated amounted to HK\$12 million (2017: HK\$15 million) for the Group. These are retained in impaired loans as long as the obligors are able to substantially meet the renegotiated loan repayment terms.

35. Management of risks *(continued)*

(a) Credit risk management *(continued)*

(vi) Concentration of credit risk *(continued)*

(3) *Credit quality of financial assets other than advances to customers, banks and associated companies*

Credit risk of treasury transactions is managed in the same way as the Group manages its corporate lending risk, and risk gradings are applied to the counterparties with individual counterparty limits set.

At the reporting date, the credit quality of investment in debt securities analysed by designation of external credit assessment institution, Standard & Poor's Ratings Services or their equivalents, is as follows. In the absence of such issue ratings, the ratings designated for the issuers are reported.

	2018	2017
AAA	10,208	12,096
AA- to AA+	4,077	5,573
A- to A+	48,895	44,429
BBB to BBB+	5,438	18,668
Lower than BBB	2,878	8,862
	71,496	89,628
Unrated	1,757	1,097
	73,253	90,725

There are no overdue debt securities included in "Financial assets designated at fair value through profit or loss" and "Financial assets measured at fair value through other comprehensive income" for the Group as at 31st December, 2018 (2017: no overdue debt securities included in "Financial assets designated at fair value through profit or loss" and "Available-for-sale financial assets").

Included in "Other assets" of the Group as at 31st December, 2018 and 31st December, 2017, there are no receivables which are overdue.

Notes to the Financial Statements

35. Management of risks *(continued)*

(a) Credit risk management *(continued)*

(vi) Concentration of credit risk *(continued)*

(4) Collateral and other credit enhancements

The Group holds collateral against advances to customers in the form of mortgages over properties, other registered securities over assets, cash deposits and guarantees. Collateral generally is not held over advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. The Group also holds commercial properties as collateral against loans to associated companies. Collateral held as security for financial assets or financial derivatives other than advances is determined by the nature of the instrument.

An estimate of the fair value of collateral and other credit enhancements held against past due but not impaired financial assets is as follows:

	2018	2017
Fair value of collateral and other credit enhancements held against financial assets that are past due but not impaired	7,266	5,816

Analysis of credit risk concentration by the economic sector of the respective financial assets is disclosed in notes 12 to 17 and the geographical concentration of the Group's assets is disclosed in note 33.

(b) Liquidity risk management

Liquidity risk is the risk of inability to fund an increase in assets or meet obligations as they fall due. An institution's obligations, and the funding sources used to meet them, depend significantly on its business mix, statement of financial position structure, and the cash flow profiles of its on- and off-balance sheet obligation. The Group's primary objective of liquidity risk management is to manage the liquidity risk exposures under both normal and stressed conditions. The Group has established liquidity management policies for ensuring adequate liquidity is maintained at all times. The Group maintained an average liquidity maintenance ratio and core funding ratio of 39.2% and 131.8% respectively in 2018 (2017: 44.1% of LMR), which are well above the statutory requirement of 25% and 50% respectively. The liquidity maintenance ratio as of 31st December, 2018 and 31st December, 2017 and core funding ratio as of 31st December, 2018 are compiled in accordance with the Banking (Liquidity) Rules effective from 1st January, 2015 and 1st January, 2018 respectively.

Roles and responsibilities in the Group's liquidity risk management structure are mainly distributed across different committees and hierarchical levels: Board of Directors, Risk Management Committee ("RMC"), ALCO, Investment Strategy Committee, Treasury Division, Financial Management Division, Risk Management Division, Corporate Banking Division and Retail Banking Division.

35. Management of risks *(continued)*

(b) Liquidity risk management *(continued)*

Liquidity is managed on a day-to-day basis by the Treasurer under the direction of ALCO. ALCO, which comprises personnel from senior management, treasury function, risk management, financial management and business areas that could affect liquidity risk, is responsible for overseeing liquidity risk management, in particular implementation of appropriate liquidity policies and procedures, identifying, measuring and monitoring liquidity risk, and control over the liquidity risk management process. The Board of Directors approves the liquidity risk strategy and policies, and is responsible for maintaining continued awareness of the overall liquidity risk profile, and ensuring liquidity risk is adequately managed and controlled by senior management within the established risk management framework.

Customer deposits form an important part of funding source of the Group. The Retail Banking Division and Corporate Banking Division are responsible for maintaining customer deposits as well as advising their funding needs to the Treasury Division. The head of Retail Banking Division provides the latest information to the ALCO on material customer deposits balance movements and strategy to tap deposits.

To cater for funding requirements in the ordinary course of business, sufficient liquid assets are held and access to the interbank market is maintained. In addition, adequate standby facilities are maintained in order to meet any unexpected and material cash outflows. The Group also performs regular stress tests which include an institution-specific crisis scenario, a general market wide crisis scenario and a combined scenario on its liquidity positions to ensure adequate liquidity is maintained at all times.

The Treasury Division acts in accordance with the Liquidity Portfolio Framework and Debt Securities Investment Framework to address the issue of liquidity cushions. The objective of the Liquidity Portfolio Framework is to ensure that the Group can meet its obligations when they fall due in normal circumstances, and an adequate stock of high quality liquid assets in the portfolio could provide a safety cushion in the event of a funding crisis.

Due to the close proximity of the three operating regions in Hong Kong, China and Macau, the Group adopts a centralised approach to manage liquidity and funding for both domestic and overseas subsidiaries. At the next granular level, such as branches and sub-branches, the overseas subsidiaries take responsibility for managing their funding arrangements in relation to the use and application of funds. The Financial Management Division provides a consolidated picture to the Group's senior management.

The identification of liquidity risk depends first and foremost on its ability to accurately measure net funding requirements along different time horizons of its cash-flow projections. Setting up liquidity risk tolerance, including the quality and mixture of liquid asset holdings, maturity or currency mismatches and concentration of funding as well as stress testing are performed to facilitate liquidity risk control within the liquidity management framework.

Notes to the Financial Statements

35. Management of risks *(continued)*

(b) Liquidity risk management *(continued)*

Commensurate with the Group's business size, structure and complexity, the Group sets targets for the critical liquidity risk indicators for monitoring and controlling liquidity risk exposures.

The Group adopts a range of liquidity metrics to manage its liquidity positions, namely liquidity maintenance ratios, core funding ratios, loan to deposit ratios, etc. Those liquidity indicators are subject to ALCO's review on a regular basis against the targets.

The maintenance of liquidity maintenance ratios serves the purpose of addressing short-term liquidity stability. The core funding ratios give a clear picture of the Group's medium-term liquidity profile. A core funding ratio is a percentage of the amount of the Group's "available core funding" to the amount of its "required core funding" as defined by the Banking (Liquidity) Rules.

Based on the projection of future cash flows under normal and stressed conditions over different time horizons the Group identifies potential funding mismatches by comparing against the liquidity metrics. Moreover, the risk is further analysed by currencies and entities for senior management's review.

Stress tests for liquidity risk management are designed to assess the Group's ability to generate sufficient liquidity from assets and liabilities aspects in meeting funding needs under adverse conditions. The scenarios cover crisis under institution specific, general market wide and combined basis. Assumptions are subject to regular review by the ALCO to ensure the effectiveness of the stress testing process. Stress tests are performed regularly at the individual major entity level. The impact is further analysed on the consolidated group-wide level.

The Group has formulated a contingency plan setting out strategies for dealing with a liquidity crisis and the procedures for making up cash-flow deficits in emergency situations. The plan is updated and reviewed at least annually by the ALCO to ensure that it remains robust over time. Any revision will be approved by the Board of Directors. Apart from the liquidity limits and ratios agreed with the HKMA, the Group will promptly inform the HKMA of any indicators of serious liquidity problems, which may trigger the contingency funding plan.

The cash flows payable by the Group for non-derivative financial liabilities including interest payable that will be settled by remaining contractual maturities at the reporting date are presented in the following table. The amounts disclosed are based on the contractual undiscounted cash flows. Interest payable in respect of term non-derivative financial liabilities is reported based on contractual interest payment date. Interest payable in respect of perpetual subordinated notes is reported based on the contractual interest payable up to the Bank's optional redemption date.

35. Management of risks *(continued)*

(b) Liquidity risk management *(continued)*

			2018					
	Repayable on demand	Within 1 month	Over 1 month but within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Undated	Gross cash outflow
Non-derivative financial liabilities								
Deposits and balances of banks, central banks and other financial institutions	105	12,418	110	6	–	–	–	12,639
Amounts due to ultimate holding company and fellow subsidiaries	484	13,237	13,539	7,975	2,516	–	–	37,751
Deposits from customers	84,119	61,361	52,810	22,953	1,720	–	–	222,963
Certificates of deposit and fixed rate note issued	–	12	206	3,781	2,628	204	–	6,831
Other liabilities	–	1,578	1,107	94	144	41	609	3,573
	84,708	88,606	67,772	34,809	7,008	245	609	283,757
Unrecognised loan commitments	17,804	698	1,687	12,467	4,710	1	–	37,367
Financial guarantees and other credit related contingent liabilities	383	711	1,224	3,320	455	–	–	6,093
	18,187	1,409	2,911	15,787	5,165	1	–	43,460
Derivative cash flows								
Derivative financial instruments settled on net basis	–	7	26	63	184	–	–	280
Derivative financial instruments settled on a gross basis								
– total outflow	–	14,447	17,611	3,923	630	–	–	36,611
– total inflow	–	(14,661)	(17,498)	(4,027)	(630)	–	–	(36,816)
	–	(214)	113	(104)	–	–	–	(205)

Notes to the Financial Statements

35. Management of risks *(continued)*

(b) Liquidity risk management *(continued)*

			2017					
	Repayable on demand	Within 1 month	Over 1 month but within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Undated	Gross cash outflow
Non-derivative financial liabilities								
Deposits and balances of banks, central banks and other financial institutions	1,261	3,190	15	–	13	–	–	4,479
Amounts due to ultimate holding company and fellow subsidiaries	574	8,454	7,649	21,672	6,088	–	–	44,437
Deposits from customers	84,407	58,308	54,102	24,375	2,137	–	–	223,329
Certificates of deposit issued	–	789	783	159	2,546	212	–	4,489
Other liabilities	–	1,715	1,438	406	300	–	502	4,361
	86,242	72,456	63,987	46,612	11,084	212	502	281,095
Unrecognised loan commitments	16,558	573	1,653	14,864	3,715	74	–	37,437
Financial guarantees and other credit related contingent liabilities	324	595	1,482	2,513	628	2	–	5,544
	16,882	1,168	3,135	17,377	4,343	76	–	42,981
Derivative cash flows								
Derivative financial instruments settled on net basis	–	7	17	67	165	–	–	256
Derivative financial instruments settled on a gross basis								
– total outflow	–	21,241	10,852	6,892	1,831	–	–	40,816
– total inflow	–	(21,701)	(10,983)	(7,464)	(2,064)	–	–	(42,212)
	–	(460)	(131)	(572)	(233)	–	–	(1,396)

Details of the analysis on the Group's material assets and liabilities categorised into relevant maturity groupings based on the remaining period at reporting date to the contractual maturity date are set out in note 28.

35. Management of risks *(continued)*

(c) Market risk management

Market risk is the risk of loss of income or market value mainly due to market fluctuations in interest rates, foreign exchange rates, credit spreads, equity and commodity prices or changes in volatility or correlations of these indicators.

The Group is exposed to market risk from its trading, client servicing and balance sheet management activities. The Group's market risk management strategy and market risk limits are established with reference to the Group's risk appetite and business strategies, taking into account macroeconomic and market conditions. Market risk limits are subject to regular review.

The board level RMC reviews and approves the Group's framework and limits for the management of market risks and trading authorities. The ALCO is the senior management committee that supports the RMC in monitoring market risk. The ALCO oversees the market risk management objectives and policies governing prudent market risk taking, which are backed by risk methodologies, measurement systems and internal controls. The ALCO is chaired by the Chief Executive and supported by the Market Risk & Asset Liability Management ("MRM") and Treasury Financial Control ("TFC") units. MRM is an independent risk-control unit responsible for operationalising the market risk management framework to support business growth while ensuring adequate risk control and oversight.

Market risk management is a shared responsibility. Business units are responsible for proactively managing risk within their approved trading strategies and investment mandates, while MRM acts as the independent monitoring unit to ensure sound governance. The identification, measurement, monitoring, control and reporting of key risk management activities are regularly reviewed by MRM and the ALCO to ensure effective risk management under prevailing market conditions.

Risk identification is addressed via our internal New Product Approval Process ("NPAP") at product inception. Market risk is also identified by our risk managers from their ongoing interactions with the business units.

Value-At-Risk ("VaR"), as a key market risk measure for the Group's trading activities, is a component of aggregate market risk appetite. VaR is measured by its individual market risk components, namely interest rate risk, foreign exchange risk, equity risk and credit spread risk. Our VaR model is based on a historical simulation at a 99% confidence level, and over a one day holding period. As VaR is a statistical measure based on historical market fluctuations, past changes in market risk factors may not accurately predict forward looking market conditions all the time. Under the defined confidence threshold, losses on a single trading day may exceed VaR, on average, once every 100 days. To ensure the continued integrity of the VaR model, we regularly back-test the VaR estimates against actual daily trading P&Ls and theoretical P&Ls to confirm that the VaR model does not underestimate market risk exposures.

Present Value of a Basis Point ("PV01"), which measures the change in value of interest rate sensitive exposures resulting from a one basis point change across the entire yield curve, is also an important measure monitored on a daily basis. Other than VaR and PV01, other risk measurements used include notional positions, Profit & Loss ("P&L") for One Basis Point Move in Credit Spreads ("CS01") and derivative greeks for specific exposure types.

Notes to the Financial Statements

35. Management of risks *(continued)*

(c) Market risk management *(continued)*

We perform stress testing and scenario analysis to better quantify and assess potential losses arising from low probability but plausible extreme market conditions. The stress scenarios are regularly reviewed and fine-tuned to ensure that they remain relevant to the Group's trading activities and risk profile as well as prevailing and forecast economic conditions. These analyses will help determine if potential losses from such extreme market conditions are within the Group's risk triggers.

(i) Interest rate risk

The Group's interest rate exposures arise from lending, deposit-taking and treasury activities. Interest rate risk primarily results from the timing differences in the repricing of interest-bearing assets, liabilities and commitments, which may apply to both the banking book and trading book. It also relates to positions from non-interest-bearing assets and liabilities including shareholder's funds and current accounts, as well as from interest-bearing assets and liabilities. The Group's interest rate risk is monitored by the ALCO on limits approved by the Board, including product limit and PV01 limit. The Group also uses interest rate swaps and other derivatives to manage interest rate risk.

Interest rate sensitivity sets out below is for risk management reporting to ALCO for in simplified scenario. Actual changes in the Group's profit before tax resulting from a change in interest rates may differ from the result of the sensitivity analysis. The effect on interest-bearing financial instruments and interest rate swaps has been included in this calculation. The analysis is performed on the same basis as 2017.

	2018	2017
	Increase/(decrease) in Group's profit before tax	Increase/(decrease) in Group's profit before tax
Increase in 100 basis points	95	237
Decrease in 100 basis points	(95)	(237)

Structural interest rate risk arises primarily from the deployment of non-interest-bearing assets and liabilities, including shareholder's funds and current accounts, as well as from interest-bearing assets and liabilities. Structural interest rate risk is monitored by the ALCO.

35. Management of risks *(continued)*

(c) Market risk management *(continued)*

(i) Interest rate risk *(continued)*

The following tables indicate the expected next repricing dates for the assets and liabilities at the reporting date.

	2018					
	Total	Within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Non- interest bearing
Assets						
Cash and balances with banks, central banks and other financial institutions	10,357	6,205	–	–	–	4,152
Placements with banks, central banks and other financial institutions	3,836	3,727	109	–	–	–
Amounts due from ultimate holding company, fellow subsidiaries and fellow associates	18,562	16,435	2,076	–	–	51
Trading assets	6,069	1,080	642	872	155	3,320
Financial assets designated at fair value through profit or loss	–	–	–	–	–	–
Advances to customers and other accounts	197,840	174,737	9,998	8,572	803	3,730
Advances to banks	2,367	837	1,530	–	–	–
Available-for-sale financial assets	–	–	–	–	–	–
Financial assets measured at fair value through other comprehensive income	71,648	28,182	14,847	25,894	1,582	1,143
Other assets	7,942	–	–	–	–	7,942
Total assets	318,621	231,203	29,202	35,338	2,540	20,338
Liabilities						
Deposits and balances of banks, central banks and other financial institutions	4,215	4,121	1	–	–	93
Amounts due to ultimate holding company and fellow subsidiaries	37,673	31,762	4,441	–	–	1,470
Deposits from customers	221,854	183,747	22,568	1,561	–	13,978
Certificates of deposit and fixed rate notes issued	7,320	3,547	991	2,582	200	–
Trading liabilities	3,400	–	–	–	–	3,400
Other liabilities	4,142	34	–	–	–	4,108
Subordinated liabilities	–	–	–	–	–	–
Total liabilities	278,604	223,211	28,001	4,143	200	23,049
Derivatives (in the banking book) net (short)/long position (notional amount)	(15)	(7,001)	4,919	3,477	(1,410)	–
Interest rate sensitivity gap	40,002	991	6,120	34,672	930	(2,711)

Notes to the Financial Statements

35. Management of risks *(continued)*

(c) Market risk management *(continued)*

(i) Interest rate risk *(continued)*

	2017					
	Total	Within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Non- interest bearing
Assets						
Cash and balances with banks, central banks and other financial institutions	10,951	7,983	–	–	–	2,968
Placements with banks, central banks and other financial institutions	7,996	7,996	–	–	–	–
Amounts due from ultimate holding company, fellow subsidiaries and fellow associates	8,745	7,856	591	–	–	298
Trading assets	8,787	2,072	2,156	910	408	3,241
Financial assets designated at fair value through profit or loss	20	–	20	–	–	–
Advances to customers and other accounts	186,220	161,764	11,099	9,003	103	4,251
Advances to banks	4,922	4,120	802	–	–	–
Available-for-sale financial assets	85,731	39,518	31,184	12,955	1,502	572
Other assets	7,552	–	–	–	–	7,552
Total assets	320,924	231,309	45,852	22,868	2,013	18,882
Liabilities						
Deposits and balances of banks, central banks and other financial institutions	4,458	3,699	–	–	–	759
Amounts due to ultimate holding company and fellow subsidiaries	44,422	28,474	15,522	–	–	426
Deposits from customers	222,459	181,393	23,030	1,877	–	16,159
Certificates of deposit issued	4,380	3,123	110	947	200	–
Trading liabilities	3,782	–	–	–	–	3,782
Other liabilities	4,869	34	–	–	–	4,835
Subordinated liabilities	–	–	–	–	–	–
Total liabilities	284,370	216,723	38,662	2,824	200	25,961
Derivatives (in the banking book) net (short)/long position (notional amount)	(178)	(1,154)	–	1,584	(608)	–
Interest rate sensitivity gap	36,376	13,432	7,190	21,628	1,205	(7,079)

35. Management of risks *(continued)*

(c) Market risk management *(continued)*

(i) Interest rate risk *(continued)*

The following table indicates the effective interest rates for the last month of the year:

	2018 %	2017 %
Placement with banks, central banks and other financial institutions	2.26	2.02
Advances to customers and trade bills	3.25	2.96
Debt securities	3.14	2.78
	3.13	2.82
Deposits and balances of banks, central banks and other financial institutions	2.73	1.57
Deposits from customers	1.60	1.19
Certificates of deposit issued	2.10	2.11
Fixed rate note issued	4.26	–
	1.81	1.28

(ii) Currency risk

The Group's foreign exchange positions, which arise from foreign exchange dealings, commercial banking operations and structural foreign currency exposures arising from capital investment in subsidiaries outside Hong Kong, mainly in US dollars, Macau Patacas and Renminbi, are managed by ALCO. All foreign exchange positions are managed by the ALCO within the limits approved by the Board.

	2018									
	US\$	Chinese Renminbi	Pound Sterling	Euro	Canadian \$	Australian \$	Singapore \$	New Zealand \$	Macau Patacas	Total
Spot assets	81,653	57,619	817	513	77	4,940	289	217	13,375	161,265
Spot liabilities	(75,901)	(46,296)	(1,360)	(1,212)	(2,046)	(10,246)	(309)	(2,900)	(13,066)	(154,488)
Forward purchases	112,167	91,322	813	1,662	1,976	5,444	124	2,680	–	216,748
Forward sales	(117,805)	(103,114)	(264)	(950)	(26)	(130)	(115)	(2)	–	(223,584)
Net option positions	(769)	769	–	–	–	–	–	–	–	–
Net long/(short) positions	(655)	300	6	13	(19)	8	(11)	(5)	309	(59)

Notes to the Financial Statements

35. Management of risks *(continued)*

(c) Market risk management *(continued)*

(ii) Currency risk *(continued)*

	2017									
	US\$	Chinese Renminbi	Pound Sterling	Euro	Canadian \$	Australian \$	Singapore \$	New Zealand \$	Macau Patacas	Total
Spot assets	70,571	74,124	861	914	113	8,071	192	124	12,556	169,857
Spot liabilities	(79,778)	(47,748)	(1,311)	(1,167)	(1,871)	(16,190)	(219)	(3,342)	(12,885)	(165,414)
Forward purchases	116,741	81,359	649	1,339	1,779	8,304	42	3,275	–	213,967
Forward sales	(105,619)	(110,755)	(196)	(1,081)	(29)	(175)	(29)	(58)	–	(219,838)
Net option positions	(2,457)	2,456	–	–	–	–	–	–	–	(1)
Net long/(short) positions	(542)	(564)	3	5	(8)	10	(14)	(1)	(329)	(1,429)

The net positions or net structural positions in foreign currencies are disclosed below where each currency constitutes 10% or more of the respective total net position or total net structural position in all foreign currencies.

The net option position is calculated on the basis of delta-weighted positions of all foreign exchange options contracts. The net structural position includes the Bank's overseas banking subsidiaries and other subsidiaries substantially involved in foreign exchange trading and includes structural assets or liabilities as follows:

- investments in overseas subsidiaries and related companies

	2018				2017			
	Macau Patacas	Chinese Renminbi	US\$	Total	Macau Patacas	Chinese Renminbi	US\$	Total
Net structural positions	3,195	7,207	1,606	12,008	3,063	6,612	1,689	11,364

(iii) Equity risk

The Group's equities exposures in 2017 and 2018 are mainly in long-term equity investments which are reported as "Available-for-sale financial assets" and "Financial assets measured at fair value through other comprehensive income" set out in note 16 and note 17 separately. Equities held for trading purposes are included under "Trading assets" set out in note 12. These are subject to trading limits and risk management control procedures and other market risk regimes.

35. Management of risks *(continued)*

(d) Operational risk management

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The Group's risk management framework is established to control risks at both corporate and departmental levels. The underlying management principle is built upon a long-standing culture of high integrity and risk awareness fostered by senior executives of the Group.

The framework consists of governing policies with control measures to ascertain compliance by all operating units. These measures are directed, controlled and held to account by operational management committees chaired by senior executives. Regular reviews are performed by the committees to ensure proper functioning of internal controls and to identify improvement opportunities.

Furthermore, independent reviews are conducted by the Group's Internal Audit Division to measure the effectiveness of the Group's system of internal controls. Internal Audit division reports to the Audit Committee to ensure the framework is managed with high standards of probity.

(e) Capital management

The Group's policy is to maintain a strong capital base to support the development of the Group's business and to meet the statutory capital ratios. In addition to meeting the requirements from the HKMA, the Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholder and benefits for other stakeholders by pricing products and services commensurate with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between higher shareholder returns that might otherwise be possible with greater gearing and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions. The amount of minimum capital requirements held for credit, market and operational risks are calculated in accordance with the Basel II requirements and the regulations from the HKMA.

Capital is allocated to the various activities of the Bank depending on the risk taken by each business division. Where the subsidiaries are directly regulated by overseas regulators, they are required to maintain minimum capital according to those regulators' rules. The Bank and certain financial subsidiaries, as specified by the HKMA, are subject to the HKMA's capital requirements for its regulatory supervision purposes. The Group and its individually regulated subsidiaries have complied with all externally imposed capital requirements throughout the years ended 31st December, 2018 and 2017 and are well above the minimum required ratios set by the HKMA.

The capital ratios as at 31st December, 2018 are computed on a consolidated basis including the Bank and certain of its subsidiaries as specified by the HKMA for its regulatory purposes, and are in accordance with the Banking (Capital) Rules ("the Capital Rules").

Notes to the Financial Statements

35. Management of risks *(continued)*

(f) Transfers of financial assets

As of 31st December, 2018, the Group entered into repurchase agreements with certain banks and customers to sell debt securities with a carrying amount of HK\$3,947 million (2017: HK\$5,537 million) which are subject to simultaneous agreements ("repurchase agreements") to repurchase these securities at the agreed dates and prices.

The carrying amounts of debt securities sold under repurchase agreements by nature are as follows:

	2018	2017
Available-for-sale financial assets	–	4,415
Trading assets	–	1,122
Financial assets measured at fair value through other comprehensive income	3,947	–
	3,947	5,537

The consideration received under these repurchase agreements for the Group totaling HK\$3,747 million (2017: HK\$5,241 million) was reported as "Deposits and balances of banks, central banks and other financial institutions" and "Deposits from customers" at 31st December, 2018 and 31st December, 2017. The details are as follows:

	2018	2017
Deposits and balances of banks, central banks and other financial institutions	394	1,806
Amounts due to ultimate holding company, fellow subsidiaries and fellow associates	3,225	3,435
Deposits from customers	128	–
	3,747	5,241

As stipulated in the repurchase agreements, there was no transfer of the legal ownership of these securities to the counterparties during the covered period. However, the Group was not allowed to sell or pledge these securities during the covered period unless both parties mutually agree with such arrangement. Accordingly, these securities were not derecognised from the financial statements but regarded as "collateral" for the secured lending from these counterparties. Normally, the counterparties could only claim from the collateral when there exists an event of default on the secured lending.

As at 31st December, 2018 and 31st December, 2017, there were no outstanding transferred financial assets in which the Group has a continuing involvement that were derecognised in their entirety.

36. Staff benefits

(a) Retirement schemes

	2018	2017
Retirement benefit costs (note 5(g))	88	84

The Group operates both a Mandatory Provident Fund Exempt ORSO Scheme ("the ORSO Scheme") which is registered under the Hong Kong Occupational Retirement Schemes Ordinance and two Mandatory Provident Fund Schemes ("the MPF Schemes") established under the Hong Kong Mandatory Provident Fund Ordinance to cover all qualifying employees in Hong Kong. As from 1st August, 2004, the ORSO Scheme has been frozen as employees and the employer have made the contributions to MPF Schemes instead. In addition, a defined contribution scheme was established on 3rd January, 2001 to cover all qualifying employees in Macau at various funding rates, in accordance with the local practice and requirements. The costs of these schemes are charged to the statement of profit or loss as incurred and the assets of these schemes are held separately from the Group. Any forfeiture amount under the MPF Schemes is refunded to the Group when the member leaves employment prior to the employer's voluntary contributions being vested fully.

(b) Equity compensation benefits

(i) Share Option Scheme

During the year, OCBC, the ultimate controlling party of the Group, granted 523,703 (2017: 1,031,935) options, to eligible employees of the Group to acquire ordinary shares in OCBC pursuant to OCBC Share Option Scheme 2001 ("2001 Scheme"). This included 213,435 (2017: 605,526) options granted to directors of the Group. 2001 Scheme was implemented in 2001 and was extended for another 10 years from 2011 to 2021. Executives of the Group ranked Manager and above and non-executive directors of the Group are eligible to participate in this scheme. OCBC will either issue new shares or transfer treasury shares to the participants upon the exercise of their options. The acquisition prices for these grants were equal to the average of the last traded price of the ordinary shares of OCBC on the Singapore Exchange over the five consecutive trading days immediately prior to the respective dates of grant. The fair value of the options granted is determined using the binomial valuation model. Significant inputs to the valuation model are set out below:

	2018	2017
Acquisition price (in Singapore \$)	13.34	9.60
Average share price from grant date to acceptance date (in Singapore \$)	13.73	9.64
Expected volatility based on last 250 days historical volatility as of acceptance (in %)	17.29	14.73
Risk-free rate based on Singapore Government Securities ("SGS") bond yield at acceptance date (in %)	2.54	2.11
Expected dividend yield (in %)	2.62	4.27
Exercise multiple (times)	1.52	1.74
Option life (years)	10	10

Notes to the Financial Statements

36. Staff benefits *(continued)*

(b) Equity compensation benefits *(continued)*

(i) Share Option Scheme *(continued)*

The terms and conditions of the share options granted are as follows:

2018			
Options granted during the year	Number of options	Vesting conditions	Contractual life of options
Tranche 1	172,821	1 year from date of grant	10 years from date of grant
Tranche 2	172,821	2 years from date of grant	10 years from date of grant
Tranche 3	178,061	3 years from date of grant	10 years from date of grant
	523,703		

2017			
Options granted during the year	Number of options	Vesting conditions	Contractual life of options
Tranche 1	340,538	1 year from date of grant	10 years from date of grant
Tranche 2	340,538	2 years from date of grant	10 years from date of grant
Tranche 3	350,859	3 years from date of grant	10 years from date of grant
	1,031,935		

Movements in the number of options and fair value are as follows:

	2018		2017	
	Number of options (in Singapore \$)	Average price	Number of options (in Singapore \$)	Average price
At 1st January	2,397,090	0.9400	1,515,809	0.9872
Exercised during the year	(96,067)	0.9546	(150,654)	1.2582
Lapsed during the year	(24,640)	2.0469	–	–
Granted and accepted	523,703	2.0469	1,031,935	0.9172
At 31st December	2,800,086	1.1368	2,397,090	0.9400
Exercisable at the end of the year	1,273,475	0.9634	598,048	1.0255

At 31st December, 2018, the weighted average remaining contractual life of outstanding share options was 7.7 years (2017: 8.4 years). The aggregate outstanding number of options held by directors of the Bank was 1,414,867 (2017: 1,201,432). The accounting treatment of share-based compensation plan is set out in note 2(s).

36. Staff benefits *(continued)*

(b) Equity compensation benefits *(continued)*

(ii) OCBC Deferred Share Plan

OCBC implemented the OCBC Deferred Share Plan ("DSP") in 2003. The DSP is a discretionary incentive and retention award programme extended to executives of the Group at the absolute discretion of the Remuneration Committee. Among the ordinary shares granted, 50% vests at 2 years from the date of grant and the remaining 50% vests at 3 years from the date of grant.

Awards of an aggregate of 322,595 (2017: 418,054) ordinary shares of OCBC (including awards of 99,211 (2017: 176,223) ordinary shares of OCBC granted to directors of the Group) were granted by OCBC to eligible executives under the DSP during the financial year ended 31st December, 2018. The fair value of the shares at grant date was Singapore \$4 million (2017: Singapore \$4 million). In addition, awards are adjusted following the declarations of final dividend and interim dividend, if any.

The accounting treatment of share-based compensation plan is set out in note 2(s).

37. Fair values of financial instruments

(a) Financial instruments measured at fair value

Financial instruments measured at fair value on an ongoing basis include trading assets and liabilities, financial instruments designated at fair value through profit or loss, and financial instruments classified as measured at fair value through other comprehensive income/available-for-sale.

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. The Group measures fair values at the end of the reporting period on a recurring basis using the following fair value hierarchy as defined in HKFRS 13, *Fair value measurement* that reflects the observability and significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This category includes all instruments where the valuation technique includes inputs not based on observable market data and for which unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Notes to the Financial Statements

37. Fair values of financial instruments *(continued)*

(a) Financial instruments measured at fair value *(continued)*

Fair values of financial instruments that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments that are not traded in the active markets, the Group determines fair values using valuation techniques. Valuation techniques include net present value of expected future cash flows and discounted cash flow models based on “no-arbitrage” principles, standard option pricing models across the industry for vanilla derivative products. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm’s length.

The majority of valuation techniques employ only observable market data. Hence, the reliability of the fair values measurement is high. However, certain financial instruments are valued on the basis of one or more significant market inputs that are not observable. The fair value derived is more judgemental. “Not observable” does not mean there is absolutely no market data available, but rather that there is little or no current market data available from which to determine the level at which an arm’s length transaction would likely occur. Examples of observable inputs include foreign exchange spot and forward rates, benchmark interest rate curves and volatility surfaces for commonly traded option products. Examples of unobservable inputs include volatility surfaces for less commonly traded option products and correlations between market factors.

Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the valuation uncertainty associated with determination of fair values. Availability varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Group uses the broker pricing service, which adopts proprietary valuation models as inputs to a fair value measurement. These models are usually developed from recognised valuation models across the industry with some or all of the inputs into these models being unobservable in the market.

Fair values are subject to a control framework that aims to ensure that they are either determined or validated by a function independent of the risk-taker. To this end, the ultimate responsibility for the determination of fair values lies with Middle Office. Middle Office establishes procedures governing valuation, and is responsible for ensuring that these comply with all relevant accounting standards.

37. Fair values of financial instruments (continued)

(a) Financial instruments measured at fair value (continued)

The table below analyses financial instruments measured at fair value at the reporting date according to the level in the fair value hierarchy into which they are categorised:

	2018			
Recurring fair value measurements	Level 1	Level 2	Level 3	Total
Assets				
Amounts due from ultimate holding company and fellow subsidiaries				
– Certificates of deposit held	–	454	–	454
	–	454	–	454
Trading assets				
– Treasury bills	1,424	–	–	1,424
– Certificates of deposit held	–	–	–	–
– Other debt securities	1,289	35	–	1,324
– Equity securities	–	–	–	–
– Positive fair values of derivative financial instruments held for trading	–	3,321	–	3,321
	2,713	3,356	–	6,069
Financial assets designated at fair value through profit or loss				
– Other debt securities	–	–	–	–
	–	–	–	–
Advances to customers and other accounts				
– Positive fair values of derivative financial instruments held for hedging	–	61	–	61
Financial assets measured at fair value through other comprehensive income				
– Treasury bills	11,683	2,284	–	13,967
– Certificates of deposit held	–	21,574	–	21,574
– Other debt securities	33,343	1,621	–	34,964
– Equity securities	–	1	1,142	1,143
	45,026	25,480	1,142	71,648
	47,739	29,351	1,142	78,232
Liabilities				
Trading liabilities				
– Negative fair values of derivative financial instruments held for trading	–	3,400	–	3,400
Other accounts and provisions				
– Negative fair values of derivative financial instruments held for hedging	–	126	–	126
	–	3,526	–	3,526

Notes to the Financial Statements

37. Fair values of financial instruments *(continued)*

(a) Financial instruments measured at fair value *(continued)*

		2017		
	Level 1	Level 2	Level 3	Total
Assets				
Recurring fair value measurements				
Amounts due from ultimate holding company and fellow subsidiaries				
– Certificates of deposit held	–	834	–	834
	–	834	–	834
Trading assets				
– Treasury bills	832	–	–	832
– Certificates of deposit held	–	1,719	–	1,719
– Other debt securities	2,519	476	–	2,995
– Equity securities	1	–	–	1
– Positive fair values of derivative financial instruments held for trading	–	3,240	–	3,240
	3,352	5,435	–	8,787
Financial assets designated at fair value through profit or loss				
– Other debt securities	–	20	–	20
	–	20	–	20
Advances to customers and other accounts				
– Positive fair values of derivative financial instruments held for hedging	–	28	–	28
Available-for-sale financial assets				
– Treasury bills	13,737	4,388	–	18,125
– Certificates of deposit held	–	43,883	–	43,883
– Other debt securities	19,321	3,830	–	23,151
– Equity securities	–	1	571	572
	33,058	52,102	571	85,731
	36,410	58,419	571	95,400
Liabilities				
Trading liabilities				
– Negative fair values of derivative financial instruments held for trading	–	3,782	–	3,782
Other accounts and provisions				
– Negative fair values of derivative financial instruments held for hedging	–	2	–	2
	–	3,784	–	3,784

37. Fair values of financial instruments *(continued)*

(a) Financial instruments measured at fair value *(continued)*

During the year ended 31st December, 2018, there were no material transfers between Level 1 and Level 2, or transfers into or out of Level 3 (31st December, 2017: nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(i) Valuation of financial instruments with significant unobservable inputs

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

	2018		
	Available- for-sale financial assets – Equity securities	Financial assets measured at fair value through other comprehensive income – Equity securities	Total
Assets			
At 1st January	571	–	571
Purchases	–	–	–
Sales	–	–	–
Settlements	–	–	–
Transfers	(571)	571	–
Others			
Net realised gains recognised in the statement of profit or loss	–	–	–
Changes in fair value recognised in the statement of profit or loss:			
– Net gains from financial instruments designated at fair value through profit or loss	–	–	–
Changes in fair value recognised in the other comprehensive income	–	571	571
At 31st December	–	1,142	1,142
Total gains or losses for the year included in investment revaluation reserve of the other comprehensive income for assets held at the reporting date	–	571	571
Total gains or losses for the year included in the statement of profit or loss for assets held at the reporting date			
– Net trading income	–	–	–
– Net gains from financial instruments designated at fair value through profit or loss	–	–	–

Notes to the Financial Statements

37. Fair values of financial instruments *(continued)*

(a) Financial instruments measured at fair value *(continued)*

(i) Valuation of financial instruments with significant unobservable inputs *(continued)*

	2017 Available- for-sale financial assets – Equity securities	Total
Assets		
At 1st January	426	426
Purchases	–	–
Sales	–	–
Settlements	–	–
Transfers	–	–
Others	–	–
Net realised gains recognised in the statement of profit or loss	–	–
Changes in fair value recognised in the statement of profit or loss:		
– Net gains from financial instruments designated at fair value through profit or loss	–	–
Changes in fair value recognised in the other comprehensive income	145	145
At 31st December	571	571
Total gains or losses for the year included in investment revaluation reserve of the other comprehensive income for assets held at the reporting date	145	145
Total gains or losses for the year included in the statement of profit or loss for assets held at the reporting date		
– Net trading income	–	–
– Net gains from financial instruments designated at fair value through profit or loss	–	–

37. Fair values of financial instruments *(continued)*

(a) Financial instruments measured at fair value *(continued)*

(i) Valuation of financial instruments with significant unobservable inputs *(continued)*

Information about significant unobservable inputs in Level 3 valuations

	Valuation technique	Significant unobservable inputs	Range
Unlisted equity securities measured at fair value through other comprehensive income	Discounted cash flow model	Discount rates	6.51%-15.22% (2017: 7.40%-17.33%)
		P/E ratios	12.90%-29.25% (2017: 13.52%-33.12%)
	Market-comparable approach	Marketability discount	50% (2017: 50%)
		Risk discount rate	8.5% (2017: 8.5%)
		Expected investment return	3.0% (2017: 3.0%)

The fair value of unlisted financial assets measured at fair value through other comprehensive income/available-for-sale equity investments is determined using the discounted cash flow model and the significant unobservable inputs used in the fair value measurement are forecasted flows and terminal growth rate. The fair value measurement is positively correlated to the net cash inflows and terminal growth rate.

Notes to the Financial Statements

37. Fair values of financial instruments *(continued)*

(a) Financial instruments measured at fair value *(continued)*

(ii) Effect of changes in significant non-observable assumptions to reasonably possible alternative assumptions

The fair value of financial instruments are, in certain circumstances, measured using valuation models that incorporate assumptions that are not supported by prices from observable current market transactions in the same instrument and are not based on observable market data. The following table shows the sensitivity of fair values in Level 3 due to parallel movement of plus or minus 10 percent of change in fair value to reasonably possible alternative assumptions. This Level 3 sensitivity analysis assumes a one-way market move and does not consider offsets for hedges.

	2018			
	Reflected in profit/(loss)		Reflected in other comprehensive income	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
Financial assets measured at fair value through other comprehensive income				
– Equity securities	–	–	114	(114)
	–	–	114	(114)
	2017			
	Reflected in profit/(loss)		Reflected in other comprehensive income	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
Available-for-sale financial assets				
– Equity securities	–	–	57	(57)
	–	–	57	(57)

37. Fair values of financial instruments *(continued)*

(b) Fair values of financial instruments carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31st December, 2018 and 31st December, 2017 except for the following financial instruments, for which their carrying amounts and fair value and the level of fair value hierarchy are disclosed below:

		2018			
	Carrying value	Fair value	Level 1	Level 2	Level 3
Financial liabilities					
Certificates of deposit issued at amortised cost	5,038	5,063	–	5,063	–
Fixed rate note issued at amortised cost	2,282	2,282	–	2,282	–
		2017			
	Carrying value	Fair value	Level 1	Level 2	Level 3
Financial liabilities					
Certificates of deposit issued at amortised cost	4,380	4,426	–	4,426	–

The following methods and significant assumptions have been applied in determining the fair values of financial instruments not presented above.

- (i) The fair value of demand deposits and savings accounts with no specific maturity is assumed to be the amount payable on demand at the reporting date.
- (ii) The fair value of variable rate financial instruments is assumed to approximate their carrying amounts and, in the case of loans and unquoted debt securities, does not, therefore, reflect changes in their credit quality, as the impact of credit risk is recognised separately by deducting the amount of the expected credit loss/impairment loss and allowances from both the carrying amount and fair value.
- (iii) The fair value of fixed rate loans and mortgages carried at amortised cost is estimated by comparing market interest rates when the loans were granted with current market rates offered on similar loans. Changes in the credit quality of loans within the portfolio are not taken into account in determining gross fair values, as the impact of credit risk is recognised separately by deducting the amount of the expected credit loss/impairment loss and allowances from both the carrying amount and fair value.
- (iv) The fair value of unquoted equity investments is estimated, if possible, using applicable price/earnings ratios for similar listed companies adjusted to reflect the specific circumstances of the issuers.

Notes to the Financial Statements

38. Bank-level statement of financial position

	2018	2017
ASSETS		
Cash and balances with banks, central banks and other financial institutions	2,943	964
Placements with banks, central banks and other financial institutions	2,548	2,793
Amounts due from ultimate holding company, fellow subsidiaries and fellow associates	16,774	6,047
Trading assets	1,614	2,406
Financial assets designated at fair value through profit or loss	–	20
Advances to customers and other accounts	115,282	104,812
Amounts due from subsidiaries	31,554	26,552
Available-for-sale financial assets	–	49,171
Financial assets measured at fair value through other comprehensive income	46,182	–
Investments in subsidiaries	8,257	8,287
Investments in associated companies	332	182
Tangible fixed assets		
– Other properties, plants and equipment	4,252	3,879
Deferred tax assets	31	–
Goodwill	847	847
Assets of a disposal group classified as held for sale	–	–
Total assets	230,616	205,960
EQUITY AND LIABILITIES		
Deposits and balances of banks, central banks and other financial institutions	161	922
Amounts due to ultimate holding company and fellow subsidiaries	18,756	6,222
Deposits from customers	163,126	157,151
Certificates of deposit issued	4,420	4,332
Trading liabilities	368	258
Current tax payable	332	74
Deferred tax liabilities	–	73
Other accounts and provisions	1,607	1,715
Amounts due to subsidiaries	10,567	6,696
Subordinated liabilities	–	–
Total liabilities	199,337	177,443
Share capital	7,308	7,308
Reserves	22,471	21,209
Perpetual capital securities issued	1,500	–
Total equity	31,279	28,517
Total equity and liabilities	230,616	205,960

Approved and authorised for issue by the Board of Directors on 30th April, 2019

FUNG Yuk Bun Patrick
NA Wu Beng

Chairman
Executive Director and Chief Executive

39. Ultimate controlling party

At 31st December, 2018, the directors consider the ultimate controlling party of the Bank to be OCBC, which is incorporated in Singapore.

40. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31st December, 2018

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31st December, 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 16, <i>Leases</i>	1st January, 2019
HK(IFRIC) 23, <i>Uncertainty over income tax treatments</i>	1st January, 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 16, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's financial statements for the year ended 31st December, 2018. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in the financial statements.

HKFRS 16, *Leases*

As disclosed in note 2(l), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

Notes to the Financial Statements

40. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31st December, 2018 *(continued)*

HKFRS 16, Leases *(continued)*

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in note 30(c), at 31st December, 2018 the Group's future minimum lease payments under non-cancellable operating leases amount to HK\$338 million and HK\$5 million for properties and other assets respectively, over half of which is payable either between 1 and 5 years after the reporting date or in more than 5 years. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

HKFRS 16 is effective for annual periods beginning on or after 1st January, 2019. The standard offers different transition options and practical expedients, including the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. If this practical expedient is chosen, the Group will apply the new definition of a lease in HKFRS 16 only to contracts that are entered into on or after the date of initial application. If the practical expedient is not chosen, the Group will need to reassess all of its decisions about which existing contracts are, or contain, leases, using the new definition. Depending on whether the Group elects to adopt the standard retrospectively or follow a modified retrospective method of recognising a cumulative-effect adjustment to the opening balance of equity at the date of initial application, the Group may or may not need to restate comparative information for any changes in accounting resulting from the reassessment. The Group has not yet decided which transition approach to be taken.

41. Approval of the financial statements

These financial statements were approved and authorised for issue by the Board of Directors on 30th April, 2019.

42. Restatement of prior periods

The Group has initially applied HKFRS 15 and HKFRS 9 at 1st January, 2018. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 4.

The Group has restated comparative information for the reclassification of interests in Hong Kong Life Insurance Limited from "Assets of a disposal group classified as held for sale" to "Investments in associated companies" in accordance with HKAS 28.

Unaudited Supplementary Financial Information

The notes to the consolidated financial statements and the following unaudited supplementary financial information are prepared to comply with the Banking (Disclosure) Rules.

(a) Capital and liquidity ratios

(i) Capital ratios

	2018	2017 (restated)
Common Equity Tier 1 capital ratio as at 31st December	14.2%	14.2%
Tier 1 capital ratio as at 31st December	14.9%	14.2%
Total capital ratio as at 31st December	16.9%	16.1%
Capital conservation buffer ratio	1.875%	1.250%
Countercyclical capital buffer ratio	1.142%	0.750%
Common Equity Tier 1 capital	30,539	29,120
Tier 1 capital	32,039	29,120
Total capital	36,206	32,973
Risk weighted assets	214,419	205,073

As mentioned in note 35(e) of “Notes to the financial statements” on the capital management of the Group, the calculation of the regulatory capital and capital charges are in accordance with the Banking (Capital) Rules.

The capital ratios are computed on a consolidated basis including the Bank and certain of its subsidiaries as specified by the HKMA for its regulatory purposes, and are in accordance with the Banking (Capital) Rules.

In view of the Capital Rules, the Group has adopted the “basic indicator approach” for the calculation of the operational risk and the “standardised (market risk) approach” for the calculation of market risk. For the calculation of the risk-weighted assets for credit risk, the Group has adopted the “standardised (credit risk) approach” as of 31st December, 2018 and 31st December, 2017.

Unaudited Supplementary Financial Information

(a) Capital and liquidity ratios *(continued)*

(i) Capital ratios *(continued)*

In calculating the capital ratios of the Group, the following subsidiaries are excluded from the regulatory scope of consolidation. These are mainly securities and insurance companies that are authorised and supervised by a regulator and are subject to supervisory arrangements regarding the maintenance of adequate capital to support business activities comparable to those prescribed for authorised institutions under the Capital Rules and the Banking Ordinance:

Subsidiaries	Principal activities	2018		2017	
		Total assets	Total equity	Total assets	Total equity
CF Limited	Dormant/undergoing voluntary liquidation	–	–	–	–
C.F. Finance Company Limited	Undergoing voluntary liquidation	–	–	–	–
Chekiang First Bank (Nominees) Limited	Nominee Services	–	–	–	–
Chekiang First Bank (Trustees) Limited	Inactive	4	4	4	4
Chekiang First Limited	Dormant	–	–	–	–
Chekiang First Securities Company Limited	Undergoing voluntary liquidation	6	6	6	6
Cyber Wing Hang Limited	Dormant/undergoing voluntary liquidation	–	–	–	–
Data Processing Services Limited	Dormant/undergoing voluntary liquidation	1	1	1	1
Honfirst Investment Limited	Futures Trading	17	17	17	17
Honfirst Property Agency Limited	Dormant/undergoing voluntary liquidation	–	–	–	–
OCBC Wing Hang (Nominees) Limited	Nominee Services	–	–	–	–
OCBC Wing Hang (Trustee) Limited	Inactive	4	4	4	4
OCBC Wing Hang Insurance Agency Limited	Insurance Agency	101	88	82	70
OCBC Wing Hang Insurance Brokers Limited	Insurance Broker	70	53	60	38
OCBC Wing Hang Shares Brokerage Co. Limited	Securities Dealing	464	322	622	307

As at 31st December, 2018, there are no subsidiaries which are included within both the accounting scope of consolidation and the regulatory scope of consolidation, but the method of consolidation differs.

There are also no subsidiaries which are included within the regulatory scope of consolidation but not included within the accounting scope of consolidation.

There are no relevant capital shortfalls in any of the Group's subsidiaries as at 31st December, 2018 (2017: nil) which are not included in the Group's consolidation for regulatory purposes.

The Group operates subsidiaries in a number of countries and territories where capital is governed by local rules and there may be restrictions on the transfer of regulatory capital and funds between members of the Group.

(a) Capital and liquidity ratios *(continued)*

(ii) Average liquidity maintenance ratio and core funding ratio

	2018	2017
Average liquidity maintenance ratio for the year	39.2%	44.1%
Average core funding ratio for the year	131.8%	–

The average liquidity maintenance ratio and core funding ratio for 2018 include the liquidity positions of the Bank and certain of its financial subsidiaries. The basis of computation has been agreed with the Hong Kong Monetary Authority (“HKMA”). Liquidity maintenance ratio and core funding ratio are compiled in accordance with the Banking (Liquidity) Rules effective from 1st January, 2015 and 1st January, 2018 respectively.

(b) Advances to customers analysed by geographical area

The geographical information is classified by the geographical location of the counterparties after taking into account any risk transfer. In general, such transfer of risk takes place if the claims are guaranteed by a party in a geographical location which is different from that of the borrower or if the claims are on an overseas branch of a bank whose head office is located in another geographical location.

	2018					
	Gross advances to customers	Impaired advances to customers	Overdue advances to customers for over three months	Expected credit loss (Stage 3) on advances to customers	Expected credit loss (Stages 1 and 2) on advances to customers	Expected credit loss written off during the year
Hong Kong	136,627	176	141	76	240	83
Macau	22,092	26	18	7	23	4
Mainland China	32,394	925	467	165	102	40
Others	2,290	–	5	–	6	–
	193,403	1,127	631	248	371	127

	2017 (restated)					
	Gross advances to customers	Impaired advances to customers	Overdue advances to customers for over three months	Individual impairment allowances on advances to customers	Collective impairment allowances on advances to customers	Impairment allowances written off during the year
Hong Kong	125,944	264	230	123	120	75
Macau	20,046	12	15	7	10	7
Mainland China	30,469	593	515	43	326	138
Others	3,125	2	6	–	20	–
	179,584	871	766	173	476	220

Unaudited Supplementary Financial Information

(c) Further analysis of advances to customers by industry sectors

The following information concerning further analysis of advances to customers by industry sectors is prepared by classifying the advances according to the usage of the advances in respect of industry sectors which constitute not less than 10% of gross advances to customers.

	2018					
	Gross advances to customers	Overdue advances to customers for over three months	Expected credit loss (Stage 3) on advances to customers	Expected credit loss (Stage 1 and 2) on advances to customers	Expected credit loss charged to statement of profit or loss during the year	Expected credit loss written off during the year
Property investment	27,728	–	–	47	10	8
Advances for the purchase of other residential properties	44,304	27	–	7	16	–
Advances for use outside Hong Kong						
– Mainland China	33,339	446	114	105	104	50
– Macau	21,906	18	6	21	10	4
	2017					
	Gross advances to customers	Overdue advances to customers for over three months	Individual impairment allowances on advances to customers	Collective impairment allowances on advances to customers	Impairment allowances (released)/ charged to statement of profit or loss during the year	Impairment allowances written off during the year
Property investment	22,124	16	4	13	(5)	–
Advances for the purchase of other residential properties	40,838	21	1	34	(24)	–
Advances for use outside Hong Kong						
– Mainland China	32,978	541	69	368	173	357
– Macau	20,434	15	7	8	11	7

(d) Overdue and rescheduled assets

(i) Overdue and rescheduled advances to customers

	2018		2017	
	Amount	% of total advances to customers	Amount	% of total advances to customers
Gross advances to customers which have been overdue with respect to either principal or interest for periods of:				
– 6 months or less but over 3 months	110	0.06	82	0.05
– 1 year or less but over 6 months	28	0.02	131	0.07
– Over 1 year	493	0.25	553	0.31
	631	0.33	766	0.43
Covered portion of overdue advances	553		656	
Uncovered portion of overdue advances	78		110	
	631		766	
Current market values of collateral held against covered portion of overdue advances	1,616		1,534	
Expected credit loss (Stage 3)/individual impairment allowances made on overdue advances	80		154	

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

Advances with a specific repayment date are classified as overdue when the principal or interest is overdue and remains unpaid at the year end. Loans repayable by regular instalments are treated as overdue when an instalment payment is overdue and remains unpaid at year end. Loans repayable on demand are classified as overdue either when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the demand notice, and/or when the loans have remained continuously outside the approved limit advised to the borrower for more than the overdue period in question.

Unaudited Supplementary Financial Information

(d) Overdue and rescheduled assets *(continued)*

(i) Overdue and rescheduled advances to customers *(continued)*

Rescheduled advances are those advances which have been restructured or renegotiated because of a deterioration in the financial position of the borrower, or of the inability of the borrower to meet the original repayment schedule and for which the revised repayment terms are non-commercial to the Group. Rescheduled advances are stated net of any advances that have subsequently become overdue for over 3 months and can be analysed as follows:

	2018		2017	
	Amount	% of total advances to customers	Amount	% of total advances to customers
Rescheduled advances to customers	4	–	6	–

All rescheduled advances to customers are impaired as at 31st December, 2018 and 31st December, 2017 respectively.

There were no advances to banks which were overdue nor rescheduled as at 31st December, 2018 and 31st December, 2017.

(ii) Other overdue assets

	2018	2017
Trade bills which have been overdue with respect to either principal or interest for periods of:		
– 6 months or less but over 3 months	38	–
– 1 year or less but over 6 months	–	–
– Over 1 year	–	–
	38	–

There are no overdue debt securities included in “Financial assets measured at fair value through other comprehensive income” and “Available-for-sale financial assets” as at 31st December, 2018 and 31st December, 2017 respectively.

Included in “Other assets” as at 31st December, 2018 and 31st December, 2017, there are no receivables which are overdue.

(e) Additional disclosures on credit risk management

(i) Capital requirement

In calculating the capital ratios of the Group for regulatory reporting purposes, the Group's capital requirements are calculated under the Standardised (Credit Risk) Approach as of 31st December, 2018 and 31st December, 2017. The Group uses the following external credit assessment institutions ("ECAIs") to calculate its capital adequacy requirements prescribed in the Banking (Capital) Rules:

- Fitch Ratings
- Moody's Investors Service, Inc.
- Standard & Poor's Ratings Services
- Rating and Investment Information, Inc.

The following capital requirement is made by multiplying the Group's risk-weighted amount derived from the relevant calculation approach by 8%. It does not reflect the Group's actual regulatory capital.

The capital requirements on each class of exposure calculated under the Standardised (Credit Risk) Approach at the reporting date can be analysed as follows:

	2018	2017 (restated)
Classes of exposure:		
– Sovereign	11	17
– Public sector entity	47	42
– Bank	2,353	3,005
– Securities firm	33	20
– Corporate	7,180	6,273
– Cash items	5	4
– Regulatory retail	1,087	1,090
– Residential mortgage loans	2,696	2,498
– Other exposures which are not past due	989	955
– Past due	50	51
Total capital requirements for on-balance sheet exposures	14,451	13,955
– Direct credit substitutes	268	242
– Transaction-related contingencies	41	23
– Trade-related contingencies	33	51
– Forward forward deposits placed	1	–
– Other commitments	192	140
– Exchange rate contracts	212	245
– Interest rate contracts	9	7
– Equity contracts	–	–
– Credit derivative contracts	–	–
– Default risk exposures – securities financing transactions	9	8
Total capital requirements for off-balance sheet exposures	765	716
	15,216	14,671

Unaudited Supplementary Financial Information

(e) Additional disclosures on credit risk management *(continued)*

(ii) Credit risk exposures

Credit ratings from the above-mentioned ECAs are used for all classes of credit exposures mentioned below. The Group follows the process prescribed in Part 4 of the Banking (Capital) Rules to map the ratings to the exposures booked in the Bank's banking book.

An analysis of the credit risk calculated under Standardised (Credit Risk) Approach by class of exposures at the reporting date is as follows:

	2018							
	Total exposures	Exposures after recognised credit risk mitigation		Risk-weighted amounts		Total risk-weighted amounts	Total exposure covered by recognised collateral	Total exposure covered by recognised guarantees or recognised credit derivative contracts
		Rated	Unrated	Rated	Unrated			
On-balance Sheet:								
– Sovereign	20,821	21,152	–	133	–	133	–	–
– Public sector entity	229	1,603	1,335	321	267	588	–	68
– Multilateral development bank	–	–	–	–	–	–	–	–
– Bank	66,853	67,008	993	29,182	234	29,416	–	–
– Securities firm	1,632	–	832	–	416	416	800	–
– Corporate	99,613	20,283	76,532	13,270	76,484	89,754	816	1,982
– Cash items	1,339	–	1,339	–	60	60	–	–
– Regulatory retail	18,963	–	18,125	–	13,594	13,594	203	635
– Residential mortgage loans	84,334	–	82,542	–	33,695	33,695	221	1,571
– Other exposures which are not past due exposures	11,839	–	11,670	–	12,362	12,362	169	–
– Past due exposures	608	39	569	7	620	627	463	40
	306,231	110,085	193,937	42,913	137,732	180,645	2,672	4,296
Off-balance sheet:								
– off-balance sheet exposures other than OTC derivative transactions or credit derivative contracts	7,280	512	6,387	370	6,314	6,684	381	282
– OTC derivative transactions	5,131	4,397	519	2,356	411	2,767	215	–
– Credit derivative contracts	2	2	–	–	–	–	–	–
– Default risk exposures – securities financing transactions	7,372	523	–	108	–	108	6,849	–
	19,785	5,434	6,906	2,834	6,725	9,559	7,445	282
	326,016	115,519	200,843	45,747	144,457	190,204	10,117	4,578
Exposures deducted from capital base	–							

(e) Additional disclosures on credit risk management *(continued)*

(ii) Credit risk exposures *(continued)*

	2017 (restated)						Total exposure covered by recognised guarantees or recognised credit derivative contracts	
	Total exposures	Exposures after recognised credit risk mitigation		Risk-weighted amounts		Total risk-weighted amounts	Total exposure covered by recognised collateral	
		Rated	Unrated	Rated	Unrated			
On-balance Sheet:								
– Sovereign	27,364	27,544	–	218	–	218	–	–
– Public sector entity	67	1,000	1,602	200	320	520	–	63
– Multilateral development bank	–	–	–	–	–	–	–	–
– Bank	72,104	71,748	519	37,432	130	37,562	–	–
– Securities firm	2,813	–	500	–	250	250	2,313	–
– Corporate	85,623	16,066	67,514	10,902	67,514	78,416	1,198	845
– Cash items	1,252	–	1,252	–	45	45	–	–
– Regulatory retail	18,689	–	18,158	–	13,619	13,619	267	264
– Residential mortgage loans	80,701	–	78,706	–	31,219	31,219	226	1,769
– Other exposures which are not past due exposures	11,750	–	11,502	–	11,942	11,942	248	–
– Past due exposures	625	35	590	6	635	641	500	35
	300,988	116,393	180,343	48,758	125,674	174,432	4,752	2,976
Off-balance sheet:								
– off-balance sheet exposures other than OTC derivative transactions or credit derivative contracts	6,149	469	5,379	328	5,372	5,700	301	281
– OTC derivative transactions	5,838	4,903	647	2,606	547	3,153	288	–
– Credit derivative contracts	2	2	–	–	–	–	–	–
– Default risk exposures – securities financing transactions	13,530	405	21	98	4	102	13,104	–
	25,519	5,779	6,047	3,032	5,923	8,955	13,693	281
	326,507	122,172	186,390	51,790	131,597	183,387	18,445	3,257
Exposures deducted from capital base	–							

The above exposures are principal amount or credit equivalent amount, as applicable, net of expected credit loss (Stage 3)/individual impairment allowances.

Unaudited Supplementary Financial Information

(e) Additional disclosures on credit risk management *(continued)*

(iii) Counterparty credit risk exposures calculated under the Standardised (Credit Risk) Approach

In respect of the Group's counterparty credit risk which arises from over-the-counter ("OTC") derivative transactions, repo-style transactions and credit derivative contracts (other than recognised credit derivative contracts), all credit limits are established in advance of transacting the business and credit and settlement risk must be correctly captured, monitored and reported in accordance with the Group risk methodologies. Credit exposures are measured in book or market value terms depending on the product involved. These methods of calculating credit exposure apply to all counterparties or reference entities in transaction.

The policy for secured collateral on derivatives is guided by the Group's Credit Policy, ensuring the due diligence necessary to fully understand the effectiveness of netting and collateralisation by jurisdiction, counterparty, product and agreement type is fully assessed and that the due diligence standards are high and consistently applied.

Under the terms of our current collateral obligations under derivative contracts, the Group estimates based on the positions as at 31st December, 2018 that the Bank would not be required to post additional collateral in the event of one or two notch downgrade in the Bank's credit ratings (2017: nil).

Wrong-way risk is an aggravated form of concentration risk and arises when there is a strong correlation between the probability of default of counterparty and the mark-to-market value of the underlying transaction. The Group uses a range of procedures to monitor and control wrong-way risk, including requiring front offices to obtain prior approval before undertaking wrong-way risk transactions outside pre-agreed guidelines.

(1) Analysis of the major classes of its exposures by counterparty type:

	OTC derivative transactions	2018 Credit derivative contracts	Repo-styles transactions	OTC derivative transactions	2017 Credit derivative contracts	Repo-styles transactions
Notional amounts:						
– Sovereign	–	–	100	–	–	–
– Banks	282,479	3,046	7,241	270,352	5,238	13,531
– Corporates	23,781	3,046	31	24,054	5,202	–
– Others	1,024	–	–	1,471	–	–
	307,284	6,092	7,372	295,877	10,440	13,531
Credit equivalent amounts or net credit exposures net of recognised collateral held:						
– Sovereign	–	–	1	–	–	–
– Banks	4,603	2	520	5,091	2	426
– Corporates	299	–	2	449	–	–
– Others	14	–	–	10	–	–
	4,916	2	523	5,550	2	426
Risk-weighted amounts:						
– Sovereign	–	–	–	–	–	–
– Banks	2,457	–	105	2,697	–	102
– Corporates	299	–	3	449	–	–
– Others	11	–	–	7	–	–
	2,767	–	108	3,153	–	102

(e) Additional disclosures on credit risk management *(continued)*

(iii) Counterparty credit risk exposures calculated under the Standardised (Credit Risk) Approach *(continued)*

(2) Analysis of the counterparty party credit risk exposures:

	2018			2017		
	OTC derivative transactions	Credit derivative contracts	Repo-styles transactions	OTC derivative transactions	Credit derivative contracts	Repo-styles transactions
Gross total positive fair value which are not repo-style transactions	2,411	2	–	2,994	2	–
Recognised collateral held before any haircuts:						
– cash on deposit with the Bank	1,060	–	3,777	452	–	5,247
– debt securities	–	–	3,343	–	–	9,394
– equity securities	1	–	–	1	–	–
– others	176	–	–	252	–	–
	1,237	–	7,120	705	–	14,641
Credit equivalent amounts or net credit exposures net of recognised collateral held	4,916	2	523	5,550	2	426
Risk weighted amounts	2,767	–	108	3,153	–	102

(3) Credit derivative contracts which create exposures to counterparty credit risk:

	2018 Nominal amounts	2017 Nominal amounts
Used for management of the Group's credit portfolio		
– Credit default swaps		
– Protection bought	3,046	5,238
– Protection sold	3,046	5,202
	6,092	10,440

Unaudited Supplementary Financial Information

(e) Additional disclosures on credit risk management *(continued)*

(iv) Credit risk mitigation

The Group's policy provides that netting is only to be applied where it has the legal right to do so.

Under the Banking (Capital) Rules, recognised netting is defined as any netting done pursuant to a valid bilateral netting arrangement. Consistent with the Banking (Capital) Rules, only bilateral netting arrangements are included for capital adequacy credit risk mitigation calculation. While the use of multi-lateral netting arrangements is allowed for internal credit risk management, it is not a valid credit risk mitigation under the Banking (Capital) Rules.

It is the Group's policy that all corporate and institutional facilities are reviewed (and hence revalued) at least on an annual basis. Where facilities have been overdue for more than 90 days and are tangibly secured, the collateral must be revalued not less than every 3 months.

For residential mortgage loans that are more than 90 days past due, the mortgaged property must be revalued not less than every 3 months.

The main types of recognised collateral taken by the Group are those stated in Section 80 of the Banking (Capital) Rules, including (but not limited to) cash on deposit, equities listed in a main index and/or a recognised exchange and various recognised debt securities.

As stated in Sections 98 and 99 of the Banking (Capital) Rules, certain guarantees and credit derivative contracts are recognised for credit risk mitigation purposes. The main types of guarantees are from sovereigns, corporates and banks. For corporate guarantees, a corporate has an ECAI issuer rating which have been allocated a lower risk-weight than that allocated to the exposure in respect of which the guarantee has been given.

There were immaterial credit and market risk concentrations within the credit risk mitigation (recognised collateral and guarantees) used by the Group.

(v) Central counterparty

The capital requirements on central counterparty exposure at the reporting date is as follows:

	2018	2017
Credit risk for central counterparty	29	30

(vi) Credit valuation adjustment

The capital charge on credit valuation adjustment exposure under the Standardised CVA method at the reporting date is as follows:

	2018	2017
Capital charge for credit valuation adjustment	71	80

(e) Additional disclosures on credit risk management *(continued)*

(vii) Asset securitisation

The Group had no asset securitisation exposures under the Standardised (Credit Risk) Approach and Basic Approach at 31st December, 2018 and 31st December, 2017.

(viii) Market risk capital charge

The capital charge for market risk calculated in accordance with the Standardised (Market Risk) Approach at the reporting date is as follows:

	2018	2017
Capital charge for market risk		
– Interest rate exposures (including options)	319	283
– Equity rate exposures (including options)	–	–
– Foreign exchange exposures (including gold and options)	883	705
	1,202	988

(ix) Operational risk capital charge

The capital charge for operational risk calculated in accordance with the Basic Indicator Approach at the reporting date is as follows:

	2018	2017
Capital charge for operational risk	848	820

(x) Equity exposures in banking's book

Investments in equity shares which are intended to be held on a continuing basis, but which do not comprise investments in associates or subsidiaries, are classified as measured at fair value through other comprehensive income/available-for-sale securities and are reported in the statement of financial position as "Financial assets measured at fair value through other comprehensive income"/"Available-for-sale financial assets". Financial assets measured at fair value through other comprehensive income/Available-for-sale securities are measured at fair value as described in notes 2(f) of "Notes to the financial statements" on the financial statements. Included within this category are investments made by the Group for strategic purposes, which are subject to additional internal procedures and approvals to ensure that the investment is in accordance with the Group's strategy and to ensure compliance with all relevant regulatory and legal restrictions.

	2018	2017
Cumulative realised gains from sales and liquidations	–	216
Unrealised gains:		
– recognised in reserve but not through statement of profit or loss	–	493
– deducted from the supplementary capital	–	–

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(f) Disclosures requirements under the Banking (Disclosure) Rules

(i) Corporate Governance

The Group is committed to high standards of corporate governance. The Group has fully complied with the requirements set out in the guideline on “Corporate Governance of Locally Incorporated Authorised Institutions” under the Supervisory Policy Manual issued by the HKMA. The Group has established a number of board committees under the Board of Directors including Audit Committee, Nomination Committee, Risk Management Committee and Remuneration Committee. The compositions and functions of these committees are explained in the “Corporate Governance Report”.

- (ii)** The detailed disclosures required by the Banking (Disclosure) Rules will be disclosed before 30th April, 2019 under “Regulatory Disclosure” on the website of the Bank (www.ocbcwhhk.com).

(g) Restatement of prior periods

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

List of Branches

OCBC Wing Hang Bank

Hong Kong Island

Main Branch	161 Queen's Road Central
Causeway Bay Branch	443–445 Hennessy Road
Central Branch	G/F, Henley Building, 5 Queen's Road Central
Fortress Hill Branch	Shop B2A, 318–328 King's Road, Fortress Hill
Gloucester Road Branch	Shop 1–3, G/F, Tung Wai Commercial Building, 109–111 Gloucester Road, Wanchai
Gold & Silver Exchange Branch	1/F, 12–18 Mercer Street, Sheung Wan
Happy Valley Branch	Shop 2, 15–17 King Kwong Street, Happy Valley
Johnston Road Branch	131–133 Johnston Road, Wanchai
North Point Branch	441–443 King's Road, North Point
Shaukeiwan Branch	Perfect Mount Gardens, 1 Po Man Street, Shaukeiwan
Taikoo Shing Branch	Shop G12, Wah Shan Mansion, 17 Taikoo Shing Road
United Centre Branch	Shops 2007–2009, 2/F, United Centre, 95 Queensway, Admiralty
Western Branch	139–141 Des Voeux Road West, Sai Ying Pun

Auto & Equipment Finance

Main Office	5/F, Eastern Central Plaza, 3 Yiu Hing Road, Shaukeiwan
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Kowloon

Castle Peak Road Branch	Shop 2, 253–259 Castle Peak Road, Cheung Sha Wan
Cheung Sha Wan Branch	T-301, 1/F, Administration Block, Cheung Sha Wan Wholesale Food Market
Hoi Yuen Road Branch	Unit 2, G/F, 60 Hoi Yuen Road, Kwun Tong
Hunghom Branch	104 Ma Tau Wai Road, Hunghom
Kowloon Branch	298 Nathan Road, Jordan
Kowloon City Branch	37 Nga Tsin Wai Road, Kowloon City
Kwun Tong Branch	22–24 Fu Yan Street, Kwun Tong
Mei Foo Branch	Shop N52, G/F., Mount Sterling Mall, Mei Foo Sun Chuen
Mongkok Road Branch	16 Mongkok Road, Mongkok
Ngau Tau Kok Road Branch	347–349 Ngau Tau Kok Road, Kwun Tong
San Po Kong Branch	G/F, 66–70 Tseuk Luk Street, San Po Kong
Shamshuipo Branch	57 Cheung Sha Wan Road, Shamshuipo
Taikoktsui Branch	51–67 Tung Chau Street, Taikoktsui
Tokwawan Branch	237A Tokwawan Road, Tokwawan
Tsimshatsui Branch	54 Cameron Road, Tsimshatsui
Tsimshatsui East Branch	Shop 17–18, G/F., Houston Centre, Tsimshatsui
Whampoa Estate Branch	8–10 Tak Man Street, Whampoa Estate, Hunghom
Yaumati Branch	507 Nathan Road, Yaumati

List of Branches

OCBC Wing Hang Bank (continued)

New Territories

Kwai Chung Branch	Kwai Chung Centre, 100 Kwai Hing Road, Kwai Chung
Sha Tsui Road Branch	345–347 Sha Tsui Road, Tsuen Wan
Shatin Branch	Shop 16A&B, Level 1, Shatin Lucky Plaza, Shatin
Tai Po Branch	Shop F, 12–26 Tai Wing Lane, Tai Po
Tai Wai Branch	32–34 Tai Wai Road, Shatin
Tseung Kwan O Branch	Shop 1022–23, Level 1, MCP Central, Tseung Kwan O
Tsuen Wan Branch	35 Chung On Street, Tsuen Wan
Tuen Mun Branch	Shops Nos. 1&2, G/F, Man Cheung Mansion, 52–62 Tuen Mun Heung Sze Wui Road, Tuen Mun
Yuen Long Branch	Shop 1–3, G/F, 40–54 Castle Peak Road, Yuen Long

Auto & Equipment Finance

Yuen Long Centre	10/F, HSBC Building Yuen Long, 150 Castle Peak Road, Yuen Long
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MACAU

Banco OCBC Weng Hang, S.A.

Main Branch	241 Avenida de Almeida Ribeiro
Ho Lan Un Branch	3D Avenida do Conselheiro Ferreira de Almeida
Hong Kai Si Branch	85 Avenida Horta e Costa
San Kiu Branch	19–21 Estrada de Adolfo Loureiro
Hak Sa Van Branch	32C-F Estrada de Marginal do Hipodromo
Toi San Branch	338 Avenida de A.T. Barbosa
Kou Tei Vu Kai Branch	29A Rua Pedro Coutinho R/C
Iao Hon Branch	195 Rua Oito do Bairro Iao Hon
Ho Pin San Kai Branch	75–79 Rua Almirante Sergio
Flower City Branch	356–366, Rua de Evora, Edif. Lei Fung, Taipa
San Hau On Branch	286 Alameda Dr. Carlos D'Assumpcao R/C
Fai Chi Kei Branch	Avenida do Conselheiro Borja Nos. 309–315, Mayfair Garden Bloco 5 D-R/C

List of Branches

CHINA

OCBC Wing Hang Bank (China) Limited

Shanghai

Main Branch	OCBC Bank Tower, No.1155 Yuanshen Road, Pudong New District, Shanghai, 200135
Shanghai Branch	23/F, 21st Century Center Building, 210 Century Avenue, Pudong New Area, Shanghai 200121
Shanghai Century Square Sub-branch	OCBC Bank Tower, No.1155 Yuanshen Road, Pudong New District, Shanghai 200135
Shanghai Luwan Sub-branch	Room 112A, No.618 East Yan' an Road, East Ocean Centre Phase II, Huangpu District, Shanghai 200001
Shanghai Hongqiao Sub-branch	1/F, 321 Xianxia Road, Changning District, Shanghai 200336
Shanghai Pilot Free Trade Zone Sub-branch	Unit 601, 6F, OCBC Bank Tower, No.1155 Yuanshen Road, Pudong New District, Shanghai 200135

Beijing

Beijing Branch	Units 2809–2818, 28/F, Tower B, Gemdale Plaza, No 91, Jianguo Road, Chaoyang District, Beijing 100022
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Chengdu

Chengdu Branch	Unit 1, 8, 9 and 10, 31F, No.2 Office Building, Chengdu IFS, No 1, Hong Xing San Duan Road, Jin Jiang District, Chengdu 610021
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Tianjin

Tianjin Branch	Unit 7201-7204, 72F, Tianjin World Financial Centre Office Building, No 2, North Da Gu Road, Heping District, Tianjin 300022
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Xiamen

Xiamen Branch	2F-3F, No.2 Zhongshan Road, Xiamen 361001
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Qingdao

Qingdao Branch	Unit 2402–2407, No 9 Middle Hong Kong Road, Qingdao 266071
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Chongqing

Chongqing Branch	Unit 1–3, 48 Floor, Yingli International Financial Center, No.28, Minquan Road Yuzhong District, Chongqing 400010
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Shaoxing

Shaoxing Branch	Room 1801 & 1802, Building 1 Zhong Jin Plaza, No.666 North Zhongxing Road, Shaoxing, Zhejiang Province 312000
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CHINA

OCBC Wing Hang Bank (China) Limited (continued)

Suzhou

Suzhou Branch	Unit 1–3, 12th Floor, No.2 Building, Jinghope Plaza, No.88 Huachi Street, SIP, Suzhou 215027
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Shenzhen

Shenzhen Branch	8/F, 5/F, Unit M02, Shun Hing Square, Di Wang Commercial Centre, 5002 Shennan Dong Road, Shenzhen 518008
Shenzhen Fumin Sub-branch	Units B07–09, 25–26 G/F & Unit 04, Zhiben Building, 12 Fumin Road, Futian District, Shenzhen 518048
Shenzhen Huaqiang Sub-branch	1D, Hangyuan Building, Zhenhua Road, Futian District, Shenzhen 518031
Shenzhen Longgang Sub-branch	Rooms 104–105, Lijing Center, Building 12, Xinhong Garden, Longxiang Road, Center, Longgang District, Shenzhen 518172
Shenzhen Qianhai Sub-branch	Room 168, 169, 170, Tiley Central Plaza II, East to Houhai Road, Nanshan District, Shenzhen 518054

Guangzhou

Guangzhou Branch	Unit 07, 1/F, Room 2102–2105 & 2504–2509, Goldlion Digital Network Centre, 138 Tiyu Road East, Guangzhou 510620
Guangzhou Zhujiang New Town Sub-branch	Unit 903–904, He Jing International Finance Place, No.8 Huaxia Road, Pearl River New Town, Guangzhou 510623
Guangzhou Haizhu Sub-branch	Unit 02, 1/F & Rooms 901–902, Vertical City, No.238 Changgang Zhong Road, Haizhu District, Guangzhou 510260

Zhuhai

Zhuhai Branch	Unit 2, G/F & Units 1–2, 1/F Shuiwan Da Sha, 82 Jingshan Road, Jida, Zhuhai 519015
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Huizhou

Huizhou Sub-branch	Units 103–105, Huamao Building, 7 Wenchang Yi Road, Jiangbei, Huizhou 516001
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Foshan

Foshan Sub-branch	Room 2001, Mingri Plaza I, Xingui Road, Daliang, Shunde District, Foshan 528300
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List of Branches

OCBC Wing Hang Credit Limited

Hong Kong Island

Main Branch	14/F., Tai Yau Building, 181 Johnston Road, Wanchai
Central Wing On Centre Branch	Unit 1202, 12/F., Wing On Centre, 111 Connaught Road Central
Central Manning House Branch	Room 1005, 10/F., Manning House, 48 Queen's Road Central
Causeway Bay Branch	Unit B, 19/F., McDonald's Building, 46–54 Yee Wo Street, Causeway Bay
North Point Branch	Rooms 1509–10, 15/F., Olympia Plaza, 255 King's Road, North Point
Wanchai Hennessy Road Branch	Unit 705, 7/F., Emperor Group Centre, 288 Hennessy Road, Wanchai
Wanchai Johnston Road Branch	14/F., Tai Yau Building, 181 Johnston Road, Wanchai

Kowloon

Jordan Branch	Unit 1204, 12/F., Fourseas Building, 208–212 Nathan Road, Jordan
Kowloon Bay Branch	Unit 1512, 15/F., Telford House, 16 Wang Hoi Road, Kowloon Bay
Kwun Tong Hong Ning Road Branch	G/F., 71 Hong Ning Road, Kwun Tong
Kwun Tong Kwun Tong Road Branch	Unit 1104, 11/F., Kwun Tong View, 410 Kwun Tong Road
Mongkok Branch	Unit 1106, 11/F., Wai Fung Plaza, 664 Nathan Road, Mongkok
Prince Edward Branch	Unit Nos. 1114–1116, 11/F., Pioneer Centre, 750 Nathan Road
Tsimshatsui Branch	Units 1401 & 1402, 14/F., Carnarvon Plaza, 20 Carnarvon Road, Tsim Sha Tsui

New Territories

Kwai Fong Branch	Units 1909–1912, 19/F., Tower II, Metroplaza, 223 Hing Fong Road, Kwai Fong
Sheung Shui Branch	Units 1303A–1305, Level 13, Landmark North, 39 Lung Sum Avenue, Sheung Shui
Shatin Branch	Shop No. 13, Level 1, Shatin Lucky Plaza, 1–15 Wang Pok Street, Shatin
Tsuen Wan Nan Fung Branch	Unit 1521, 15/F., Nan Fung Centre, 264–298 Castle Peak Road, Tsuen Wan
Tsuen Wan KOLOUR Branch	Unit 2210, 22/F., KOLOUR • Tsuen Wan I, 68 Chung On Street, Tsuen Wan
Tai Po Branch	G/F., 7 Kwong Fuk Road, Tai Po
Yuen Long Branch	Unit 804, 8/F., HSBC Building Yuen Long, 150–160 Castle Peak Road, Yuen Long

Revolving Credit Centre	14/F., Tai Yau Building, 181 Johnston Road, Wanchai
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Registered Office: 161 Queen's Road Central, Hong Kong

