



2019

Annual Report

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Corporate Information

Board of Directors

Chairman

Dr FUNG Yuk Bun Patrick JP

Executive Director

Mr NA Wu Beng (*Chief Executive*)

Non-executive Directors

Mr SOON Tit Koon

Mr Samuel N TSIEN

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, 2019.

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 16 and 31 to the financial statements.

Results and Dividend

The results of the Group for the year ended 31st December, 2019 and the state of affairs of the Group and the Bank as at 31st December, 2019 are set out in the financial statements on pages 18 to 135.

During the financial year ended 31st December, 2019, the Board declared an interim dividend of HK\$1.5 billion (2018: HK\$1.5 billion) to the sole shareholder of the Bank. The directors did not recommend the payment of final dividend for the year ended 31st December, 2019 (2018: nil).

Reserves

Profit attributable to shareholder of HK\$2,483 million (2018: HK\$2,762 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.

Tangible Fixed Assets

Details of the movements in tangible fixed assets of the Group during the year are set out in note 18 to the financial statements.

Share Capital

During the year, the Bank did not issue any ordinary shares (2018: nil). Details of the share capital are set out in note 27 to the financial statements.

Charitable Donations

During the year, the Group made donations for charitable and community purposes amounting to approximately HK\$1.0 million (2018: HK\$1.3 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 (*resigned on 30th September, 2019*)

Non-executive Directors

Mr SOON Tit Koon

Mr Samuel N TSIEN

Mr Frank John WANG (*retired on 8th May, 2019*)

Independent Non-executive Directors

Mr CHIM Wai Kin

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, Mr SOON Tit Koon and Mr TSE Hau Yin Aloysius will retire from office at the coming Annual General Meeting ("AGM"). These directors being eligible, have offered themselves for re-election at the AGM. 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 Deferred Share Plan and/or OCBC Employee Share Purchase Plan (the "Share-Based Payment Schemes") administered by OCBC. The Bank has ceased granting share options under the OCBC Share Option Scheme 2001 effective from financial year 2018 remuneration. During the year, Mr NA Wu Beng, Ms KNG Hwee Tin, Mr Frank John WANG and Mr Samuel N TSIEN were granted share awards under the Share-Based Payment Schemes for the prior performance year. Details of the Share-Based Payment Schemes are set out in note 34 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 34 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, 2019 comply fully with the applicable disclosure provisions of the Banking (Disclosure) Rules.

Auditors

The Board, on the recommendation from the Audit Committee, proposed to change the external auditors of the Bank for the year 2020. The proposed appointment shall be subject to approval by OCBC as the shareholder of the Bank at the coming AGM. KPMG will retire as external auditors with effect upon conclusion of the coming AGM of the Bank.

On behalf of the Board

FUNG Yuk Bun Patrick

Chairman

Hong Kong, 20th April, 2020

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, 2019.

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 seven members, of whom one is Executive Director. Amongst the six 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 Director

Mr NA Wu Beng (*Chief Executive*)

Non-executive Directors

Mr SOON Tit Koon

Mr Samuel N TSIEN

Independent Non-executive Directors

Mr CHIM Wai Kin

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 2019 are as follows:

Name of Director	Number of meetings attended/held in 2019				
	BM	ACM	RMCM	RCM	NCM
Dr FUNG Yuk Bun Patrick	4/4	N/A	N/A	N/A	N/A
Mr NA Wu Beng	4/4	N/A	N/A	N/A	N/A
Mr Frank John WANG (Note 1)	2/2	N/A	N/A	N/A	N/A
Ms KNG Hwee Tin (Note 1)	3/3	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	2/2
Mr CHIM Wai Kin	4/4	4/4	4/4	N/A	N/A
Mr OOI Sang Kuang	4/4	N/A	N/A	1/1	2/2
Mr TSE Hau Yin Aloysius	4/4	4/4	4/4	1/1	2/2

Note 1: Mr Frank John WANG retired and Ms KNG Hwee Tin resigned from the Board during the year.

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 the overall performance of the Bank, business line and individual employees, 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 2019. 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 2020. The updated remuneration policy mainly aligns the definition of Senior Management to include the addition of Deputy Chief Executive according to the organizational structure, and reflects the re-arrangement of the Key Principles on Remuneration.

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	
		2019	2018	2019	2018
Fixed remuneration	Number of beneficiaries	17	15	7	8
	Total fixed remuneration	49,177	53,783	18,165	22,428
	– Cash (Non-deferred)	49,177	53,783	18,165	22,428
	– Share-based payment (Deferred)	—	—	—	—
Variable remuneration	Number of beneficiaries	16	15	5	8
	Total variable remuneration	42,093	54,748	4,450	5,692
	– Cash				
	Non-deferred	25,408	32,546	3,770	4,739
	Deferred	—	555	—	—
	– Share-based payment				
	Non-deferred	—	—	—	—
	Deferred	16,685	21,647	680	953
Total remuneration		91,270	108,531	22,615	28,120

Corporate Governance Report

Aggregate amount of deferred variable remuneration is set out below:

HK\$'000	2019		2018	
	Awarded for performance year 2019	Awarded for prior performance years	Awarded for performance year 2018	Awarded for prior performance years
Senior Management and Key Personnel				
Vested and paid out during the year				
– Cash	—	893	—	169
– Share-based payment	—	21,170	—	12,195
Outstanding and unvested at 31st December				
– Cash	—	—	555	338
– Share-based payment	17,365	50,923	22,600	49,493

Note:

- There was no implicit or explicit adjustment of deferred remuneration and retained remuneration on employee exposures in 2018 and 2019.

The share-based payment represented the fair value of deferred shares granted to senior management and key personnel on 17th March, 2020, as deferred variable incentive bonus for 2019. 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						
2019	—	—	2	1,415	—	—
2018	—	—	—	—	—	—
Key Personnel						
2019	—	—	—	—	—	—
2018	—	—	—	—	—	—

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, allowances and pension contributions.

Variable remuneration comprises cash payment and deferral in the form of deferred shares, to align with the time horizon of risk. The Bank adopts a performance driven approach to remuneration. Remuneration is linked to overall performance of the Bank, performance of relevant business units and contribution of individual employees to such performance. Performance should be based on pre-determined and assessable performance criteria. Award of variable remuneration should depend on fulfilment of such criteria. These criteria should include both financial and non-financial factors. Where relevant, financial measurements are risk adjusted as appropriate. In addition, risk and control indicators as well as audit findings and compliance issues are taken into account when assessing performance. Poor performance (financial, non-financial or risk management) will result in a reduction or elimination of variable remuneration.

The performance of personnel in risk control functions is measured independently of the business they oversee. Employees in these functions are assessed based on achievement related to their respective performance measures. Risk control personnel are also compensated independent of the performance of the business areas which they oversee.

For Senior Management, Key Personnel, Material Risk Takers (i.e., whose activities during the course of their employment could have a material impact on the Bank's risk profile and financial soundness), and employees with variable remuneration exceeding thresholds, a substantial proportion of their variable remuneration shall be subject to deferral arrangement in the form of deferred shares in accordance with the Bank Group's policy. All awards of deferred shares are subject to cancellation and clawback if it is determined that they were granted on the basis of materially inaccurate financial statements and/or that the employee has engaged in conduct that results in financial loss, reputational harm, restatement of financial results and/or adverse changes to the Bank's risk profile/rating. For Material Risk Takers, clawback applies to both cash bonus and deferred shares.

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

Senior Management refers to Chief Executive (including Deputy/Alternate Chief Executive), Heads of Risk Control Functions and other senior executives who may also be defined as Material Risk Takers under the OCBC Bank Group.

Key Personnel are selected managers as defined and reported to Hong Kong Monetary Authority (HKMA) under section 72B of the Banking Ordinance whose action may have a material impact on the risk exposure of the Bank.

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, Deputy Chief Executive, 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 system of internal controls, 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 Management Committee, Credit 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.

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, Deputy Chief Executive, Chief Financial Officer, Chief Risk Officer (North Asia), Chief Risk Officer, Chief Information Officer, Chief Operations Officer, Head of Retail Banking Group, Head of Wholesale Banking Group, Head of Treasury Division and Head of Macau Division.

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, Deputy Chief Executive, Chief Risk Officer (North Asia), Chief Risk Officer, Chief Credit Officer, Head of Credit Risk Management (Retail Bank) and Head of Wholesale Banking Group.

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, Deputy Chief Executive, Chief Financial Officer, Chief Risk Officer (North Asia), Chief Risk Officer, Head of Retail Banking Group, Head of Wholesale Banking Group and Head of Treasury Division.

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 33 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, 20th April, 2020

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 135, which comprise the consolidated statement of financial position as at 31st December, 2019, 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, 2019 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

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

The Directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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 Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

KPMG

Certified Public Accountants

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

20th April, 2020

Consolidated Statement of Profit or Loss

For the year ended 31st December, 2019

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

	Notes	2019	2018
Interest income calculated using the effective interest method	5(a)	8,940	8,849
Other interest income	5(a)	734	489
Interest expense	5(b)	(4,665)	(4,299)
Net interest income		5,009	5,039
Fees and commissions (net)	5(c)	947	938
Dividends	5(d)	13	11
Rental income	5(e)	9	9
Other income	5(f)	438	549
Other operating income		1,407	1,507
Operating income		6,416	6,546
Operating expenses	5(g)	(3,260)	(3,071)
Operating profit before expected credit loss		3,156	3,475
Change in expected credit loss and other credit impairment charges	14	(278)	(245)
Operating profit after expected credit loss		2,878	3,230
Share of net gains of associated companies	17	55	57
Profit before taxation		2,933	3,287
Taxation	6(a)	(450)	(525)
Profit for the year attributable to equity shareholder of the Bank	7	2,483	2,762

The notes on pages 24 to 135 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, 2019

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

	Notes	2019	2018
Profit for the year		2,483	2,762
Other comprehensive income for the year (after tax and reclassification adjustments)			
Items that will not be reclassified to profit or loss			
– (Deficit)/surplus on revaluation of bank premises	18	(6)	488
– Deferred taxes	6(d)	(12)	(5)
– Share of surplus on revaluation of bank premises of associated companies	17	20	25
		2	508
– Equity securities measured at fair value through other comprehensive income			
– Fair value changes		811	570
– Deferred taxes	6(d)	(51)	6
		760	576
		762	1,084
Items that are or may be reclassified subsequently to profit or loss			
– Exchange adjustments on translation of financial statements of subsidiaries		(211)	(404)
		(211)	(404)
– Debt securities measured at fair value through other comprehensive income			
– Fair value changes		428	184
– Transfer to consolidated statement of profit or loss			
– gains on disposal	5(f)	(138)	(51)
– expected credit loss recognised		(14)	20
– Deferred taxes	6(d)	(47)	(46)
– Exchange adjustments		–	6
– Share of fair value changes of financial assets of associated companies	17	36	(45)
		265	68

Consolidated Statement of Comprehensive Income

	Notes	2019	2018
– Cash flow hedging reserve			
– Fair value changes taken to equity		(9)	6
– Deferred taxes	6(d)	1	(1)
		(8)	5
– Unappropriated profits			
– Bank premises			
– Deferred taxes	6(d)	14	14
		60	(317)
Other comprehensive income for the year, net of tax		822	767
Total comprehensive income for the year attributable to equity shareholder of the Bank		3,305	3,529

The notes on pages 24 to 135 form part of these financial statements.

Consolidated Statement of Financial Position

As at 31st December, 2019

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

	Notes	2019	2018
ASSETS			
Cash and balances with banks, central banks and other financial institutions	10	9,415	10,357
Placements with banks, central banks and other financial institutions	11	2,639	3,836
Amounts due from ultimate holding company, fellow subsidiaries and fellow associates	32	1,135	18,562
Trading assets	12	5,966	6,069
Advances to customers and other accounts	13(a)	195,779	200,207
Financial assets measured at fair value through other comprehensive income	15	74,144	71,648
Investments in associated companies	17	614	550
Tangible fixed assets	18		
– Investment properties		346	268
– Other properties, plants and equipment		5,777	5,691
Goodwill	19	1,306	1,306
Current tax recoverable	6(c)	4	89
Deferred tax assets	6(d)	10	38
Total assets		297,135	318,621
EQUITY AND LIABILITIES			
Deposits and balances of banks, central banks and other financial institutions	21	9,024	4,215
Amounts due to ultimate holding company and fellow subsidiaries	32	12,398	37,673
Deposits from customers	22	209,528	221,854
Certificates of deposit and fixed rate note issued	23	14,254	7,320
Trading liabilities	24,29	3,408	3,400
Lease liabilities	20	231	–
Current tax payable	6(c)	509	384
Deferred tax liabilities	6(d)	254	170
Other accounts and provisions	25	4,287	3,588
Total liabilities		253,893	278,604
Share capital	27(a)	7,308	7,308
Reserves		32,934	31,209
Perpetual capital securities issued	27(b)	3,000	1,500
Total equity		43,242	40,017
Total equity and liabilities		297,135	318,621

Approved and authorised for issue by the Board of Directors on 20th April, 2020.

FUNG Yuk Bun Patrick
NA Wu Beng

Chairman
Executive Director and Chief Executive

The notes on pages 24 to 135 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2019

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

	2019							At 31st December
	At 1st January	Issuance of perpetual capital securities*	Transfer to/(from) reserve	Coupon of perpetual capital securities	Dividends paid for the year	Profit for the year	Other comprehensive income for the year	
Share capital	7,308	–	–	–	–	–	–	7,308
Capital reserve	379	–	24	–	–	–	–	403
Statutory reserve	430	–	–	–	–	–	–	430
General reserve	1,750	–	–	–	–	–	(211)	1,539
Bank premises revaluation reserve	3,908	–	(54)	–	–	–	2	3,856
Investment revaluation reserve (recycling)	(65)	–	–	–	–	–	265	200
Investment revaluation reserve (non-recycling)	1,001	–	–	–	–	–	760	1,761
Cash flow hedging reserve	5	–	–	–	–	–	(8)	(3)
Unappropriated profits	23,801	–	30	(80)	(1,500)	2,483	14	24,748
Perpetual capital securities*	1,500	1,500	–	–	–	–	–	3,000
Total equity	40,017	1,500	–	(80)	(1,500)	2,483	822	43,242

* During the year, the Bank issued HK\$1,500 million non-cumulative Subordinated Additional Tier 1 capital securities. Direct issuance costs of HK\$0.3 million are accounted for as a deduction from the equity instruments.

	2018									At 31st December, 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	
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
	36,554	(27)	36,527	1,499	–	(38)	(1,500)	2,762	767	40,017

The notes on pages 24 to 135 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31st December, 2019

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

	Notes	2019	2018 Note
Net cash (outflow)/inflow from operating activities	30(a)	(6,249)	13,010
Investing activities			
Purchase of financial assets measured at fair value through other comprehensive income		(32,916)	(30,715)
Sale and redemption of financial assets measured at fair value through other comprehensive income		22,982	19,060
Investment in an associated company	17	–	(150)
Dividends received from associated companies		47	43
Purchase of properties and equipment	18	(165)	(127)
Sale of properties and equipment		5	2
Distribution of an investment properties		–	5
Net cash outflow from investing activities		(10,047)	(11,882)
Financing activities			
Issue of new fixed rate note	30(c)	–	2,251
Net proceeds from issue of perpetual capital securities	30(c)	1,500	1,500
Dividends paid		(1,500)	(1,500)
Coupon of perpetual capital securities		(80)	–
Payment of lease liabilities		(115)	–
Net cash (outflow)/inflow from financing activities		(195)	2,251
(Decrease)/increase in cash and cash equivalents		(16,491)	3,379
Cash and cash equivalents at 1st January		29,240	26,235
Effects of foreign exchange rate changes		(265)	(374)
Cash and cash equivalents at 31st December	30(b)	12,484	29,240
Analysis of the balances of cash and cash equivalents			
Cash and balances with banks, central banks and other financial institutions		9,222	10,311
Placements with banks, central banks and other financial institutions with an original maturity within three months		1,583	3,442
Amounts due from ultimate holding company, fellow subsidiaries and fellow associates with an original maturity within three months		1,199	14,323
Treasury bills with an original maturity within three months		480	1,164
		12,484	29,240
Cash flows from operating activities included:			
Interest received		9,621	8,989
Interest paid		4,794	4,233
Dividend received		13	11

Note: The Group has initially applied HKFRS 16 at 1st January, 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 4.

The notes on pages 24 to 135 form part of these financial statements.

Notes to the Financial Statements

For the year ended 31st December, 2019
(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, 2019 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));
- investment property, including interests in leasehold land and buildings held as investment property where the Group is the registered owner of the property interest (note 2(k)(vi));
- other freehold land and buildings, including interests in leasehold land and buildings where the Group is the registered owner of the property interest (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.

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**

(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).

2. Principal accounting policies *(continued)*

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

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

(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;
- 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.

Notes to the Financial Statements

2. Principal accounting policies *(continued)*

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

(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.

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) 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.

2. Principal accounting policies *(continued)*

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

(v) 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.

(vi) 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.

(vii) 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.

(viii) 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 HKFRS 9;
- 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.

Notes to the Financial Statements

2. Principal accounting policies *(continued)*

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

(viii) Embedded derivatives *(continued)*

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.

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.

(ix) 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.

(x) 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.

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

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.

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.

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 2(o).

Notes to the Financial Statements

2. Principal accounting policies *(continued)*

(h) Revenue recognition *(continued)*

(ii) Fees and commission income

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 recognized 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)*

(l) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a lessee

(1) Policy applicable after 1st January, 2019

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for the Group are primarily IT infrastructure and office furniture. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see notes 2(k) and 2(o)), except for the following types of right-of-use asset:

- right-of-use assets that meet the definition of investment property are carried at fair value in accordance with note 2(k)(vi); and
- right-of-use assets related to leasehold land and buildings where the Group is the registered owner of the leasehold interest are carried at fair value in accordance with note 2(k)(v).

2. Principal accounting policies *(continued)*

(I) Leased assets *(continued)*

(i) As a lessee *(continued)*

(1) Policy applicable after 1st January, 2019 *(continued)*

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in 'other property, plant and equipment' and presents lease liabilities separately in the statement of financial position.

(2) Policy applicable before 1st January, 2019

In the comparative period, as a lessee the Group classified leases as finance leases if the leases transferred substantially all the risks and rewards of ownership to the Group. Leases which did not transfer substantially all the risks and rewards of ownership to the Group were classified as operating leases, with the following exceptions:

- property held under operating leases that would otherwise meet the definition of an investment property was classified as investment property on a property-by-property basis and, if classified as investment property, was accounted for as if held under a finance lease (see note 2(k)(vi)); and
- land held for own use under an operating lease, the fair value of which could not be measured separately from the fair value of a building situated thereon at the inception of the lease, was accounted for as being held under a finance lease, unless the building was also clearly held under an operating lease. For these purposes, the inception of the lease was the time that the lease was first entered into by the Group, or taken over from the previous lessee.

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

Notes to the Financial Statements

2. Principal accounting policies *(continued)*

(l) Leased assets *(continued)*

(ii) As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

(1) 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).

(2) 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).

(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 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".

2. Principal accounting policies *(continued)*

(n) Financial guarantees issued, provisions and contingent liabilities *(continued)*

(i) Financial guarantees issued *(continued)*

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)(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.

(o) Credit losses and impairment of assets

Under HKFRS 9, the Group recognises a loss allowance for expected credit loss (ECL) with a forward-looking 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) Credit losses and impairment of assets *(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.

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.

2. Principal accounting policies *(continued)*

(o) Credit losses and impairment of assets *(continued)*

(iii) Measurement *(continued)*

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.

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 a relative 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.

Notes to the Financial Statements

2. Principal accounting policies *(continued)*

(o) Credit losses and impairment of assets *(continued)*

(iv) Movement between stages *(continued)*

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.

(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.

2. Principal accounting policies *(continued)*

(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.

(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 34.

Notes to the Financial Statements

3. Accounting estimates and judgements

Notes 18, 19 and 35 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

(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.

(ii) 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.

(iii) Determining the lease term

As explained in policy note 2(l), the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group’s operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group’s control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

3. Accounting estimates and judgements *(continued)*

(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.

(ii) Classification of interests in leasehold land and buildings held for own use

In accordance with HKAS 16, *Property, plant and equipment*, the Group chooses to apply either the cost model or the revaluation model as its accounting policy for items of property, plant and equipment held for own use on a class-by-class basis. In applying this policy, the Group has concluded that its registered ownership interests in leasehold properties and the right to use other properties leased under tenancy agreements are two separate groupings of assets which differ significantly in their nature and use. Accordingly, they are regarded by the Group as separate classes of asset for subsequent measurement policies in accordance with notes 2(k) and (l). Specifically, registered ownership interests are carried under the revaluation model, while rights to use properties under tenancy agreements are carried at depreciated cost.

In making this judgement, the Group has taken into account that, as the registered owner of a leasehold property, the Group is able to benefit fully from any changes in the valuation of these properties whether as holding gains or by selling the property interest to others, as well as being able to use the properties in its operation free of paying market rents. In contrast, the shorter term tenancy agreements are typically for periods of no more than 10 years and are subject to other restrictions, in particular on transferability of the Group's tenancy rights to others. These shorter term tenancy agreements are executed in order to retain operational flexibility and to reduce the Group's exposure to the property market fluctuation.

Notes to the Financial Statements

4. Changes in accounting policies

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16, *Leases*

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases – incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low-value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied HKFRS 16 as from 1st January, 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1st January, 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

(a) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1st January, 2019. For contracts entered into before 1st January, 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

4. Changes in accounting policies *(continued)*

HKFRS 16, *Leases* *(continued)*

(b) Lessee accounting and transitional impact

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment as disclosed in note 18. For an explanation of how the Group applies lessee accounting, see note 2(l).

At the date of transition to HKFRS 16 (i.e. 1st January, 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1st January, 2019.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

- (i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31st December, 2019;
- (ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and
- (iii) when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31st December, 2018 as an alternative to performing an impairment review.

Notes to the Financial Statements

4. Changes in accounting policies *(continued)*

HKFRS 16, *Leases* *(continued)*

(b) Lessee accounting and transitional impact *(continued)*

The following table reconciles the operating lease commitments as disclosed in note 28(c) as at 31st December, 2018 to the opening balance for lease liabilities recognised as at 1st January, 2019:

	1st January, 2019
Operating lease commitments at 31st December, 2018	343
Less: commitments relating to leases exempt from capitalisation:	
– short-term leases and other leases with remaining lease term ending on or before 31st December, 2019	(21)
– leases of low-value assets	(7)
	315
Less: total future interest expenses	(15)
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1st January, 2019	300
Total lease liabilities recognised at 1st January, 2019	300

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31st December, 2018.

So far as the impact of the adoption of HKFRS 16 on leases previously classified as finance leases is concerned, the Group is not required to make any adjustments at the date of initial application of HKFRS 16, other than changing the captions for the balances. Accordingly, instead of “obligations under finance leases”, these amounts are included within “lease liabilities”, and the depreciated carrying amount of the corresponding leased assets is identified as right-of-use assets. There is no impact on the opening balance of equity.

4. Changes in accounting policies (continued)

HKFRS 16, Leases (continued)

(b) Lessee accounting and transitional impact (continued)

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31st December, 2018	Capitalisation of operating lease contracts	Carrying amount at 1st January, 2019
ASSETS			
Cash and balances with banks, central banks and other financial institutions	10,357	–	10,357
Placement with banks, central banks and other financial institutions	3,836	–	3,836
Amounts due from ultimate holding company, fellow subsidiaries and fellow associates	18,562	–	18,562
Trading assets	6,069	–	6,069
Advances to customers and other accounts	200,207	–	200,207
Financial assets measured at fair value through other comprehensive income	71,648	–	71,648
Investments in associated companies	550	–	550
Tangible fixed assets			
– Investment properties	268	–	268
– Other properties, plants and equipment	5,691	301	5,992
Goodwill	1,306	–	1,306
Current tax recoverable	89	–	89
Deferred tax assets	38	–	38
Total assets	318,621	301	318,922
EQUITY AND LIABILITIES			
Deposits and balances of banks, central banks and other financial institutions	4,215	–	4,215
Amounts due to ultimate holding company and fellow subsidiaries	37,673	–	37,673
Deposits from customers	221,854	–	221,854
Certificates of deposit and fixed rate note issued	7,320	–	7,320
Trading liabilities	3,400	–	3,400
Lease liabilities	–	300	300
Current tax payable	384	–	384
Deferred tax liabilities	170	–	170
Other accounts and provisions	3,588	1	3,589
Total liabilities	278,604	301	278,905
Share capital	7,308	–	7,308
Reserves	31,209	–	31,209
Perpetual capital securities issued	1,500	–	1,500
Total equity	40,017	–	40,017
Total equity and liabilities	318,621	301	318,922

Notes to the Financial Statements

4. Changes in accounting policies (continued)

HKFRS 16, Leases (continued)

(c) Impact on the financial result, segment results and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1st January, 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in the Group's consolidated statement of profit or loss, as compared to the results if HKAS 17 had been applied during the year.

In the consolidated cash flow statement, the rentals paid by the Group under capitalised leases are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the consolidated cash flow statement (see note 30(d)).

(d) Leasehold investment property

Under HKFRS 16, the Group is required to account for all leasehold properties as investment properties when these properties are held to earn rental income and/or for capital appreciation ("leasehold investment properties"). The adoption of HKFRS 16 does not have a significant impact on the Group's financial statements as the Group previously elected to apply HKAS 40, *Investment properties*, to account for all of its leasehold properties that were held for investment purposes as at 31st December, 2018. Consequentially, these leasehold investment properties continue to be carried at fair value.

5. Operating profit

(a) Interest income

	2019	2018
Interest income calculated using the effective interest method:		
– financial assets not measured at fair value through profit or loss	8,940	8,849
Other interest income:		
– trading assets	734	489
	9,674	9,338
of which:		
– interest income from listed investments	893	670
– interest income from unlisted investments	1,342	1,943
– interest income from impaired financial assets	20	26

The above interest income from impaired financial assets includes interest income on unwinding of discount on expected credit loss of HK\$15 million (2018: expected credit loss of HK\$11 million) (note 14) for the year ended 31st December, 2019.

5. Operating profit *(continued)*

(b) Interest expense

	2019	2018
Interest expense arising from:		
– financial liabilities not measured at fair value through profit or loss	4,027	3,954
– trading liabilities	638	345
	4,665	4,299
of which:		
– interest expense for certificates of deposit issued	182	138
– interest expense for fixed rate note issued (note 30(a))	93	9
– interest expense for deposits from customers	2,994	2,846
– interest expense for deposits and balances of banks, central banks and other financial institutions	751	961
– interest expense for lease liabilities (note 30(a))	7	–

(c) Fee and commission (net)

	2019	2018
Fees and commission		
Credit commission and fees	214	216
Credit card related fees	202	230
Trade related fees	79	79
Insurance commission	160	162
Stockbroking fees	86	123
Wealth management fees	51	53
Other fees and commission income	286	213
Less: Fees and commission expenses	(131)	(138)
	947	938
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	312	319
– fees and commission expenses	–	–
	312	319

Notes to the Financial Statements

5. Operating profit *(continued)*

(d) Dividends

	2019	2018
Dividend income from financial assets measured at fair value through other comprehensive income		
– Unlisted financial assets	13	11
	13	11

(e) Rental income

	2019	2018
Rental income from investment properties less direct expenses of HK\$0.3 million (2018: HK\$0.2 million)	9	9

(f) Other income

	2019	2018
Foreign exchange*	155	50
Hedging activities		
– Fair value hedges (note 29(d))		
– hedged items	279	60
– hedging instruments	(276)	(57)
Interest rate and other derivatives	40	116
Trading securities	59	80
Financial assets designated at fair value through profit or loss	–	1
Others	1	1
Net trading income	258	251
Gains transferred from investment revaluation reserve upon disposal	138	51
Gains/(losses) on disposal of financial assets measured at fair value through other comprehensive income	21	(32)
Total gains on disposal of financial assets measured at fair value through other comprehensive income (note 30(a))	159	19
Revaluation of investment properties (note 18 & 30(a))	–	8
Disposal of tangible fixed assets	(2)	(2)
Others	23	273
	438	549

* Included the net interest expenses element of HK\$133 million (2018: net interest expenses for HK\$267 million) on the cross currency funding swap classified as “Other income”.

5. Operating profit *(continued)*

(g) Operating expenses

	2019	2018
Staff costs		
Salaries and other staff costs	2,086	1,940
Retirement benefit costs (note 34(a))	95	88
Share-based payment expenses (note 34(b))	35	33
	2,216	2,061
Premises and equipment expenses, excluding depreciation	353	475
Depreciation (notes 18 & 30(a))		
– owned property, plant and equipment	216	225
– right-of-use assets	113	–
	329	225
Other expenses		
Auditor's remuneration		
Audit services	7	7
Other services	2	2
Others	353	301
	362	310
	3,260	3,071

6. Taxation

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

	2019	2018
Current tax – Provision for Hong Kong profits tax		
Provision for the year	415	353
(Over)/underprovision in respect of prior years	(29)	1
	386	354
Current tax – Provision for tax outside Hong Kong		
Provision for the year	51	50
Overprovision in respect of prior years	(2)	–
	49	50
Deferred taxation		
Origination and reversal of temporary differences	15	121
	450	525

Notes to the Financial Statements

6. Taxation (continued)

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

The provision for Hong Kong profits tax for 2019 is calculated at 16.5% (2018: 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:

	2019	2018
Profit before tax	2,933	3,287
Notional tax on profit before tax, calculated at the rates applicable to profits in the region concerned	484	568
Tax effect of non-deductible expenses	14	14
Tax effect of non-taxable revenue	(51)	(72)
(Over)/underprovision in respect of prior years	(31)	1
Others	34	14
Actual tax expense	450	525

(c) Current tax recoverable and payable

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

	2019	2018
Current tax recoverable		
Provision for Hong Kong profits tax	–	8
Provisional profits tax paid	–	(11)
	–	(3)
Provision for tax outside Hong Kong	(4)	(86)
	(4)	(89)
Current tax payable		
Provision for Hong Kong profits tax	421	345
Provisional profits tax paid	–	(11)
	421	334
Provision for tax outside Hong Kong	88	50
	509	384

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

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:

	2019						
	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 1st January	134	92	72	1	(38)	(129)	132
Charged/(credited) to consolidated statement of profit or loss	5	–	–	–	40	(30)	15
Credited to unappropriated profits	–	(14)	–	–	–	–	(14)
Charged/(credited) to reserves	–	12	98	(1)	–	–	109
Exchange adjustments	–	–	–	–	(1)	3	2
At 31st December	139	90	170	–	1	(156)	244

	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, 2017	130	157	38	–	4	(312)	17
Opening balance adjustment arising from change in accounting policy	–	–	–	–	11	–	11
At 1st January, 2018	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, 2018	134	92	72	1	(38)	(129)	132

	2019	2018
Net deferred tax assets recognised on the statement of financial position	(10)	(38)
Net deferred tax liabilities recognised on the statement of financial position	254	170
	244	132

Notes to the Financial Statements

7. Profit attributable to the shareholder of the Bank

The profit attributable to the shareholder of the Bank includes an amount of HK\$1,806 million (2018: HK\$2,056 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, 2019 (2018: HK\$1,500 million). The Bank did not propose the payment of final dividend for the year ended 31st December, 2019 (2018: 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, 2019 (2018: 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:

	2019	2018
Directors' fee	8	7
Salaries, allowances and benefits in kind*	10	18
Pension contributions	–	1
Performance bonuses	9	14
Share-based payments	10	11
	37	51

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

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

	2019	2018
Cash balances	1,126	996
Balances with central banks	7,050	7,735
Balances with banks	1,239	1,627
Expected credit loss (Stage 1) (note 14)	–	(1)
	9,415	10,357

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

	2019	2018
Remaining maturity		
– Within 1 month	2,639	3,727
– Over 1 month but within 1 year	–	109
Expected credit loss (Stage 1)(note 14)	–	–
	2,639	3,836

12. Trading assets

	2019	2018
Debt securities:		
Listed in Hong Kong	988	243
Listed outside Hong Kong	1,195	1,577
	2,183	1,820
Unlisted	78	928
Total trading securities	2,261	2,748
Positive fair values of derivative financial instruments held for trading (note 29(a)(i))	3,705	3,321
	5,966	6,069
Trading debt securities include:		
Treasury bills	798	1,424
Certificates of deposit held	–	–
Other trading debt securities	1,463	1,324
	2,261	2,748

Trading securities analysed by counterparty are as follows:

	2019	2018
Issued by:		
Sovereigns	798	1,424
Banks	298	1,017
Corporates	1,165	307
	2,261	2,748

Notes to the Financial Statements

13. Advances to customers and other accounts

(a) Advances to customers and other accounts

	2019	2018
Gross advances to customers	190,168	193,403
Expected credit loss (Stages 1 and 2) for loans and advances (note 14(b))	(363)	(371)
Expected credit loss (Stage 3) for impaired loans and advances (note 14(b))	(124)	(248)
Net advances to customers	189,681	192,784
Gross trade bills	780	1,652
Expected credit loss (Stage 1) for trade bills (note 14(b))	(2)	(4)
Expected credit loss (Stage 3) for impaired trade bills (note 14(b))	–	(1)
Net trade bills	778	1,647
Advances to banks	1,503	2,368
Expected credit loss (Stage 1) for advances to banks (note 14(b))	–	(1)
Net advances to banks	1,503	2,367
Customer liability under acceptances	1,188	981
Interest receivables	1,144	1,092
Positive fair values of derivative financial instruments held for hedging (note 29(a)(ii))	3	61
Other accounts	1,482	1,275
	195,779	200,207

13. 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.

	2019			2018		
	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	5,878	68.3	–	5,053	47.5	–
– Property investment	30,067	95.3	19	27,728	95.4	–
– Financial concerns	10,244	13.7	–	6,210	12.4	–
– Stockbrokers	3,233	12.7	–	2,590	30.2	–
– Wholesale and retail trade	8,121	39.5	73	11,132	41.6	57
– Manufacturing	2,973	65.8	25	2,810	68.7	33
– Transport and transport equipment	6,560	88.6	20	7,208	97.9	17
– Information technology	54	60.3	–	57	79.6	–
– Share financing	187	94.8	–	285	94.2	–
– Recreational activities	10	–	–	3	80.0	–
– Others	5,076	64.8	3	5,350	56.3	6
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	1,127	100.0	–	1,355	100.0	1
– Advances for the purchase of other residential properties	38,124	100.0	90	44,304	100.0	37
– Credit card advances	288	0.5	2	242	0.7	1
– Others	11,703	65.4	23	13,166	70.1	15
	123,645	77.5	255	127,493	80.2	167
Trade finance	3,992	50.2	98	4,784	52.7	47
Advances for use outside Hong Kong						
– Mainland China	34,621	52.0	374	33,339	54.2	892
– Macau	21,307	90.7	17	21,906	91.6	21
– Others	6,603	93.8	1	5,881	99.9	–
	62,531	69.6	392	61,126	72.0	913
	190,168	74.3	745	193,403	76.9	1,127

Notes to the Financial Statements

13. 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) are as follows:

	2019	2018
Gross impaired advances to customers	745	1,127
Gross impaired advances to customers as a percentage of total advances to customers	0.39%	0.58%
Market value of collateral held with respect to impaired advances to customers	601	618
Expected credit loss (Stage 3)	124	248

Impaired advances to customers are individually assessed loans with objective evidence of impairment on an individual basis. Individually assessed expected credit loss (Stage 3) 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) made on advances to banks as at 31st December, 2019 and 31st December, 2018.

(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:

	2019		2018	
	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	3,992	4,381	4,516	4,955
After 1 year but within 5 years	5,493	5,819	6,454	6,832
After 5 years	4	4	6	6
	9,489	10,204	10,976	11,793
Unearned future income on finance lease	–	(715)	–	(817)
	9,489	9,489	10,976	10,976
Expected credit loss (Stage 3) for impaired loans and advances	(17)		(21)	
Expected credit loss (Stages 1 and 2) for loans and advances	(20)		(32)	
Net investment in finance leases and hire purchase contracts	9,452		10,923	

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

(e) Repossessed assets

During the year ended 31st December, 2019, the Group has taken possession of collateral it holds as security as follows:

Nature	2019	2018
Commercial properties	68	—
Industrial properties	4	—
Residential properties	100	89
Vehicles	23	21
Others	1	1
	196	111

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, 2019, repossessed assets obtained as securities for impaired advances to customers totalled HK\$28 million (2018: HK\$148 million) for the Group.

Notes to the Financial Statements

14. Expected credit loss

(a) Reconciliation of expected credit loss

	2019 Stages				
	Stage 1	Stage 2	1 and 2	Stage 3	Total
At 1st January	486	76	562	249	811
Transfers of financial instruments					
– transfers from Stage 1 to Stage 2	(38)	38	–	–	–
– transfers from Stage 2 to Stage 1	94	(94)	–	–	–
– transfers to Stage 3	(2)	(12)	(14)	14	–
– transfers from Stage 3	4	5	9	(9)	–
Net re-measurement of expected credit loss	(272)	152	(120)	242	122
New financial assets originated, repayments and further lending	87	(41)	46	110	156
Amounts written off	–	–	–	(503)	(503)
Recoveries of advances written off in prior years	–	–	–	37	37
Unwind of discount of expected credit losses	–	–	–	(15)	(15)
Exchange adjustments	(4)	(1)	(5)	(1)	(6)
At 31st December	355	123	478	124	602
Representing expected credit loss for:					
Balances and placement with central banks	–	–	–	–	–
Balances and placement with banks (note 10)	–	–	–	–	–
Advances to customers (note 13(a))	259	104	363	124	487
Trade bills (note 13(a))	2	–	2	–	2
Advances to banks (note 13(a))	–	–	–	–	–
Contingent liabilities and commitments to extend credit (note 25)	83	17	100	–	100
Financial assets measured at fair value through other comprehensive income	11	2	13	–	13
	355	123	478	124	602

14. Expected credit loss *(continued)*

(a) Reconciliation of expected credit loss *(continued)*

			2018 Stages 1 and 2/ Collective	Stage 3/ Individual	Total
	Stage 1	Stage 2			
At 31st December, 2017	–	–	476	173	649
Opening balance adjustment arising from change in accounting policy	–	–	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, repayments and further lending	146	(58)	88	(48)	40
Amounts written off	–	–	–	(127)	(127)
Recoveries of advances written off in prior years	–	–	–	38	38
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 13(a))	319	52	371	248	619
Trade bills (note 13(a))	4	–	4	1	5
Advances to banks (note 13(a))	1	–	1	–	1
Contingent liabilities and commitments to extend credit (note 25)	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

14. Expected credit loss (continued)

(b) Expected credit loss on financial assets

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

	2019			
	Stage 1	Stage 2	Stage 3	Total
Cash and balances with banks, central banks and other financial institutions (note 10)				
Pass	9,415	–	–	9,415
Less: Expected credit loss	–	–	–	–
Carrying amount	9,415	–	–	9,415
Placements with banks, central banks and other financial institutions (note 11)				
Pass	2,639	–	–	2,639
Less: Expected credit loss	–	–	–	–
Carrying amount	2,639	–	–	2,639
Advances to customers (note 13(a))				
Pass	174,157	14,459	–	188,616
Special mention	–	807	–	807
Substandard	–	–	338	338
Doubtful	–	–	341	341
Loss	–	–	66	66
Less: Expected credit loss	(259)	(104)	(124)	(487)
Carrying amount	173,898	15,162	621	189,681
Trade bills (note 13(a))				
Pass	780	–	–	780
Special mention	–	–	–	–
Substandard	–	–	–	–
Doubtful	–	–	–	–
Loss	–	–	–	–
Less: Expected credit loss	(2)	–	–	(2)
Carrying amount	778	–	–	778
Advances to banks (note 13(a))				
Pass	1,503	–	–	1,503
Less: Expected credit loss	–	–	–	–
Carrying amount	1,503	–	–	1,503
Financial assets measured at fair value through other comprehensive income (note 15)				
Pass	71,535	655	–	72,190
Expected credit loss	(11)	(2)	–	(13)
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 (note 28(a))				
Pass	47,664	1,117	–	48,781
Special mention	–	382	–	382
Expected credit loss	(83)	(17)	–	(100)

14. Expected credit loss *(continued)*

(b) Expected credit loss on financial assets *(continued)*

	2018			
	Stage 1	Stage 2	Stage 3	Total
Cash and balances with banks, central banks and other financial institutions (note 10)				
Pass	10,358	–	–	10,358
Less: Expected credit loss	(1)	–	–	(1)
Carrying amount	10,357	–	–	10,357
Placements with banks, central banks and other financial institutions (note 11)				
Pass	3,836	–	–	3,836
Less: Expected credit loss	–	–	–	–
Carrying amount	3,836	–	–	3,836
Advances to customers (note 13(a))				
Pass	178,272	13,404	–	191,676
Special mention	–	600	–	600
Substandard	–	–	604	604
Doubtful	–	–	403	403
Loss	–	–	120	120
Less: Expected credit loss	(319)	(52)	(248)	(619)
Carrying amount	177,953	13,952	879	192,784
Trade bills (note 13(a))				
Pass	1,608	1	–	1,609
Special mention	–	5	–	5
Substandard	–	–	38	38
Doubtful	–	–	–	–
Loss	–	–	–	–
Less: Expected credit loss	(4)	–	(1)	(5)
Carrying amount	1,604	6	37	1,647
Advances to banks (note 13(a))				
Pass	2,056	312	–	2,368
Less: Expected credit loss	(1)	–	–	(1)
Carrying amount	2,055	312	–	2,367
Financial assets measured at fair value through other comprehensive income (note 15)				
Pass	66,803	3,702	–	70,505
Expected credit loss	(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 (note 28(a))				
Pass	41,826	1,634	–	43,460
Expected credit loss	(143)	(14)	–	(157)

Notes to the Financial Statements

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

	2019	2018
Debt securities:		
Listed in Hong Kong	16,873	13,531
Listed outside Hong Kong	29,681	31,492
	46,554	45,023
Unlisted	25,636	25,482
	72,190	70,505
Equity securities:		
Unlisted	1,954	1,143
	1,954	1,143
	74,144	71,648
Debt securities include:		
Treasury bills	14,935	13,967
Certificates of deposit held	11,984	21,574
Other debt securities	45,271	34,964
	72,190	70,505

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

	2019	2018
Issued by:		
Sovereigns	14,935	13,967
Public sector entities	72	72
Banks	36,802	42,247
Corporates	22,335	15,362
	74,144	71,648

16. 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 Company 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

Notes to the Financial Statements

17. Investments in associated companies

	2019	2018
Share of net assets	614	550

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.

In respect of the year ended 31st December, 2019, 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, 2019. 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.

17. Investments in associated companies *(continued)*

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	
	2019	2018	2019	2018
Gross amounts of the associated companies				
Assets	1,018	899	18,985	17,409
Liabilities	141	88	17,544	16,126
Net assets	877	811	1,441	1,283
Total operating income	712	683	1,963	1,549
Profit after tax	219	203	(29)	(16)
Other comprehensive income	–	–	168	(61)
Total comprehensive income	219	203	139	(77)
Dividends received from the associated companies	47	41	–	–
Reconciled to the Group's interests in the associated companies				
Gross amounts of net assets of the associated companies	877	811	1,441	1,283
Group's effective interest	27%	27%	33%	33%
Group's share of net assets of the associated companies	234	216	480	428
Dividends received from the associated companies	(47)	(41)	–	–
Elimination of unrealised gain on transfer of bank premises to the associated companies	(38)	(38)	(26)	(26)
Carrying amount in the consolidated financial statements	149	137	454	402

Notes to the Financial Statements

17. Investments in associated companies *(continued)*

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

	2019	2018
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	131	124
Profit after tax	1	1
Total comprehensive income	1	1
Reconciliation of carrying amounts to the Group's total interests in the associated companies:		
Carrying amount of material associated companies		
– Bank Consortium Holding Limited	149	137
– Hong Kong Life Insurance Limited	454	402
Carrying amount of the individually immaterial associated company	11	11
Investment in associated companies in the consolidated financial statements	614	550

18. Tangible fixed assets

	2019								
	Investment properties	Bank premises	Right of use assets – Bank premises	Total Bank premises	Equipment	Right of use assets – Equipment	Total equipment	Bank premises and equipment	Total
Cost or valuation									
At 31st December, 2018	289	5,777	–	5,777	1,506	–	1,506	7,283	7,572
Impact on initial application of HKFRS16 (note 4)	–	–	299	299	–	2	2	301	301
At 1st January, 2019 after opening balance adjustment	289	5,777	299	6,076	1,506	2	1,508	7,584	7,873
Additions	79	2	44	46	85	–	85	131	210
Disposals	–	–	(2)	(2)	(56)	–	(56)	(58)	(58)
Deficit on revaluation									
– charged to bank premises revaluation reserve	–	(6)	–	(6)	–	–	–	(6)	(6)
– credited to consolidated statement of profit or loss (note 5(f))	–	–	–	–	–	–	–	–	–
Elimination of accumulated depreciation on revalued bank premises	–	(86)	–	(86)	–	–	–	(86)	(86)
Exchange adjustment	(1)	–	(3)	(3)	–	–	–	(3)	(4)
At 31st December, 2019	367	5,687	338	6,025	1,535	2	1,537	7,562	7,929
The analysis of cost or valuation of the above assets is as follows:									
At cost	–	1,359	338	1,697	1,535	2	1,537	3,234	3,234
At valuation									
2019 (note 18(a))	367	4,328	–	4,328	–	–	–	4,328	4,695
	367	5,687	338	6,025	1,535	2	1,537	7,562	7,929
Accumulated depreciation									
At 1st January, 2019	21	385	–	385	1,207	–	1,207	1,592	1,613
Charge for the period (note 5(g))	–	121	112	233	95	1	96	329	329
Written back on disposals	–	–	(1)	(1)	(48)	–	(48)	(49)	(49)
Elimination of accumulated depreciation on revalued bank premises	–	(86)	–	(86)	–	–	–	(86)	(86)
Exchange adjustment	–	–	(1)	(1)	–	–	–	(1)	(1)
At 31st December, 2019	21	420	110	530	1,254	1	1,255	1,785	1,806
Net book value									
At 31st December, 2019	346	5,267	228	5,495	281	1	282	5,777	6,123

Notes to the Financial Statements

18. Tangible fixed assets *(continued)*

	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 18(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

18. 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.

	2019			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Investment properties	–	–	367	367
Bank premises held for administrative use	–	–	4,328	4,328
	–	–	4,695	4,695

	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

During the year ended 31st December, 2019, 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, Shanghai BDGH Chartered Valuation Surveyors Co., Ltd, who is registered with the Royal Institution of Chartered Surveyors and Cushman & Wakefield Plc. All firms have recent experience in the location and category of the properties being valued.

Notes to the Financial Statements

18. 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	-6% to 53% (2018: -37% to 30%)

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:

	2019		2018	
	Investment properties	Bank premises	Investment properties	Bank premises
Cost or valuation				
At 1st January	289	4,419	388	4,004
Addition	79	–	–	–
Disposals	–	–	(106)	–
Depreciation charge for the year	–	(85)	–	(73)
(Deficit)/surplus on revaluation				
– (charged)/credited to bank premises revaluation reserve	–	(6)	–	488
– credited to consolidated statement of profit or loss	–	–	8	–
Exchange difference	(1)	–	(1)	–
At 31st December	367	4,328	289	4,419

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.

18. Tangible fixed assets *(continued)*

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

- (iii) The deficit on revaluation on bank premises held for administrative use net of deferred tax of HK\$18 million (2018: surplus of HK\$483 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\$776 million (2018: HK\$794 million) had they been stated at cost less accumulated depreciation.

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

	2019	2018
FREEHOLD		
– Held outside Hong Kong	278	278
LEASEHOLD		
– Held in Hong Kong		
Long-term leases (over 50 years unexpired)	2,671	2,751
Medium-term leases (10 to 50 years unexpired)	1,786	1,818
– Held outside Hong Kong		
Long-term leases (over 50 years unexpired)	3	4
Medium-term leases (10 to 50 years unexpired)	507	439
Short-term leases (less than 10 years unexpired)	368	369
	5,613	5,659

(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:

	2019	2018
Within 1 year	5	6
After 1 year but within 5 years	3	3
	8	9

Notes to the Financial Statements

19. Goodwill

(a) Goodwill

	2019	2018
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:

	2019	2018
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% (2018: 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 10.11% (2018: 12.31%). The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

20. Lease liabilities

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current and previous reporting periods and at the date of transition to HKFRS 16:

	31st December, 2019 Present		1st January, 2019* Present		31st December, 2018* Present	
	value of the minimum lease payments	Total minimum lease payments	value of the minimum lease payments	Total minimum lease payments	value of the minimum lease payments	Total minimum lease payments
Within 1 year	107	108	110	110	136	137
After 1 year but within 2 years	65	67	90	93	92	96
After 2 years but within 5 years	53	59	82	90	88	95
After 5 years	6	7	18	22	13	15
	124	133	190	205	193	206
	231	241	300	315	329	343
Less: total future interest expenses		(10)		(15)		(14)
Present value of lease liabilities		231		300		329

*Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1st January, 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. These liabilities have been aggregated with the brought forward balances relating to leases previously classified as finance leases. Comparative information as at 31st December, 2018 has not been restated and relates solely to leases previously classified as finance leases. Further details on the impact of the transition to HKFRS 16 are set out in note 4.

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

	2019	2018
Deposits from central banks	–	29
Deposits from banks	9,024	4,186
	9,024	4,215

Notes to the Financial Statements

22. Deposits from customers

	2019	2018
Demand deposits and current accounts	71,027	55,305
Savings deposits	28,089	29,030
Time, call and notice deposits	110,412	137,519
	209,528	221,854

23. Certificates of deposit and fixed rate note issued

	2019	2018
Certificates of deposit issued at amortised cost	12,025	5,038
Fixed rate note issued at amortised cost	2,229	2,282
	14,254	7,320

24. Trading liabilities

Trading liabilities represent negative fair values of derivative financial instruments held for trading. Details are set out in note 29(a).

25. Other accounts and provisions

	2019	2018
Acceptances outstanding	1,188	981
Interest payable	446	575
Negative fair value of derivative financial instruments held for hedging (note 29(a)(ii))	362	136
Other payables	2,191	1,739
Expected credit loss (Stages 1 and 2) on contingent liabilities and commitments to extend credit (note 14)	100	157
	4,287	3,588

26. 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.

	2019							
	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	9,415	–	–	–	–	–	–	9,415
Placements with banks, central banks and other financial institutions	–	1,923	117	599	–	–	–	2,639
Amounts due from ultimate holding company, fellow subsidiaries and fellow associates	–	737	15	14	369	–	–	1,135
Trading assets	–	–	–	339	1,656	266	3,705	5,966
Advances to customers	2,436	22,799	12,492	30,349	56,578	64,632	395	189,681
Trade bills	4	283	354	42	95	–	–	778
Advances to banks	–	5	206	1,292	–	–	–	1,503
Financial assets measured at fair value through other comprehensive income	–	4,114	4,311	21,358	40,376	2,031	1,954	74,144
Other assets	1	2,074	848	255	338	5	8,353	11,874
Total assets	11,856	31,935	18,343	54,248	99,412	66,934	14,407	297,135
Liabilities								
Deposits and balances of banks, central banks and other financial institutions	365	8,645	13	1	–	–	–	9,024
Amounts due to ultimate holding company and fellow subsidiaries	448	976	6,348	3,455	1,171	–	–	12,398
Deposits from customers	98,966	60,945	33,148	14,073	2,396	–	–	209,528
Certificates of deposit and fixed rate note issued	–	2,479	6,632	2,414	2,729	–	–	14,254
Trading liabilities	–	–	–	–	–	–	3,408	3,408
Lease liabilities	–	11	18	76	119	7	–	231
Other liabilities	–	2,672	1,004	275	413	39	647	5,050
Total liabilities	99,779	75,728	47,163	20,294	6,828	46	4,055	253,893
Net assets/(liabilities) gap	(87,923)	(43,793)	(28,820)	33,954	92,584	66,888	10,352	43,242

of which:

Certificates of deposit held

– included in financial assets
measured at fair value through
other comprehensive income

– 801 1,523 9,660 – – – 11,984

Debt securities

– included in trading assets
– included in financial assets
measured at fair value through
other comprehensive income

– – – 339 1,656 266 – 2,261

– 3,313 2,788 11,698 40,376 2,031 – 60,206

Notes to the Financial Statements

26. Maturity profile (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	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
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

27. Share capital and reserves

(a) Share capital

	2019		2018	
	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

	2019	2018
HK\$3,000 million perpetual non-cumulative subordinated Additional Tier 1 capital securities at amortised cost (2018: HK\$1,500 million)	3,000	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, Oversea-Chinese Banking Corporation Limited. The securities are undated and bear a coupon rate of 5.3% per annum for the first 5 years until the first optional call date on 12th December, 2023. The coupon will be resettable on year 5 and every 5 years thereafter at the prevailing 5-year Hong Kong Dollar Swap Offer Rate plus a fixed initial spread. The securities will be written down at the point of non-viability on the occurrence of a trigger event as defined in the Banking (Capital) Rules.

On 27th September, 2019, the Bank issued another non-cumulative subordinated Additional Tier 1 capital securities with a face value of HK\$1,500 million to the ultimate holding company, Oversea-Chinese Banking Corporation Limited. The securities are undated and bear a coupon rate of 4.25% per annum for the first 5 years until the first optional call date on 27th September, 2024. The coupon will be resettable on year 5 and every 5 years thereafter at the prevailing 5-year Hong Kong Dollar Swap Offer Rate plus a fixed initial spread. The securities will be written down at the point of non-viability on the occurrence of a trigger event as defined in the Banking (Capital) Rules.

Notes to the Financial Statements

27. 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 2019 Investment revaluation reserve (non- recycling)	Cash flow hedging reserve	Unappro- priated profits	Total
At 1st January	1,802	3,005	(142)	525	4	17,277	22,471
Issuance of perpetual capital securities	–	–	–	–	–	–	–
Coupon of perpetual capital securities	–	–	–	–	–	(80)	(80)
Dividend paid for the period	–	–	–	–	–	(1,500)	(1,500)
Transfer (from)/to reserve	–	(33)	–	–	–	33	–
	–	(33)	–	–	–	(1,547)	(1,580)
Other comprehensive income:							
– fair value changes on cash flow hedges net of deferred tax	–	–	–	–	(8)	–	(8)
– fair value changes on financial assets measured at fair value through other comprehensive income net of deferred tax	–	–	287	398	–	–	685
– 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	–	–	(51)	–	–	–	(51)
– deficit on revaluation net of deferred tax	–	(29)	–	–	–	–	(29)
– expected credit losses on debt securities	–	–	(6)	–	–	–	(6)
– profit attributable to shareholder of the Bank for the year	–	–	–	–	–	1,806	1,806
Total comprehensive income for the year, net of tax	–	(29)	230	398	(8)	1,806	2,397
At 31st December	1,802	2,943	88	923	(4)	17,536	23,288

27. Share capital and reserves (continued)

(c) Reserves (continued)

	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

Notes to the Financial Statements

27. Share capital and reserves *(continued)*

(c) Reserves *(continued)*

The Group's unappropriated profits as at 31st December, 2019 included the accumulated gains of HK\$523 million (2018: HK\$468 million) of the associated companies and a regulatory reserve of HK\$1,824 million (2018: HK\$1,950 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.

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 (notes 2(k) and (f)). Bank premises revaluation reserve do not represent realised profits and are not available for distribution.

At 31st December, 2019, 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\$18,360 million (2018: HK\$17,790 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.

28. 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%.

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

	2019	2018
Direct credit substitutes	2,836	3,654
Transaction-related contingencies	1,362	1,095
Trade-related contingencies	1,416	1,266
Forward forward deposits	1,790	78
Other commitments:		
With an original maturity of not more than one year	594	112
With an original maturity over one year	5,847	5,042
Which are unconditionally cancellable	35,318	32,213
Total	49,163	43,460
Credit risk weighted amounts	6,679	6,490

(b) Capital commitments

Capital commitments for acquisition of tangible fixed assets outstanding at 31st December, 2019 not provided for in the financial statements are as follows:

	2019	2018
Expenditure authorised and contracted for	61	61
Expenditure authorised but not contracted for	–	–
Total	61	61

Notes to the Financial Statements

28. Contingent liabilities and commitments *(continued)*

(c) Lease commitments

At 31st December, 2019, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2019	2018
Properties		
Within 1 year	–	134
After 1 year but within 5 years	–	189
After 5 years	–	15
	–	338
Others		
Within 1 year	–	3
After 1 year but within 5 years	–	2
	–	5

The Group is the lessee in respect of a number of properties and items of plant and machinery and office equipment held under leases which were previously classified as operating leases under HKAS 17. The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1st January, 2019 to recognise lease liabilities relating to these leases (see note 4). From 1st January, 2019 onwards, future lease payments are recognised as lease liabilities in the statement of financial position in accordance with the policies set out in note 2(l), and the details regarding the Group's future lease payments are disclosed in note 20.

29. 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.

29. Derivative financial instruments *(continued)*

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

		2019	
	Qualifying for hedge accounting	Others, including held for trading	Total
Exchange rate contracts			
Forwards	495	292,858	293,353
Options purchased	–	10,234	10,234
Options written	–	10,239	10,239
Interest rate contracts			
Swaps	24,938	440,967	465,905
Equity contracts			
Options purchased	–	2,172	2,172
Options written	–	2,172	2,172
Credit derivative contracts			
Credit defaults swaps purchased	–	2,184	2,184
Credit defaults swaps written	–	2,184	2,184
	25,433	763,010	788,443
	Qualifying for hedge accounting	2018 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

Notes to the Financial Statements

29. 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:

	2019		2018	
	Assets	Liabilities	Assets	Liabilities
Exchange rate contracts	2,150	1,927	2,052	2,235
Interest rate contracts	1,073	999	1,206	1,102
Equity contracts	481	481	61	61
Credit derivative contracts	1	1	2	2
Total (notes 12 and 24)	3,705	3,408	3,321	3,400

- (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:

	2019		2018	
	Assets	Liabilities	Assets	Liabilities
Exchange rate contracts	–	17	–	–
Interest rate contracts	3	345	61	136
Total (notes 13 and 25)	3	362	61	136

(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.

	2019			Total
	Within 1 year	Over 1 year but within 5 years	Over 5 years	
Exchange rate contracts	308,472	5,354	–	313,826
Interest rate contracts	283,622	180,646	1,637	465,905
Equity contracts	1,499	2,845	–	4,344
Credit derivative contracts	4,368	–	–	4,368
	597,961	188,845	1,637	788,443

29. Derivative financial instruments *(continued)*

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

	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

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

	2019	2018
Exchange rate contracts	2,850	2,707
Interest rate contracts	113	138
Equity contracts	95	15
Credit derivative contracts	–	–
	3,058	2,860

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, 2019, the net negative fair value of derivatives held as fair value hedges was HK\$356 million (2018: net negative fair value of HK\$80 million).

The losses on the hedging instruments for the year were HK\$276 million (2018: losses of HK\$57 million). The gains on the hedged items attributable to the hedged risk for the year were HK\$279 million (2018: gains of HK\$60 million).

Notes to the Financial Statements

29. Derivative financial instruments *(continued)*

(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, 2019, the net negative fair value of derivatives held as cash flow hedges was HK\$3 million (2018: net positive fair value of HK\$5 million). During the year, there was no ineffectiveness recognised in the statement of profit or loss that arose from cash flow hedges (2018: nil).

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:

	2019			Total
	Less than 1 year	1 to 5 years	Over 5 years	
Forecast receivable cash flows	118	–	–	118
Forecast payable cash flows	(88)	–	–	(88)
Forecast net receivable cash flows	30	–	–	30

	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

30. Notes to the consolidated cash flow statement

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

	2019	2018 Note
Operating profit	2,878	3,230
Depreciation (note 5(g))	329	225
Change in expected credit loss and other credit impairment charges	278	245
Interest expense on fixed rate note issued (note 5(b))	93	9
Coupon of perpetual capital securities	80	–
Losses on disposal of tangible fixed assets	3	2
Net gains from disposal of financial assets measured at fair value through other comprehensive income (note 5(f))	(159)	(19)
Gains on revaluation of investment properties (note 5(f))	–	(8)
Profits tax paid	(228)	(443)
Change in treasury bills with original maturity of three months or above	78	2,545
Change in placements with banks, central banks and other financial institutions with original maturity of three months or above	(1,045)	179
Change in amounts due from ultimate holding company and fellow subsidiaries maturing after three months	3,554	(2,086)
Change in certificates of deposit held	9,590	24,028
Change in trading assets	(531)	1,596
Change in financial assets designated at fair value through profit or loss	–	20
Change in advances to customers and other accounts	4,077	(9,146)
Change in deposits and balances of banks, central banks and other financial institutions	4,663	458
Change in amounts due to ultimate holding company and fellow subsidiaries	(25,246)	(6,582)
Change in deposits from customers	(12,326)	(605)
Change in certificates of deposit issued	6,987	657
Change in trading liabilities	8	(382)
Change in other accounts and provision	661	(913)
Interest expense on lease liabilities (note 5(b))	7	–
Net cash (outflow)/inflow from operating activities	(6,249)	13,010

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1st January, 2019 to recognise right-of-use assets and lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Previously, cash payments under operating leases made by the Group as a lessee of HK\$126 million were classified as operating activities in the consolidated cash flow statement. Under HKFRS 16, except for short-term lease payments, payments for leases of low value assets and variable lease payments not included in the measurement of lease liabilities, all other rentals paid on leases are now classified as financing cash outflows. Under the modified retrospective approach, the comparative information is not restated. Further details on the impact of the transition to HKFRS 16 are set out in note 4.

Notes to the Financial Statements

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

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

	2019	2018
Cash and balances with banks, central banks and other financial institutions	9,415	10,358
Placements with banks, central banks and other financial institutions	2,639	3,836
Amounts due from ultimate holding company and fellow subsidiaries	1,135	18,107
Treasury bills	15,733	15,391
Amounts shown in the consolidated statement of financial position	28,922	47,692
Less: Amounts with an original maturity of three months or above	(16,103)	(18,235)
Deposits and balances of banks, central banks and other financial institutions that are repayable on demand	(335)	(217)
Cash and cash equivalents in the consolidated cash flow statement	12,484	29,240

(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 consolidated cash flow statement as cash flows from financing activities.

	2019	2018
At 1st January	3,791	–
Issue of perpetual capital securities	1,500	1,500
Issue of fixed rate note	–	2,251
Exchange adjustment	(53)	31
Interest expenses on fixed rate note (note 5(b))	93	9
Coupon of perpetual capital securities	80	–
Payment of lease liabilities	115	–
At 31st December	5,526	3,791

(d) Total cash outflow for leases

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

	2019	2018
Within operating cash flows	33	126
Within investing cash flows	–	–
Within financing cash flows	115	–
	148	126

31. 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

31. 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:

	2019				Mainland China	Macau	Total
	Hong Kong			Total			
	Retail banking	Corporate banking	Treasury				
Net interest income	2,088	516	344	2,948	932	541	4,421
Non-interest income	574	56	246	876	440	153	1,469
Reportable segment revenue	2,662	572	590	3,824	1,372	694	5,890
Operating expenses	(1,455)	(239)	(129)	(1,823)	(964)	(334)	(3,121)
Operating profit before expected credit losses	1,207	333	461	2,001	408	360	2,769
Change in expected credit loss and other credit impairment charges	(87)	(13)	6	(94)	(203)	19	(278)
Operating profit	1,120	320	467	1,907	205	379	2,491
Share of net gains of associated companies	–	–	–	–	–	–	–
Reportable segment profit before tax	1,120	320	467	1,907	205	379	2,491
Depreciation	69	–	2	71	129	25	225
Reportable segment assets	80,378	56,158	49,011	185,547	62,191	35,216	282,954
Addition to non-current segment assets	15	1	–	16	30	9	55
Reportable segment liabilities	147,862	812	56	148,730	53,012	30,201	231,943

31. Segment reporting *(continued)*

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

	2018						
	Hong Kong			Total	Mainland China	Macau	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

Notes to the Financial Statements

31. Segment reporting *(continued)*

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

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

	2019	2018
Revenue		
Reportable segment revenue	5,890	5,849
Other revenue	708	1,107
Elimination of inter-segment revenue	(182)	(410)
Consolidated operating income	6,416	6,546
	2019	2018
Profit before taxation		
Reportable segment profit before taxation	2,491	2,622
Share of net gains of associated companies	55	57
Other net gains	387	817
Elimination of inter-segment profit	–	(209)
Consolidated profit before taxation	2,933	3,287
	2019	2018 (restated)
Assets		
Reportable segment assets	282,954	293,946
Balance and placements with banks, central banks and other financial institutions	2,869	5,100
Amounts due from ultimate holding company and fellow subsidiaries	509	16,774
Investments in associated companies	614	550
Tangible fixed assets	4,766	4,703
Goodwill	1,306	1,306
Deferred tax assets	10	39
Other assets	14,139	12,989
Elimination of inter-segment assets	(10,032)	(16,786)
Consolidated total assets	297,135	318,621

31. Segment reporting *(continued)*

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

	2019	2018
Liabilities		
Reportable segment liabilities	231,943	253,447
Deposits and balances of banks, central banks and other financial institutions	3,019	161
Amounts due to ultimate holding company and fellow subsidiaries	3,645	18,756
Current tax payable	421	338
Deferred tax liabilities	7	7
Other liabilities	16,549	10,420
Elimination of inter-segment liabilities	(1,691)	(4,525)
Consolidated total liabilities	253,893	278,604

(b) Other geographical information

	2019				
	Hong Kong	Mainland China	Macau	Less: inter-segment elimination	Total
Specified non-current assets	6,719	644	669	(11)	8,021
Contingent liabilities and commitments (note 28(a))	20,689	25,044	4,128	(698)	49,163
	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 28(a))	17,654	22,834	3,636	(664)	43,460

Notes to the Financial Statements

32. 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:

	2019	2018
(i) Income and expense during the year		
Interest income	284	176
Interest expense	557	729
(ii) Average on-balance sheet outstanding during the year		
Amounts due from ultimate holding company	12,354	8,995
Amounts due to ultimate holding company	22,770	34,671
(iii) On-balance sheet outstanding at the reporting date		
Amounts due from ultimate holding company	684	17,695
Amounts due to ultimate holding company	12,261	37,602
(iv) Derivative financial instruments outstanding (notional amounts) at the reporting date		
Exchange rate contracts	21,956	24,412
Interest rate contracts	54,622	52,595
Equity contracts	2,145	916
Credit derivative contracts	2,184	3,046

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

32. 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:

	2019	2018
(i) Income and expense during the year		
Interest income	19	20
Interest expense	3	1
Other operating income	6	17
Operating expense	8	1
(ii) Average on-balance sheet outstanding during the year		
Amounts due from fellow subsidiaries	465	427
Amounts due to fellow subsidiaries	134	69
(iii) On-balance sheet outstanding at the reporting date		
Amounts due from fellow subsidiaries	451	413
Amounts due to fellow subsidiaries	137	71

(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:

	2019	2018
(i) Income and expense during the year		
Interest income	4	42
(ii) Average on-balance sheet outstanding during the year		
Amounts due from fellow associates	88	863
Amounts due to fellow associates	—	3
(iii) On-balance sheet outstanding at the reporting date		
Debt securities issued by fellow associates	—	454

Notes to the Financial Statements

32. 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:

	2019	2018
(i) Income and expense during the year		
Interest income	723	635
Interest expense	103	128
Other operating income	139	370
Operating expense	65	76

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	27,434	27,462
Amounts due to subsidiaries	6,326	8,194

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

Amounts due from subsidiaries	25,875	31,554
Amounts due to subsidiaries	4,042	10,567

During the year, no expected credit loss (Stage 3) has been made in respect of these balances as at 31st December, 2019 (2018: nil).

32. Material related party transactions *(continued)*

(c) Subsidiaries *(continued)*

	2019	2018
(iv) Off-balance sheet outstanding (contract amounts) at the reporting date		
Direct credit substitutes	8	8
Other commitments	768	769
(v) Derivative financial instruments outstanding (notional amounts) at the reporting date		
Exchange rate contracts	47	1,710
Interest rate contracts	2,673	751

(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:

	2019	2018
(i) Income and expense during the year		
Interest expense	22	12
(ii) Average on-balance sheet outstanding during the year		
Deposits from customers	1,319	1,007
(iii) On-balance sheet outstanding at the reporting date		
Deposits from customers	1,178	1,262

Notes to the Financial Statements

32. 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:

	2019	2018
(i) Income and expense during the year		
Interest expense	40	28
(ii) Average on-balance sheet outstanding during the year		
Advances to customers	6	11
Deposits from customers	2,357	1,675
(iii) On-balance sheet outstanding at the reporting date		
Advances to customers	10	8
Deposits from customers	2,200	1,970
(iv) Derivative financial instruments outstanding (notional amounts) at the reporting date		
Exchange rate contracts	428	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:		
	2019	2018
Short-term employee benefits	38	51
Post-employment benefits	1	2
Equity compensation benefits	13	15
	52	68

32. 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:

	2019	2018
Aggregate amount of relevant loans outstanding at 31st December	3	4
The maximum aggregate amount of relevant loans outstanding during the year	8	10

- (g) During the year, no expected credit loss (Stage 3) has been made in respect of the above advances to related parties (2018: nil).

33. 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.

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.

Notes to the Financial Statements

33. Management of risks *(continued)*

(a) Credit risk management *(continued)*

(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.

(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.

33. Management of risks *(continued)*

(a) Credit risk management *(continued)*

(v) Master netting arrangements *(continued)*

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

	2019					
	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	918	–	918	(918)	–	–
Positive fair values of derivative financial instruments	3,708	–	3,708	(234)	(97)	3,377
Interest receivable	53	(35)	18	–	–	18
	4,679	(35)	4,644	(1,152)	(97)	3,395

	2019					
	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	53	–	53	(53)	–	–
Amounts due to ultimate holding company and fellow subsidiaries	918	–	918	(918)	–	–
Deposits from customers	100	–	100	(100)	–	–
Negative fair values of derivative financial instruments	3,770	–	3,770	(234)	283	3,819
Interest payable	82	(35)	47	–	–	47
	4,923	(35)	4,888	(1,305)	283	3,866

Notes to the Financial Statements

33. Management of risks (continued)

(a) Credit risk management (continued)

(v) Master netting arrangements (continued)

	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		
				Financial instruments	Cash collateral received	Net amount
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	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		
				Financial instruments	Cash collateral pledged	Net amount
Financial liabilities						
Deposits from banks	69	–	69	(69)	–	–
Amounts due to ultimate holding company and fellow subsidiaries	3,225	–	3,225	(3,225)	–	–
Deposits from customers	128	–	128	(128)	–	–
Negative fair values of derivative financial instruments	3,526	–	3,526	(266)	(203)	3,057
Interest payable	69	(44)	25	–	–	25
	7,017	(44)	6,973	(3,688)	(203)	3,082

33. 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 13(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. A summary of the maximum exposure is as follows:

	2019	2018
Cash and balances with banks, central banks and other financial institutions	9,415	10,357
Placements with banks, central banks and other financial institutions	2,639	3,836
Amounts due from ultimate holding company, fellow subsidiaries and fellow associates	1,135	18,562
Trading assets	5,966	6,069
Advances to customers	189,681	192,784
Trade bills	778	1,647
Advances to banks	1,503	2,367
Financial assets measured at fair value through other comprehensive income	74,131	71,621
Financial guarantees and other credit related contingent liabilities	7,381	6,062
Loan commitments and other credit related commitments	41,682	37,241

Notes to the Financial Statements

33. 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, 2019 and 2018, 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:

	2019	2018
Gross advances to customers		
– neither past due nor impaired	186,922	189,856
– past due but not impaired	2,501	2,420
– impaired (note 13(c))	745	1,127
	190,168	193,403

of which:

Gross advances to customers		
– Grade 1: Pass	188,616	191,676
– Grade 2: Special mention	807	600

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:

	2019	2018
Gross advances to customers that are past due but not impaired		
– past due 3 months or less	2,489	2,393
– 6 months or less but over 3 months	5	25
– 1 year or less but over 6 months	7	2
	2,501	2,420

At 31st December, 2019, advances to customers that were past due or impaired had the terms not been renegotiated amounted to HK\$6 million (2018: HK\$12 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.

33. 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.

	2019	2018
AAA	9,982	10,208
AA- to AA+	6,672	4,077
A- to A+	51,070	48,895
BBB to BBB+	3,136	5,438
Lower than BBB	584	2,878
	71,444	71,496
Unrated	3,007	1,757
	74,451	73,253

There are no overdue debt securities included in "Financial assets measured at fair value through other comprehensive income" for the Group as at 31st December, 2019 (2018: nil).

Included in "Other assets" of the Group as at 31st December, 2019 and 31st December, 2018, there are no receivables which are overdue.

Notes to the Financial Statements

33. 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:

	2019	2018
Fair value of collateral and other credit enhancements held against financial assets that are past due but not impaired	7,107	7,266

Analysis of credit risk concentration by the economic sector of the respective financial assets is disclosed in notes 12 to 15 and the geographical concentration of the Group's assets is disclosed in note 31.

(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 38.7% and 128.6% respectively in 2019 (2018: 39.2% of LMR; 131.8% of CFR), which are well above the statutory requirement of 25% and 75% respectively. The 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.

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.

33. 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

33. 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 position, 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 ratio 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.

33. Management of risks *(continued)*

(b) Liquidity risk management *(continued)*

			2019					
	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	365	8,671	13	1	–	–	–	9,050
Amounts due to ultimate holding company and fellow subsidiaries	448	980	6,394	3,455	1,171	–	–	12,448
Deposits from customers	98,966	61,161	33,357	14,297	2,466	–	–	210,247
Certificates of deposit and fixed rate note issued	–	2,484	6,642	2,433	2,762	–	–	14,321
Other liabilities	–	2,488	886	154	391	39	647	4,605
	99,779	75,784	47,292	20,340	6,790	39	647	250,671
Unrecognised loan commitments	16,994	1,099	1,926	15,291	5,767	682	–	41,759
Financial guarantees and other credit related contingent liabilities	378	2,469	1,794	2,071	692	–	–	7,404
	17,372	3,568	3,720	17,362	6,459	682	–	49,163
Derivative cash flows								
Derivative financial instruments settled on net basis	–	7	40	54	108	5	–	214
Derivative financial instruments settled on a gross basis								
– total outflow	–	15,979	5,183	1,612	2	–	–	22,776
– total inflow	–	(16,025)	(5,211)	(1,666)	(2)	–	–	(22,904)
	–	(46)	(28)	(54)	–	–	–	(128)

Notes to the Financial Statements

33. 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)

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 26.

33. 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

33. 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 2018.

	2019	2018
	Increase/(decrease) in Group's profit before tax	Increase/(decrease) in Group's profit before tax
Increase in 100 basis points	108	95
Decrease in 100 basis points	(108)	(95)

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.

33. 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.

	2019					
	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	9,415	5,658	–	–	–	3,757
Placements with banks, central banks and other financial institutions	2,639	2,040	599	–	–	–
Amounts due from ultimate holding company, fellow subsidiaries and fellow associates	1,135	796	10	–	–	329
Trading assets	5,966	148	261	1,586	266	3,705
Advances to customers and other accounts	194,276	169,584	11,763	8,853	140	3,936
Advances to banks	1,503	211	1,292	–	–	–
Financial assets measured at fair value through other comprehensive income	74,144	20,397	20,464	29,298	2,031	1,954
Other assets	8,057	–	–	–	–	8,057
Total assets	297,135	198,834	34,389	39,737	2,437	21,738
Liabilities						
Deposits and balances of banks, central banks and other financial institutions	9,024	8,973	1	–	–	50
Amounts due to ultimate holding company and fellow subsidiaries	12,398	10,523	331	–	–	1,544
Deposits from customers	209,528	174,716	18,420	2,395	–	13,997
Certificates of deposit and fixed rate notes issued	14,254	11,525	–	2,729	–	–
Trading liabilities	3,408	–	–	–	–	3,408
Lease liabilities	231	–	–	–	–	231
Other liabilities	5,050	30	–	–	–	5,020
Total liabilities	253,893	205,767	18,752	5,124	–	24,250
Derivatives (in the banking book) net (short)/long position (notional amount)	(556)	1,058	6,103	(6,476)	(1,241)	–
Interest rate sensitivity gap	42,686	(5,875)	21,740	28,137	1,196	(2,512)

Notes to the Financial Statements

33. Management of risks (continued)

(c) Market risk management (continued)

(i) Interest rate risk (continued)

		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
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	–	–	–
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
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)

33. 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:

	2019 %	2018 %
Placement with banks, central banks and other financial institutions	1.97	2.26
Advances to customers and trade bills	3.37	3.25
Debt securities	2.90	3.14
	3.17	3.13
Deposits and balances of banks, central banks and other financial institutions	2.14	2.73
Deposits from customers	1.46	1.60
Certificates of deposit issued	1.91	2.10
Fixed rate note issued	4.12	4.26
	1.59	1.81

(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.

	2019									
	US\$	Chinese Renminbi	Pound Sterling	Euro	Canadian \$	Australian \$	Singapore \$	New Zealand \$	Macau Patacas	Total
Spot assets	75,309	48,259	2,577	956	68	6,362	320	214	13,265	148,143
Spot liabilities	(59,318)	(49,146)	(1,288)	(1,676)	(1,966)	(8,008)	(329)	(2,658)	(13,422)	(139,209)
Forward purchases	138,882	128,286	1,445	1,937	1,900	2,193	153	2,503	–	278,031
Forward sales	(153,060)	(129,322)	(2,721)	(1,206)	(5)	(505)	(150)	(34)	–	(287,160)
Net option positions	(3,568)	3,568	–	–	–	–	–	–	–	–
Net long/(short) positions	(1,755)	1,645	13	11	(3)	42	(6)	25	(157)	(195)

Notes to the Financial Statements

33. Management of risks *(continued)*

(c) Market risk management *(continued)*

(ii) Currency risk *(continued)*

	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)

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

	2019				2018			
	Macau Patacas	Chinese Renminbi	US\$	Total	Macau Patacas	Chinese Renminbi	US\$	Total
Net structural positions	3,472	7,250	1,526	12,248	3,195	7,207	1,606	12,008

(iii) Equity risk

The Group's equities exposures in 2019 and 2018 are mainly in long-term equity investments which are reported as "Financial assets measured at fair value through other comprehensive income" set out in note 15 separately. These are subject to trading limits and risk management control procedures and other market risk regimes.

33. 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 management 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 management. 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, 2019 and 2018 and are well above the minimum required ratios set by the HKMA.

The capital ratios as at 31st December, 2019 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

33. Management of risks *(continued)*

(f) Transfers of financial assets

As of 31st December, 2019, the Group entered into repurchase agreements with certain banks and customers to sell debt securities with a carrying amount of HK\$5,201 million (2018: HK\$3,947 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:

	2019	2018
Financial assets measured at fair value through other comprehensive income	5,201	3,947
	5,201	3,947

The consideration received under these repurchase agreements for the Group totaling HK\$4,758 million (2018: HK\$3,747 million) was reported as "Deposits and balances of banks, central banks and other financial institutions" and "Deposits from customers" at 31st December, 2019 and 31st December, 2018. The details are as follows:

	2019	2018
Deposits and balances of banks, central banks and other financial institutions	3,740	394
Amounts due to ultimate holding company and fellow subsidiaries	918	3,225
Deposits from customers	100	128
	4,758	3,747

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, 2019 and 31st December, 2018, there were no outstanding transferred financial assets in which the Group has a continuing involvement that were derecognised in their entirety.

34. Staff benefits

(a) Retirement schemes

	2019	2018
Retirement benefit costs (note 5(g))	95	88

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

The Group has ceased granting share options under OCBC Share Option Scheme 2001 ("2001 Scheme") effective from financial year 2018 remuneration. Share options granted in prior years continue to be outstanding until the options lapse or are exercised by the recipients. 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:

	2019	2018
Acquisition price (in Singapore \$)	–	13.34
Average share price from grant date to acceptance date (in Singapore \$)	–	13.73
Expected volatility based on last 250 days historical volatility as of acceptance (in %)	–	17.29
Risk-free rate based on Singapore Government Securities ("SGS") bond yield at acceptance date (in %)	–	2.54
Expected dividend yield (in %)	–	2.62
Exercise multiple (times)	–	1.52
Option life (years)	–	10

Notes to the Financial Statements

34. 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:

2019			
Options granted during the year	Number of options	Vesting conditions	Contractual life of options
Tranche 1	–	1 year from date of grant	10 years from date of grant
Tranche 2	–	2 years from date of grant	10 years from date of grant
Tranche 3	–	3 years from date of grant	10 years from date of grant
	–		
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		

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

	2019		2018	
	Number of options (in Singapore \$)	Average price	Number of options (in Singapore \$)	Average price
At 1st January	2,800,086	1.1368	2,397,090	0.9400
Exercised during the year	(141,293)	0.9252	(96,067)	0.9546
Lapsed during the year	(2,283)	2.0469	(24,640)	2.0469
Granted and accepted	–	–	523,703	2.0469
At 31st December	2,656,510	1.1473	2,800,086	1.1368
Exercisable at the end of the year	1,995,875	1.0358	1,273,475	0.9634

At 31st December, 2019, the weighted average remaining contractual life of outstanding share options was 6.7 years (2018: 7.7 years). The aggregate outstanding number of options held by directors of the Bank was 775,619 (2018: 1,414,867). The accounting treatment of share-based compensation plan is set out in note 2(s).

34. 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 585,983 (2018: 322,595) ordinary shares of OCBC (including awards of 169,566 (2018: 99,211) 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, 2019. The fair value of the shares at grant date was Singapore \$6 million (2018: 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).

35. 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.

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

35. 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.

35. 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:

	2019			
Recurring fair value measurements	Level 1	Level 2	Level 3	Total
Assets				
Amounts due from ultimate holding company, fellow subsidiaries and fellow associates				
– Certificates of deposit held	–	–	–	–
	–	–	–	–
Trading assets				
– Treasury bills	798	–	–	798
– Other debt securities	1,346	117	–	1,463
– Positive fair values of derivative financial instruments held for trading	1	3,698	6	3,705
	2,145	3,815	6	5,966
Advances to customers and other accounts				
– Positive fair values of derivative financial instruments held for hedging	–	3	–	3
Financial assets measured at fair value through other comprehensive income				
– Treasury bills	12,915	2,020	–	14,935
– Certificates of deposit held	–	11,984	–	11,984
– Other debt securities	38,678	6,593	–	45,271
– Equity securities	–	1	1,953	1,954
	51,593	20,598	1,953	74,144
	53,738	24,416	1,959	80,113
Liabilities				
Trading liabilities				
– Negative fair values of derivative financial instruments held for trading	1	3,406	1	3,408
Other accounts and provisions				
– Negative fair values of derivative financial instruments held for hedging	–	362	–	362
	1	3,768	1	3,770

Notes to the Financial Statements

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

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

Recurring fair value measurements	Level 1	2018		Total
		Level 2	Level 3	
Assets				
Amounts due from ultimate holding company, fellow subsidiaries and fellow associates				
– Certificates of deposit held	–	454	–	454
	–	454	–	454
Trading assets				
– Treasury bills	1,424	–	–	1,424
– Other debt securities	1,289	35	–	1,324
– Positive fair values of derivative financial instruments held for trading	–	3,321	–	3,321
	2,713	3,356	–	6,069
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

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

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

During the year ended 31st December, 2019, there were no material transfers between Level 1 and Level 2 (2018: nil). During the year ended 31st December 2019, there were transfers of HK\$5 million into Level 3 (2018: 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:

	2019		
	Financial assets measured at fair value through other comprehensive income – Equity securities	Net fair values of derivative financial instruments held for trading	Total
Assets/(liabilities)			
At 1st January	1,142	–	1,142
Purchases	–	–	–
Sales	–	–	–
Settlements	–	–	–
Transfers	–	5	5
Others	–	–	–
Changes in fair value recognised in the other comprehensive income	812	–	812
At 31st December	1,954	5	1,959
Total gains or losses for the year included in investment revaluation reserve of the other comprehensive income for assets held at the reporting date	812	–	812
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

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

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

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

	Available- for-sale financial assets – Equity securities	2018 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	–	–	–
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	–	–	–

35. 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	7.33%-13.42% (2018: 6.51%-15.22%)
		P/E ratios	15.33%-38.83% (2018: 12.90%-29.25%)
	Market-comparable approach	Marketability discount	50% (2018: 50%)
		Risk discount rate	8.5% (2018: 8.5%)
		Expected investment return rate	3.0% (2018: 3.0%)

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

The fair value of derivative financial instruments held for trading is determined based on similar methodology as that of derivative financial instruments classified as level 2 in the fair value hierarchy with significant unobservable inputs being the forecasted optimum rate of a derivative contract adopted for the fair value measurement of the optionality component to exercise partial take-up right of the derivative contract.

Notes to the Financial Statements

35. 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.

	2019			
	Reflected in profit/(loss)		Reflected in other comprehensive income	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
Trading assets				
– Positive fair values of derivative financial instruments held for trading purpose	1	(1)	–	–
	1	(1)	–	–
Financial assets measured at fair value through other comprehensive income				
– Equity securities	–	–	195	(195)
	–	–	195	(195)
	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)

35. 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, 2019 and 31st December, 2018 except for the following financial instruments, for which their carrying amounts and fair value and the level of fair value hierarchy are disclosed below:

		2019			
	Carrying value	Fair value	Level 1	Level 2	Level 3
Financial liabilities					
Certificates of deposit issued at amortised cost	12,025	12,049	–	12,049	–
Fixed rate note issued at amortised cost	2,229	2,255	–	2,255	–
		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	–

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 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 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

36. Bank-level statement of financial position

	2019	2018
ASSETS		
Cash and balances with banks, central banks and other financial institutions	2,194	2,943
Placements with banks, central banks and other financial institutions	1,303	2,548
Amounts due from ultimate holding company, fellow subsidiaries and fellow associates	509	16,774
Trading assets	1,662	1,614
Advances to customers and other accounts	114,639	115,282
Amounts due from subsidiaries	25,875	31,554
Financial assets measured at fair value through other comprehensive income	49,604	46,182
Investments in subsidiaries	8,251	8,257
Investments in associated companies	332	332
Tangible fixed assets		
– Other properties, plants and equipment	4,313	4,252
Deferred tax assets	3	31
Goodwill	847	847
Total assets	209,532	230,616
EQUITY AND LIABILITIES		
Deposits and balances of banks, central banks and other financial institutions	3,019	161
Amounts due to ultimate holding company and fellow subsidiaries	3,645	18,756
Deposits from customers	152,867	163,126
Certificates of deposit issued	9,611	4,420
Trading liabilities	215	368
Lease liabilities	88	–
Current tax payable	387	332
Other accounts and provisions	2,062	1,607
Amounts due to subsidiaries	4,042	10,567
Total liabilities	175,936	199,337
Share capital	7,308	7,308
Reserves	23,288	22,471
Perpetual capital securities issued	3,000	1,500
Total equity	33,596	31,279
Total equity and liabilities	209,532	230,616

Approved and authorised for issue by the Board of Directors on 20th April, 2020

FUNG Yuk Bun Patrick
NA Wu Beng

Chairman
Executive Director and Chief Executive

37. Ultimate controlling party

At 31st December, 2019, the directors consider the ultimate controlling party of the Bank to be OCBC, which is incorporated in Singapore.

38. Post-balance sheet non-adjusting event

The coronavirus ("COVID-19") outbreak since early 2020 has brought about additional uncertainties in the Group's operating environment and has impacted the Group's operations.

The Group has been closely monitoring the impact of the latest developments of the COVID-19 outbreak and economy on the Group's businesses and has put in place contingency measures. The Group has also performed stress tests on the principal risks to assess the potential impact of stressed business conditions on the Group's loan portfolios and to assess the relevant impact on the expected credit losses. Whenever necessary, prompt actions will be undertaken to mitigate potential impacts. The Group will closely monitor its contingency measures and risk management as the situation evolves. While the circumstances of the outbreak are evolving rapidly, an estimate of its financial impact to the Group at the current stage may not be appropriate as it will be subject to material change.

39. Comparative figures

The Group has initially applied HKFRS 16 at 1st January, 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. Further details of changes in accounting policies are disclosed in note 4.

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

40. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31st December, 2019

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31st December, 2019 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3, <i>Definition of a business</i>	1st January, 2020
Amendments to HKAS 1 and HKAS 8, <i>Definition of material</i>	1st January, 2020

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

41. Approval of the financial statements

These financial statements were approved and authorised for issue by the Board of Directors on 20th April, 2020.

Unaudited Supplementary Financial Information

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

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

	2019	2018
Common Equity Tier 1 capital ratio as at 31st December	15.4%	14.2%
Tier 1 capital ratio as at 31st December	16.9%	14.9%
Total capital ratio as at 31st December	18.7%	16.9%
Capital conservation buffer ratio	2.500%	1.875%
Countercyclical capital buffer ratio	1.225%	1.142%
Common Equity Tier 1 capital	32,269	30,539
Tier 1 capital	35,269	32,039
Total capital	39,184	36,206
Risk weighted assets	209,152	214,419

As mentioned in note 33(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, 2019 and 31st December, 2018.

(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	2019		2018	
		Total assets	Total equity	Total assets	Total equity
CF Limited	Liquidated in 2019	–	–	–	–
C.F. Finance Company Limited	Liquidated in 2019	–	–	–	–
Chekiang First Bank (Nominees) Limited	Nominee Services	–	–	–	–
Chekiang First Bank (Trustees) Limited	Undergoing voluntary liquidation	4	4	4	4
Chekiang First Limited	Dormant/undergoing voluntary liquidation	–	–	–	–
Chekiang First Securities Company Limited	Liquidated in 2019	–	–	6	6
Cyber Wing Hang Limited	Liquidated in 2019	–	–	–	–
Data Processing Services Limited	Liquidated in 2019	–	–	1	1
Honfirst Investment Limited	Futures Trading	17	17	17	17
Honfirst Property Agency Limited	Liquidated in 2019	–	–	–	–
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	114	103	101	88
OCBC Wing Hang Insurance Brokers Limited	Insurance Broker	143	91	70	53
OCBC Wing Hang Shares Brokerage Company Limited	Securities Dealing	684	326	464	322

As at 31st December, 2019, 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, 2019 (2018: 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.

Unaudited Supplementary Financial Information

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

(ii) Average liquidity maintenance ratio and core funding ratio

	2019	2018
Average liquidity maintenance ratio for the year	38.7%	39.2%
Average core funding ratio for the year	128.6%	131.8%

The average liquidity maintenance ratio and core funding ratio for 2019 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.

	2019					
	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	134,579	294	179	92	253	63
Macau	21,925	16	11	5	23	5
Mainland China	31,293	431	409	26	81	430
Others	2,371	4	4	1	6	–
	190,168	745	603	124	363	498

	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

(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.

2019						
	Gross 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 charged to statement of profit or loss during the year	Expected credit loss written off during the year
Property investment	30,067	2	2	71	5	–
Advances for the purchase of other residential properties	38,124	37	–	6	2	–
Advances for use outside Hong Kong						
– Mainland China	34,621	371	12	84	293	435
– Macau	21,307	11	5	22	7	5
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 (Stages 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

Unaudited Supplementary Financial Information

(d) Overdue and rescheduled assets

(i) Overdue and rescheduled advances to customers

	2019		2018	
	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	91	0.05	110	0.06
– 1 year or less but over 6 months	56	0.03	28	0.02
– Over 1 year	456	0.24	493	0.25
	603	0.32	631	0.33
Covered portion of overdue advances	553		553	
Uncovered portion of overdue advances	50		78	
	603		631	
Current market values of collateral held against covered portion of overdue advances	1,244		1,616	
Expected credit loss (Stage 3) made on overdue advances	79		80	

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.

(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:

	2019		2018	
	Amount	% of total advances to customers	Amount	% of total advances to customers
Rescheduled advances to customers	6	–	4	–

All rescheduled advances to customers are impaired as at 31st December, 2019 and 31st December, 2018.

There were no advances to banks which were overdue nor rescheduled as at 31st December, 2019 and 31st December, 2018.

(ii) Other overdue assets

	2019	2018
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” as at 31st December, 2019 and 31st December, 2018 respectively.

Included in “Other assets” as at 31st December, 2019 and 31st December, 2018, there are no receivables which are overdue.

Unaudited Supplementary Financial Information

(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, 2019 and 31st December, 2018. 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:

	2019	2018
Classes of exposure:		
– Sovereign	155	11
– Public sector entity	54	47
– Bank	879	2,353
– Securities firm	38	33
– Corporate	7,946	7,180
– Cash items	2	5
– Regulatory retail	1,142	1,087
– Residential mortgage loans	2,281	2,696
– Other exposures which are not past due	1,145	989
– Past due exposures	46	50
Total capital requirements for on-balance sheet exposures	13,688	14,451
– Direct credit substitutes	199	268
– Transaction-related contingencies	54	41
– Trade-related contingencies	40	33
– Forward forward deposits placed	29	1
– Other commitments	232	192
– Exchange rate contracts	218	212
– Interest rate contracts	8	9
– Equity contracts	–	–
– Credit derivative contracts	–	–
– Default risk exposures – securities financing transactions	6	9
Total capital requirements for off-balance sheet exposures	786	765
	14,474	15,216

(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:

	2019							
	Total exposures	Exposures after recognised credit risk mitigation		Risk-weighted amounts		Total risk-weighted amounts	Total exposures covered by recognised collateral	Total exposures covered by recognised guarantees or recognised credit derivative contracts
		Rated	Unrated	Rated	Unrated			
On-balance Sheet:								
– Sovereign	41,026	41,940	–	1,941	–	1,941	–	–
– Public sector entity	733	703	2,665	140	533	673	–	30
– Multilateral development bank	–	–	–	–	–	–	–	–
– Bank	24,598	24,360	511	10,775	212	10,987	–	–
– Securities firm	1,315	26	922	13	461	474	367	–
– Corporate	110,215	25,840	81,750	17,579	81,750	99,329	1,041	1,584
– Cash items	1,503	–	1,503	–	26	26	–	–
– Regulatory retail	20,253	–	19,040	–	14,280	14,280	199	1,014
– Residential mortgage loans	74,671	–	73,303	–	28,515	28,515	145	1,223
– Other exposures which are not past due exposures	13,694	1,485	12,120	1,462	12,853	14,315	89	–
– Past due exposures	551	5	546	–	567	567	420	37
	288,559	94,359	192,360	31,910	139,197	171,107	2,261	3,888
Off-balance sheet:								
– off-balance sheet exposures other than OTC derivative transactions or credit derivative contracts	8,876	2,090	6,415	508	6,400	6,908	371	303
– OTC derivative transactions	5,920	4,723	887	2,210	620	2,830	310	–
– Credit derivative contracts	219	1	–	–	–	–	218	–
– Default risk exposures – securities financing transactions	6,208	609	–	81	–	81	5,599	–
	21,223	7,423	7,302	2,799	7,020	9,819	6,498	303
	309,782	101,782	199,662	34,709	146,217	180,926	8,759	4,191
Exposures deducted from capital base	220							

Unaudited Supplementary Financial Information

(e) Additional disclosures on credit risk management *(continued)*

(ii) Credit risk exposures *(continued)*

2018								
	Total exposures	Exposures after recognised credit risk mitigation		Risk-weighted amounts		Total risk-weighted amounts	Total exposures covered by recognised collateral	Total exposures 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	–							

The above exposures are principal amount or credit equivalent amount, as applicable, net of expected credit loss (Stage 3).

(e) Additional disclosures on credit risk management *(continued)*

(iii) Counterparty credit risk-related 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, 2019 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 (2018: 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	2019 Credit derivative contracts	Repo-styles transactions	OTC derivative transactions	2018 Credit derivative contracts	Repo-styles transactions
Notional amounts:						
– Sovereign	–	–	100	–	–	100
– Banks	338,924	2,184	6,108	282,479	3,046	7,241
– Corporates	25,732	2,184	–	23,781	3,046	31
– Others	907	–	–	1,024	–	–
	365,563	4,368	6,208	307,284	6,092	7,372
Credit equivalent amounts or net credit exposures net of recognised collateral held:						
– Sovereign	–	–	1	–	–	1
– Banks	5,226	1	608	4,603	2	520
– Corporates	368	–	–	299	–	2
– Others	16	–	–	14	–	–
	5,610	1	609	4,916	2	523
Risk-weighted amounts:						
– Sovereign	–	–	–	–	–	–
– Banks	2,450	–	81	2,457	–	105
– Corporates	368	–	–	299	–	3
– Others	12	–	–	11	–	–
	2,830	–	81	2,767	–	108

Unaudited Supplementary Financial Information

(e) Additional disclosures on credit risk management *(continued)*

(iii) Counterparty credit risk-related exposures calculated under the Standardised (Credit Risk) Approach *(continued)*

(2) Analysis of the counterparty credit risk exposures:

	2019			2018		
	OTC	Credit	Repo-styles	OTC	Credit	Repo-styles
	derivative	derivative	transactions	derivative	derivative	transactions
	transactions	contracts		transactions	contracts	
Gross total positive fair value which are not repo-style transactions	2,479	1	–	2,411	2	–
Recognised collateral held before any haircuts:						
– cash on deposit with the Bank	310	218	4,758	1,060	–	3,777
– debt securities	–	–	841	–	–	3,343
– equity securities	–	–	–	1	–	–
– others	–	–	–	176	–	–
	310	218	5,599	1,237	–	7,120
Credit equivalent amounts or net credit exposures net of recognised collateral held	5,610	1	609	4,916	2	523
Risk weighted amounts	2,830	–	81	2,767	–	108

(3) Credit derivative contracts which create exposures to counterparty credit risk:

	2019	2018
	Nominal amounts	Nominal amounts
Used for management of the Group's credit portfolio		
– Credit default swaps		
– Protection bought	2,184	3,046
– Protection sold	2,184	3,046
	4,368	6,092

(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:

	2019	2018
Credit risk for central counterparty	49	29

(vi) Credit valuation adjustment

The capital charge on credit valuation adjustment exposure under the Standardised CVA method at the reporting date is as follows:

	2019	2018
Capital charge for credit valuation adjustment	72	71

Unaudited Supplementary Financial Information

(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, 2019 and 31st December, 2018.

(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:

	2019	2018
Capital charge for market risk		
– Interest rate exposures (including options)	490	319
– Equity rate exposures (including options)	–	–
– Foreign exchange exposures (including gold and options)	984	883
	1,474	1,202

(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:

	2019	2018
Capital charge for operational risk	883	848

(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 and are reported in the statement of financial position as "Financial assets measured at fair value through other comprehensive income". Financial assets measured at fair value through other comprehensive income 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.

	2019	2018
Cumulative realised gains from sales and liquidations	–	–
Unrealised gains:		
– recognised in reserve but not through statement of profit or loss	–	–
– deducted from the supplementary capital	–	–

(f) Disclosure 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, 2020 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
Gloucester Road Branch	Shop 1–3, G/F, Tung Wai Commercial Building, 109–111 Gloucester Road, Wan Chai
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

OCBC Wing Hang Bank (continued)

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 01, 22/F, Crocodile Centre, 79 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
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
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
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 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

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 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	Unit 3, 5/F, Tower C, China Resources Land Building, No. 9668 Shennan Road, Nanshan District, Shenzhen 518052

Guangzhou

Guangzhou Branch	Room 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
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 Branch	14/F., Tai Yau Building, 181 Johnston Road, Wanchai

Kowloon

Kowloon Bay Branch	Unit 1512, 15/F., Telford House, 16 Wang Hoi Road, Kowloon Bay
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
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

