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2014 FINAL RESULTS

RESULTS FOR THE YEAR ENDED 31 DECEMBER 2014

Highlights

- Net operating profit before impairment amounted to HK\$864 million and showed an improvement of 31% year on year
- Profit attributable to equity owners amounted to HK\$2,742 million and after excluding the profit from the sale of Chong Hing Bank Centre, amounted to HK\$793 million, an increase of 42% over that for the year before, translating into earnings of HK\$1.82 per share and return on shareholders' equity of 9.35%
- Net interest income at HK\$1,372 million was 35% higher than last year as net interest margin widened 32 basis points year on year to 1.58% and total assets grew by 27%. Net interest margin increased from 1.52% in the first half of 2014 to 1.64% in the second half of 2014
- Operating expenses rose by 24% from last year partly due to the lease payment for Chong Hing Bank Centre, which was sold on 19 February 2014. Both staff costs and other operating expenses increased by around 20% from last year as the Bank is building the foundation for future growth and developing its business network in the Mainland
- Total loans and advances to customers increased by 26% to HK\$56,925 million, and some of such growth was attributable to growth in cross border businesses in trade finance and corporate lending. With careful management on the exposure to credit risk, asset quality of loans and advances continued to be good with impaired loan ratio at 0.04%, provision coverage of impaired loans and advances at 1,086.76%, and rescheduled loan ratio at 0.01%
- Net impairment allowances on loans and advances were net reversal of HK\$32 million this year, as compared to a net charge of HK\$35 million last year, after a total of HK\$93 million of impairment allowances was reversed after recoveries from various customers
- Total capital ratio increased to 15.94% in December 2014 with the Tier 1 capital ratio at 12.77% and the Common Equity Tier 1 capital ratio at 9.60%
- Overall, the Bank's core business lines and financial health are strong and sound, asset quality good, impaired loan ratio low, provision coverage high, and capital adequacy and liquidity ratios well above the relevant statutory requirements
- Total dividends for the financial year of 2014, including the interim cash dividend of HK\$0.19 per share paid in September 2014, amounted to HK\$0.60 per share (2013 total dividends: HK\$0.47 per share)

The Board of Directors of Chong Hing Bank Limited (the “Bank”) are pleased to announce the consolidated results of the Bank and its subsidiaries (the “Group”) for the year ended 31 December 2014, together with the comparative figures for the corresponding year in 2013. The financial information in this announcement is based on the audited consolidated financial statements of the Group and does not constitute the Group’s statutory accounts for the year ended 31 December 2014.

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2014

	<i>Notes</i>	2014 HK\$’000	2013 HK\$’000	Variance %
Interest income		2,135,992	1,595,667	+33.86
Interest expense		(764,245)	(581,462)	+31.44
Net interest income	4	1,371,747	1,014,205	+35.25
Fee and commission income		300,830	283,196	+6.23
Fee and commission expenses		(76,059)	(73,263)	+3.82
Net fee and commission income	5	224,771	209,933	+7.07
Net trading income	6	99,123	82,532	+20.10
Other operating income	7	134,114	135,335	–0.90
Operating expenses	8	(965,731)	(781,575)	+23.56
		864,024	660,430	+30.83
Net reversal (charge) of impairment allowances on loans and advances	16	32,344	(35,237)	–191.79
Net gains on disposal of assets held for sale		1,960,732	–	–
Net (losses) gains on disposal of property and equipment		(5,976)	6,740	–188.66
Net gains on disposal of available-for-sale securities		15,179	1,582	+859.48
Net gains on disposal of and fair value adjustments on investment properties		3,100	4,237	–26.84
Share of profits of associates		38,688	32,103	+20.51
Profit before taxation		2,908,091	669,855	+334.14
Taxation	9	(165,687)	(112,437)	+47.36
Profit for the year				
- Attributable to equity owners of the Bank		2,742,404	557,418	+391.98
Earnings per share - basic and diluted	11	HK\$6.30	HK\$1.28	+391.98
Dividends				
- Special interim dividend declared	10	1,965,983	–	–
- Interim dividend declared	10	82,650	60,900	+35.71
- Final dividend proposed after the end of reporting period	10	178,350	143,550	+24.24

The notes on pages 9 to 44 form an integral part of these consolidated financial information.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2014

	2014 HK\$'000	2013 HK\$'000
Profit for the year	<u>2,742,404</u>	<u>557,418</u>
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss:		
Surplus on transfer of land and buildings to investment properties	146,647	—
Surplus on remeasurement of retirement benefit	10,893	—
Items that will be reclassified subsequently to profit or loss:		
Exchange differences arising on translation	(13,903)	18,022
Income tax charge relating to retirement benefit	(1,798)	—
Fair value gains (losses) of available-for-sale securities arising during the year	71,960	(4,061)
Amount reclassified to the profit or loss upon disposal of available-for-sale securities	(15,179)	(1,582)
Income tax effect relating to disposal of available-for-sale securities	2,505	261
Income tax effect relating to fair value change of available-for-sale securities	(12,594)	514
Share of other comprehensive income of associates	<u>904</u>	<u>464</u>
Other comprehensive income for the year (net of tax)	<u>189,435</u>	<u>13,618</u>
Total comprehensive income for the year	<u><u>2,931,839</u></u>	<u><u>571,036</u></u>
Total comprehensive income attributable to:		
Equity owners of the Bank	<u><u>2,931,839</u></u>	<u><u>571,036</u></u>

The notes on pages 9 to 44 form an integral part of these consolidated financial information.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2014

	Notes	2014 HK\$'000	2013 HK\$'000	Variance %
Assets				
Cash and short-term funds	12	26,032,182	16,189,594	+60.80
Placements with banks and other financial institutions maturing between one to twelve months		5,568,433	7,920,502	-29.70
Derivative financial instruments	13	142,162	170,135	-16.44
Financial assets at fair value through profit or loss	14	287	92,179	-99.69
Available-for-sale securities	14	7,874,920	5,433,241	+44.94
Held-to-maturity securities	14	8,663,136	8,326,722	+4.04
Advances and other accounts	16	58,584,607	45,759,426	+28.03
Tax recoverable		–	796	-100.00
Assets held for sale	17	1,718	269,268	-99.36
Interests in associates		222,309	199,437	+11.47
Investment properties	18	288,413	136,575	+111.18
Property and equipment	19	609,956	635,702	-4.05
Prepaid lease payments for land	20	2,336	2,403	-2.79
Deferred tax assets	27	4,697	1,501	+212.92
Goodwill	28	50,606	50,606	–
Total assets		108,045,762	85,188,087	+26.83
Liabilities				
Deposits and balances of banks and other financial institutions		4,413,861	1,674,231	+163.64
Financial assets sold under repurchase agreements	21	4,948,764	1,256,657	+293.80
Deposits from customers	22	82,133,391	71,164,904	+15.41
Certificates of deposit	23	2,108,136	563,003	+274.44
Derivative financial instruments	13	415,122	100,653	+312.43
Other accounts and accruals		1,360,613	852,430	+59.62
Current tax liabilities		43,109	52,146	-17.33
Loan capital	24	1,815,563	1,766,436	+2.78
Deferred tax liabilities	27	23,551	25,661	-8.22
Total liabilities		97,262,110	77,456,121	+25.57
Equity attributable to owners of the Bank				
Share capital nominal value	25	–	217,500	-100.00
Share premium	25	–	1,542,817	-100.00
Share capital	25	1,760,317	1,760,317	–
Additional equity instruments	26	2,312,030	–	–
Reserves		6,711,305	5,971,649	+12.39
Total equity		10,783,652	7,731,966	+39.47
Total liabilities and equity		108,045,762	85,188,087	+26.83

The notes on pages 9 to 44 form an integral part of these consolidated financial information.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2014

Note	Share capital HK\$'000	Share premium HK\$'000	Additional equity instruments HK\$'000	Goodwill HK\$'000	Investment revaluation reserve HK\$'000	Land and building revaluation reserve HK\$'000	General reserve HK\$'000	Translation reserve HK\$'000	Regulatory reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2014	217,500	1,542,817	-	(182)	182,923	-	1,388,500	44,258	441,000	3,915,150	7,731,966
Profit for the year	-	-	-	-	-	-	-	-	-	2,742,404	2,742,404
Exchange differences arising on translation	-	-	-	-	-	-	-	(13,903)	-	-	(13,903)
Surplus on transfer of land and buildings to investment properties	-	-	-	-	-	146,647	-	-	-	-	146,647
Surplus on remeasurement of retirement benefit	-	-	-	-	-	-	-	-	-	10,893	10,893
Income tax charge relating to retirement benefit	-	-	-	-	-	-	-	-	-	(1,798)	(1,798)
Fair value gains of available-for-sale securities arising during the year	-	-	-	-	71,960	-	-	-	-	-	71,960
Amount reclassified to the profit or loss upon disposal of available-for-sale securities	-	-	-	-	(15,179)	-	-	-	-	-	(15,179)
Income tax effect relating to disposal of available-for-sale securities	-	-	-	-	2,505	-	-	-	-	-	2,505
Income tax effect relating to fair value change of available-for-sale securities	-	-	-	-	(12,594)	-	-	-	-	-	(12,594)
Share of other comprehensive income of associates	-	-	-	-	904	-	-	-	-	-	904
Other comprehensive income	-	-	-	-	47,596	146,647	-	(13,903)	-	9,095	189,435
Total comprehensive income for the year	-	-	-	-	47,596	146,647	-	(13,903)	-	2,751,499	2,931,839
Issue of additional equity instruments	-	-	2,312,030	-	-	-	-	-	-	-	2,312,030
Transition no-par value regime on 3 March 2014	1,542,817	(1,542,817)	-	-	-	-	-	-	-	-	-
Special interim dividend paid	-	-	-	-	-	-	-	-	-	(1,965,983)	(1,965,983)
Interim dividend paid 10	-	-	-	-	-	-	-	-	-	(82,650)	(82,650)
Final dividend paid 10	-	-	-	-	-	-	-	-	-	(143,550)	(143,550)
Earmark of retained profits as regulatory reserve	-	-	-	-	-	-	-	-	132,000	(132,000)	-
At 31 December 2014	1,760,317	-	2,312,030	(182)	230,519	146,647	1,388,500	30,355	573,000	4,342,466	10,783,652

The notes on pages 9 to 44 form an integral part of these consolidated financial information.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2014

		Share capital	Share premium	Goodwill	Investment revaluation reserve	General reserve	Translation reserve	Regulatory reserve	Retained profits	Total
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2013		217,500	1,542,817	(182)	187,327	1,388,500	26,236	387,000	3,624,882	7,374,080
Profit for the year		–	–	–	–	–	–	–	557,418	557,418
Exchange differences arising on translation		–	–	–	–	–	18,022	–	–	18,022
Fair value losses of available-for-sale securities arising during the year		–	–	–	(4,061)	–	–	–	–	(4,061)
Amount reclassified to the profit or loss upon disposal of available-for-sale securities		–	–	–	(1,582)	–	–	–	–	(1,582)
Income tax effect relating to disposal of available-for-sale securities		–	–	–	261	–	–	–	–	261
Income tax effect relating to fair value change of available-for-sale securities		–	–	–	514	–	–	–	–	514
Share of other comprehensive income of associates		–	–	–	464	–	–	–	–	464
Other comprehensive (expense) income		–	–	–	(4,404)	–	18,022	–	–	13,618
Total comprehensive (expense) income for the year		–	–	–	(4,404)	–	18,022	–	557,418	571,036
Interim dividend paid	10	–	–	–	–	–	–	–	(60,900)	(60,900)
Final dividend paid	10	–	–	–	–	–	–	–	(152,250)	(152,250)
Earmark of retained profits as regulatory reserve		–	–	–	–	–	–	54,000	(54,000)	–
At 31 December 2013		<u>217,500</u>	<u>1,542,817</u>	<u>(182)</u>	<u>182,923</u>	<u>1,388,500</u>	<u>44,258</u>	<u>441,000</u>	<u>3,915,150</u>	<u>7,731,966</u>

The retained profits of the Group included retained profits of HK\$104,535,000 (2013: retained profits of HK\$82,567,000) retained by the associates of the Group.

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

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

The notes on pages 9 to 44 form an integral part of these consolidated financial information.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2014

	2014 HK\$'000	2013 HK\$'000
OPERATING ACTIVITIES		
Profit before taxation	2,908,091	669,855
Adjustments for:		
Net interest income	(1,371,747)	(1,014,205)
Net (reversal) charge of impairment allowances on loans and advances	(32,344)	35,237
Net gains on disposal of assets held for sale	(1,960,732)	–
Net losses (gains) on disposal of property and equipment	5,976	(6,740)
Net gains on disposal of available-for-sale securities	(15,179)	(1,582)
Net gains on disposal of and fair value adjustments on investment properties	(3,100)	(4,237)
Share of profits of associates	(38,688)	(32,103)
Net (gains) losses on financial instruments at fair value through profit or loss	(59,821)	53,535
Net losses (gains) on fair value hedge	185	(536)
Dividend received from investments	(12,068)	(10,991)
Depreciation	47,653	54,878
Release of prepaid lease payments for land	66	66
Exchange adjustments	(13,530)	17,697
Operating cash flows before movements in operating assets and liabilities	(545,238)	(239,126)
(Increase) decrease in operating assets:		
Money at call and short notice with original maturity over three months	1,759,012	249,906
Exchange fund bills with original maturity over three months	(650,503)	(509,278)
Placements with banks and other financial institutions with original maturity over three months	1,646,858	(2,663,657)
Financial assets at fair value through profit or loss	91,892	1,121,231
Advances to customers	(11,718,051)	(5,947,761)
Advances to banks and other financial institutions	–	2,164,842
Other accounts	(951,376)	67,309
Increase (decrease) in operating liabilities:		
Deposits and balances of banks and other financial institutions with original maturity over three months	2,739,630	(169,246)
Financial assets sold under repurchase agreements	3,692,107	822,976
Deposits from customers	10,968,487	3,656,156
Certificates of deposit	1,545,133	(104,633)
Derivative financial instruments	261,549	(106,862)
Other accounts and accruals	438,608	120,550
Cash generated from (used in) operations	9,278,108	(1,537,593)
Hong Kong Profits Tax paid	(158,566)	(51,501)
Overseas tax paid	(32,447)	(23,050)
Interest received	1,750,373	1,309,623
Interest paid	(631,597)	(526,091)
NET CASH GENERATED FROM (USED IN) OPERATING ACTIVITIES	10,205,871	(828,612)

CONSOLIDATED STATEMENT OF CASH FLOWS - continued

for the year ended 31 December 2014

	2014 HK\$'000	2013 HK\$'000
INVESTING ACTIVITIES		
Interest received from available-for-sale securities and held-to-maturity securities	295,206	302,391
Dividends received on investments	12,068	10,991
Dividends received from associates	16,720	16,100
Purchase of held-to-maturity securities	(8,169,989)	(18,738,706)
Purchase of available-for-sale securities	(2,263,110)	(1,428,770)
Purchase of property and equipment	(33,896)	(33,142)
Proceeds from redemption of held-to-maturity securities	7,811,538	20,012,004
Proceeds from sale and redemption of available-for-sale securities	80,859	2,479
Proceeds from disposal of assets held for sale	2,230,000	–
Proceeds from disposal of property and equipment	2,138	8,472
Proceeds from disposal of investment properties	–	3,927
NET CASH (USED IN) GENERATED FROM INVESTING ACTIVITIES	(18,466)	155,746
FINANCING ACTIVITIES		
Interest paid on loan capital	(61,366)	(62,006)
Net proceeds from issue of share capital instruments	2,312,030	–
Dividends paid	(2,192,183)	(213,150)
NET CASH GENERATED FROM (USED IN) FINANCING ACTIVITIES	58,481	(275,156)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	10,245,886	(948,022)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	14,500,949	15,448,971
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	24,746,835	14,500,949
Represented by:		
Cash and balances with central bank, banks and other financial institutions	3,097,135	3,292,475
Money at call and short notice with original maturity of three months or less	20,578,463	9,132,026
Exchange fund bills with original maturity of three months or less	–	300,000
Placements with banks and other financial institutions with original maturity of three months or less	1,071,237	1,776,448
	24,746,835	14,500,949

The notes on pages 9 to 44 form an integral part of these consolidated financial information.

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2014

1. BASIS OF PREPARATION

The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2014 and are relevant to the Group:

- Amendments to HKAS 32 “Financial instruments: Presentation – Offsetting financial assets and financial liabilities”, effective for the accounting period beginning on or after 1 January 2014. The amendment addresses inconsistencies in current practice when applying the offsetting criteria and clarifies the meaning of “currently has a legally enforceable right of set-off”; and the application of offsetting criteria to some gross settlement systems (such as central clearing house systems) that may be considered equivalent to net settlement. The amendments do not have material impact to the consolidated financial statements.
- HK(IFRIC) Int-21 “Levies”, effective for the accounting period beginning on or after 1 January 2014. This interpretation sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to pay a levy and when should a liability be recognised. The Group is not currently subject to significant levies, so the impact to the Group is not material.
- Amendments to HKAS 36 “Impairment of assets”, effective for the accounting period beginning on or after 1 January 2014. The amendments remove certain disclosures of the recoverable amount of cash-generating units which had been included in HKAS 36 by the issue of HKFRS 13. The amendments do not have material impact to the Group.
- Amendments to HKAS 39 “Financial instruments: Recognition and measurement - Novation of derivatives and continuation of hedge accounting”, effective for the accounting period beginning on or after 1 January 2014. The amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendments were issued in response to legislative changes across many jurisdictions that would lead to the widespread novation of over-the-counter derivatives. The Group has currently designated certain interest rate swaps as hedging instruments and will be benefited from the amendments when interest rate swaps are subject to mandatory clearing arrangement with central counterparty.

There is also an amendment to a standard effective for the accounting period beginning on or after 1 January 2014 but does not have material financial impact. Therefore, this amendment is not analysed in details.

In addition, the requirements of Part 9 “Accounts and Audit” of the new Hong Kong Companies Ordinance (Cap. 622) come into operation as from the Group’s first financial year commencing on or after 3 March 2014 in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of expected impact of the changes in the Hong Kong Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9 of the new Hong Kong Companies Ordinance (Cap. 622). So far it has concluded that the impact is unlikely to be significant and only the presentation and the disclosure of information in the consolidated financial statements will be affected.

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2014

2. NEW AND REVISED HKFRSs ISSUED BUT NOT YET EFFECTIVE

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

- HKFRS 9 “Financial instruments”, addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of HKFRS 9 was issued in July 2014. It replaces the guidance in HKAS 39 that relates to the classification and measurement of financial instruments. HKFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity’s business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in HKAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. HKFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the “hedged ratio” to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under HKAS 39. The standard is effective for the accounting period beginning on or after 1 January 2018 and early adoption is permitted. The Group is assessing HKFRS 9’s full impact.
- HKFRS 15 “Revenue from contracts with customers” deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces HKAS 18 “Revenue” and HKAS 11 “Construction contracts” and related interpretations. The standard is effective for the accounting period beginning on or after 1 January 2017 and earlier application is permitted. The Group is assessing the impact of HKFRS 15.

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2014

3. SEGMENT INFORMATION

(a) Operating segments

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2014

3. SEGMENT INFORMATION - continued

(a) Operating segments - continued

(i) Operating segment information for the year ended 31 December 2014 is presented below:

Operating segment revenues and results

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Interest income from external customers	1,325,933	804,757	4,750	552	–	2,135,992
Interest expense to external customers	(643,990)	(120,255)	–	–	–	(764,245)
Inter-segment interest income (Note 1)	292,937	–	–	–	(292,937)	–
Inter-segment interest expense (Note 1)	–	(292,937)	–	–	292,937	–
Net interest income	974,880	391,565	4,750	552	–	1,371,747
Fee and commission income	166,083	–	134,747	–	–	300,830
Fee and commission expenses	(75,945)	–	(114)	–	–	(76,059)
Net trading income	1,416	97,658	–	49	–	99,123
Other operating income	98,006	–	–	36,108	–	134,114
Segment revenue						
Total operating income	1,164,440	489,223	139,383	36,709	–	1,829,755
Comprising:						
- segment revenue from external customers	871,503	782,160	139,383	36,709		
- inter-segment transactions	292,937	(292,937)	–	–		
Operating expenses (Note 2)	(509,350)	(31,014)	(65,897)	(14,591)	–	(620,852)
Reversal of impairment allowances on loans and advances	32,344	–	–	–	–	32,344
Net losses on disposal of property and equipment	(5,976)	–	–	–	–	(5,976)
Net gains on disposal of available-for-sale securities	–	–	–	15,179	–	15,179
Net gains on disposal of and fair value adjustments on investment properties	–	–	–	3,100	–	3,100
Segment profit	681,458	458,209	73,486	40,397	–	1,253,550
Unallocated corporate expenses						(344,879)
						908,671
Net gains on disposal of assets held for sale						1,960,732
Share of profits of associates						38,688
Profit before taxation						2,908,091

Notes: 1. Inter-segment pricing for funding transactions is charged at prevailing customer deposits interest rates.

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

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2014

3. SEGMENT INFORMATION - continued

(a) Operating segments - continued

(i) Operating segment information for the year ended 31 December 2014 is presented below: - continued

Operating segment assets and liabilities as at 31 December 2014

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Consolidated HK\$'000
Assets					
Segment assets	61,147,810	45,041,500	392,603	667,151	107,249,064
Interests in associates					222,309
Unallocated corporate assets					574,389
Consolidated total assets					<u>108,045,762</u>
Liabilities					
Segment liabilities	82,811,059	13,800,809	327,744	106,108	97,045,720
Unallocated corporate liabilities					216,390
Consolidated total liabilities					<u>97,262,110</u>

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

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Capital expenditure during the year	23,207	80	3,250	205	7,154	33,896
Depreciation	33,547	619	2,100	203	11,184	47,653
Release of prepaid lease payments for land	<u>66</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>66</u>

The accounting policies of the operating segments are the same as the Group's accounting policies.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2014

3. SEGMENT INFORMATION - continued

(a) Operating segments - continued

(ii) Operating segment information for the year ended 31 December 2013 is presented below:

Operating segment revenues and results

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Interest income from external customers	1,040,118	552,385	3,164	–	–	1,595,667
Interest expense to external customers	(491,452)	(90,010)	–	–	–	(581,462)
Inter-segment interest income (Note 1)	235,732	–	–	–	(235,732)	–
Inter-segment interest expense (Note 1)	–	(235,732)	–	–	235,732	–
Net interest income	784,398	226,643	3,164	–	–	1,014,205
Fee and commission income	151,767	–	131,429	–	–	283,196
Fee and commission expenses	(72,881)	–	(382)	–	–	(73,263)
Net trading income (expenses)	585	81,981	–	(34)	–	82,532
Other operating income (Note 2)	94,411	–	–	39,373	–	133,784
Segment revenue						
Total operating income	958,280	308,624	134,211	39,339	–	1,440,454
Comprising:						
- segment revenue from external customers	722,548	544,356	134,211	39,339		
- inter-segment transactions	235,732	(235,732)	–	–		
Operating expenses (Note 3)	(437,781)	(29,989)	(66,087)	(11,075)	–	(544,932)
Impairment allowances on loans and advances	(35,237)	–	–	–	–	(35,237)
Net gains (losses) on disposal of property and equipment	6,750	–	–	(10)	–	6,740
Net gains on disposal of available-for-sale securities	–	–	–	1,582	–	1,582
Net gains on disposal of and fair value adjustments on investment properties	–	–	–	4,237	–	4,237
Segment profit	492,012	278,635	68,124	34,073	–	872,844
Unallocated corporate expenses						(236,643)
Unallocated corporate income						1,551
						637,752
Share of profits of associates						32,103
Profit before taxation						669,855

Notes: 1. Inter-segment pricing for funding transactions is charged at prevailing customer deposits interest rates.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2014

3. SEGMENT INFORMATION - continued

(a) Operating segments - continued

(ii) Operating segment information for the year ended 31 December 2013 is presented below: - continued

Operating segment assets and liabilities as at 31 December 2013

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Consolidated HK\$'000
Assets					
Segment assets	49,053,404	34,735,973	239,241	448,102	84,476,720
Interests in associates					199,437
Unallocated corporate assets					511,930
Consolidated total assets					<u>85,188,087</u>
Liabilities					
Segment liabilities	71,427,805	5,443,608	135,351	94,297	77,101,061
Unallocated corporate liabilities					355,060
Consolidated total liabilities					<u>77,456,121</u>

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

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Capital expenditure during the year	16,733	318	250	130	15,711	33,142
Depreciation	35,417	1,291	3,385	354	14,431	54,878
Release of prepaid lease payments for land	<u>66</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>66</u>

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2014

3. SEGMENT INFORMATION - continued

(b) Geographical information

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

Details of geographical information are set out below:

	2014						
	Total operating income HK\$'000	Profit before taxation HK\$'000	Total assets HK\$'000	Total liabilities HK\$'000	Total contingent liabilities and commitments HK\$'000	Non- current assets HK\$'000	Capital expenditure during the year HK\$'000
Hong Kong	1,562,424	2,691,164	98,930,729	89,930,872	18,983,914	1,145,177	20,728
Macau and Mainland China	247,767	204,557	8,395,665	7,271,517	1,067,739	27,964	13,158
America	19,564	12,370	719,368	59,721	9,538	413	10
Total	<u>1,829,755</u>	<u>2,908,091</u>	<u>108,045,762</u>	<u>97,262,110</u>	<u>20,061,191</u>	<u>1,173,554</u>	<u>33,896</u>

	2013						
	Total operating income HK\$'000	Profit before taxation HK\$'000	Total assets HK\$'000	Total liabilities HK\$'000	Total contingent liabilities and commitments HK\$'000	Non- current assets HK\$'000	Capital expenditure during the year HK\$'000
Hong Kong	1,314,319	569,639	82,966,678	76,813,803	18,064,831	1,009,636	29,579
Macau and Mainland China	110,098	90,267	1,569,851	591,861	477,982	14,486	3,056
America	17,588	9,949	651,558	50,457	16,913	535	507
Total	<u>1,442,005</u>	<u>669,855</u>	<u>85,188,087</u>	<u>77,456,121</u>	<u>18,559,726</u>	<u>1,024,657</u>	<u>33,142</u>

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

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

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2014

4. NET INTEREST INCOME

	2014 HK\$'000	2013 HK\$'000
Interest income		
Balances and placements with central bank, banks and other financial institutions	464,510	264,401
Investments in securities	352,696	299,615
Loans and advances	1,316,473	1,014,332
Interest rate swaps	2,313	17,319
	<u>2,135,992</u>	<u>1,595,667</u>
Interest expense		
Deposits and balances of banks and other financial institutions	(15,249)	(9,312)
Deposits from customers	(643,870)	(491,389)
Financial assets sold under repurchase agreements	(16,364)	(3,028)
Certificates of deposit	(23,867)	(4,830)
Loan capital in issue	(63,055)	(63,725)
Interest rate swaps	(1,840)	(9,178)
	<u>(764,245)</u>	<u>(581,462)</u>
Net interest income	<u>1,371,747</u>	<u>1,014,205</u>
Included within interest income		
Interest income on impaired loans and advances	<u>283</u>	<u>238</u>

Included within interest income and interest expense are HK\$2,133,849,000 (2013: HK\$1,580,167,000) and HK\$762,405,000 (2013: HK\$572,284,000) earned and incurred from financial assets and financial liabilities that are not at fair value through profit or loss, respectively.

Included above is interest income from unlisted investments in debt securities of HK\$352,696,000 (2013: HK\$299,615,000).

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2014

5. NET FEE AND COMMISSION INCOME

	2014 HK\$'000	2013 HK\$'000
Fee and commission income		
Securities dealings	134,747	131,429
Credit lines	19,542	16,325
Trade finance	13,303	13,205
Credit card services	82,062	76,947
Agency services	32,188	29,153
Others	<u>18,988</u>	<u>16,137</u>
Total fee and commission income	300,830	283,196
Less: Fee and commission expenses	<u>(76,059)</u>	<u>(73,263)</u>
Net fee and commission income	<u><u>224,771</u></u>	<u><u>209,933</u></u>
of which:		
Net fee and commission, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading nor designated at fair value through profit or loss		
- Fee income	122,980	114,121
- Fee expenses	<u>(75,585)</u>	<u>(70,665)</u>
	<u><u>47,395</u></u>	<u><u>43,456</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2014

6. NET TRADING INCOME

	2014 HK\$'000	2013 HK\$'000
Foreign exchange	100,601	77,274
Net expenses from financial assets designated at fair value	(8,414)	(75,739)
Net gains on financial instruments at fair value through profit or loss	7,121	80,461
Net gains (losses) on fair value hedge:		
- Net gains (losses) on hedged items attributable to the hedged risk	80,708	(22,829)
- Net (losses) gains on hedging instruments	<u>(80,893)</u>	<u>23,365</u>
	<u>99,123</u>	<u>82,532</u>

“Net trading income - foreign exchange” includes gains and losses from spots and forward contracts, swaps and translated foreign currency assets and liabilities, which are not designated as qualifying hedging relationship.

The Group entered into foreign exchange swaps for its treasury management and funding activities. It involves swapping a currency (“original currency”) into another currency (“swap currency”) at the spot exchange rate for short-term placement and simultaneously entering into a forward contract to convert the funds back to the original currency on maturity of the placement. The exchange difference of the forward contracts and spots was previously recognised separately as “Net gains (losses) on financial instruments at fair value through profit or loss” and “Other operating income” respectively.

To better reflect financial performance arising from foreign exchange business of the Group, the Group has decided to present all foreign exchange related gains or losses into “Net trading income - foreign exchange”. Comparative information has been reclassified to conform with the current year’s presentation.

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2014

7. OTHER OPERATING INCOME

	2014 HK\$'000	2013 HK\$'000
Dividend income		
- Listed investments	6,856	6,136
- Unlisted investments	5,212	4,855
Gross rents from investment properties	9,807	16,979
Less: Outgoings	(3,749)	(1,034)
Net rental income	6,058	15,945
Safe deposit box rentals	47,723	42,461
Insurance underwriting premiums less claims and commission expense	17,982	12,436
Other banking services income	47,435	48,213
Actuarial gain on retirement benefit	86	—
Others	2,762	5,289
	<u>134,114</u>	<u>135,335</u>

8. OPERATING EXPENSES

	2014 HK\$'000	2013 HK\$'000
Auditor's remuneration	4,063	4,607
Staff costs (including directors' emoluments)		
- Salaries and other costs	522,814	432,385
- Retirement benefits scheme contributions	32,143	31,655
Total staff costs	554,957	464,040
Depreciation	47,653	54,878
Release of prepaid lease payments for land	66	66
Premises and equipment expenses, excluding depreciation / release of prepaid lease payments for land		
- Rentals and rates for premises	100,279	42,299
- Others	26,762	23,313
Other operating expenses	231,951	192,372
	<u>965,731</u>	<u>781,575</u>

Included in the premises and equipment expenses are minimum lease payments under operating lease of HK\$92,645,000 (2013: HK\$35,007,000).

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2014

9. TAXATION

	2014 HK\$'000	2013 HK\$'000
The tax charge comprises:		
Hong Kong Profits Tax		
- Current year	135,782	88,204
- Under (over) provision in prior years	333	(1,728)
Overseas taxation		
- Current year	47,049	21,390
- (Over) under provision in prior years	(392)	1,708
Deferred tax (<i>Note 27</i>)	(17,085)	2,863
	<u>165,687</u>	<u>112,437</u>

Hong Kong Profits Tax is calculated at 16.5% (2013: 16.5%) of the estimated assessable profit for the year.

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

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

	2014 HK\$'000	2013 HK\$'000
Profit before taxation	<u>2,908,091</u>	<u>669,855</u>
Tax at the domestic income tax rate of 16.5% (2013: 16.5%)	479,834	110,526
Tax effect of share of profits of associates	(6,384)	(5,297)
Tax effect of expenses not deductible for tax purpose	528	68
Tax effect of income not taxable for tax purpose	(322,167)	(2,546)
Over provision in prior years	(59)	(20)
Effect of different tax rates of subsidiaries and branches operating in other jurisdictions	16,355	6,958
Others	<u>(2,420)</u>	<u>2,748</u>
Tax charge for the year	<u>165,687</u>	<u>112,437</u>

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2014

10. DIVIDENDS

	2014 HK\$'000	2013 HK\$'000
Dividends recognised as distribution during the year:		
2014 Special Interim - HK\$4.5195 (2013: Nil) per share	1,965,983	–
2014 Interim - HK\$0.19 (2013: 2013 Interim - HK\$0.14) per share	82,650	60,900
2013 Final - HK\$0.33 (2013: 2012 Final - HK\$0.35) per share	143,550	152,250
	<u>2,192,183</u>	<u>213,150</u>

The final dividend of HK\$0.41 per share, totalling HK\$178,350,000, in respect of the current financial year (2013: HK\$0.33 per share, totalling HK\$143,550,000) has been proposed by the board of directors and is subject to approval by the shareholders in the next annual general meeting of the shareholders.

At an extraordinary general meeting of the shareholders on 20 December 2013, a special interim dividend of HK\$4.5195 per share, totaling HK\$1,965,982,500 to shareholders on the Bank's register of members as of 4 February 2014 was approved. The conditions for payment of the special interim dividend were satisfied on 5 February 2014, when the Partial Disposal, as defined and stipulated in the joint announcement made by the Bank, the ultimate holding company and Guangzhou Yue Xiu Holdings Limited on 25 October 2013, became unconditional, and on 19 February 2014 when the completion of the Property Transfer, as defined and stipulated in this joint arrangement, took place. The special interim dividend of HK\$4.5195 per share was paid on 20 February 2014.

At a board of directors meeting on 7 August 2014, the board of directors declared a total amount of interim dividend of HK\$82,650,000 (2013: HK\$60,900,000) at a rate of HK\$0.19 (2013: HK\$0.14) per share. The interim dividend was paid on 26 September 2014.

11. EARNINGS PER SHARE - BASIC AND DILUTED

The calculation of basic earnings per share is based on the profit attributable to owners of the Bank of HK\$2,742,404,000 (2013: HK\$557,418,000) and on 435,000,000 (2013: 435,000,000) ordinary shares in issue during the year. The basic earnings per share excluding the net gains on disposal of Chong Hing Bank Centre was HK\$1.82.

As at 31 December 2014 and 31 December 2013, there were no potential dilutive instrument in issue.

12. CASH AND SHORT-TERM FUNDS

	2014 HK\$'000	2013 HK\$'000
Cash and balances with central bank, banks and other financial institutions	3,097,135	3,292,475
Money at call and short notice	21,476,748	11,789,323
Exchange fund bills	1,458,299	1,107,796
	<u>26,032,182</u>	<u>16,189,594</u>

Included in the "Cash and balances with central bank, banks and other financial institutions" of the Group is surplus reserve deposits placed with People's Bank of China in the People's Republic of China ("PRC") by the Shantou Branch of the Bank of HK\$1,417,484,000 (2013: HK\$44,157,000).

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2014

13. DERIVATIVE FINANCIAL INSTRUMENTS

	2014			2013		
	Notional amount HK\$'000	Fair value Assets HK\$'000	Liabilities HK\$'000	Notional amount HK\$'000	Fair value Assets HK\$'000	Liabilities HK\$'000
Derivatives held for trading						
- Foreign currency forward contracts	14,459,444	19,246	260,024	5,779,843	10,078	42,011
- Interest rate swaps	70,000	1,736	1,597	120,000	984	11,059
Derivatives designated as hedging instruments						
- Interest rate swaps	8,879,021	121,180	151,703	6,700,061	159,073	42,499
- Cross-currency interest rate swaps	233,306	–	1,798	233,306	–	5,084
		<u>142,162</u>	<u>415,122</u>		<u>170,135</u>	<u>100,653</u>

As at 31 December 2014, the currencies of foreign currency forward contracts mainly comprise buying Hong Kong dollars and Renminbi (2013: Hong Kong dollars and Australian dollars), and the currencies of foreign currency forward contracts mainly comprise selling Renminbi and United States dollars (2013: Renminbi and United States dollars). As at 31 December 2014 and 31 December 2013, all of these contracts have settlement dates within one year from the end of the reporting period.

The remaining maturity of interest rate swaps held for trading is 6 years (2013: 1 to 7 years).

Of the interest rate swaps held for trading with a notional amount of HK\$70,000,000 (2013: HK\$120,000,000) as at 31 December 2014, the notional amount of HK\$35,000,000 (2013: HK\$35,000,000) was floating-to-fixed rate swaps, the remaining notional amount of HK\$35,000,000 (2013: HK\$85,000,000) was fixed-to-floating rate swaps.

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

	2014			2013		
	Notional amount HK\$'000	Replacement cost HK\$'000	Credit risk- weighted amount HK\$'000	Notional amount HK\$'000	Replacement cost HK\$'000	Credit risk- weighted amount HK\$'000
Exchange rate contracts	14,692,750	19,246	72,891	6,013,149	10,078	19,515
Interest rate contracts	8,949,021	122,916	47,878	6,820,061	160,057	51,237
		<u>142,162</u>	<u>120,769</u>		<u>170,135</u>	<u>70,752</u>

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2014

13. DERIVATIVE FINANCIAL INSTRUMENTS - continued

Replacement cost is the cost which would be incurred by the Group if it was required to enter into another contract to replace the existing transaction or existing contract with another counterparty with substantially the same economic consequences for the Group and is calculated by marking-to-market the existing transaction or existing contract. If the resultant value is positive for the Group, the replacement cost shall be the resultant value of the existing transaction or existing contract. If the resultant value is negative for the Group, the replacement cost shall be zero. Replacement cost is a close approximation of the credit risk for these contracts at the end of the reporting period.

The derivative financial instruments including exchange rate contracts and interest rate contracts have been recognised in the statements of financial position at fair values.

The fair values of the derivative financial instruments do not take into account the effect of any bilateral netting agreements.

Fair value hedge of fixed-rate bonds

The Group designates certain interest rate swaps and cross-currency interest rate swaps as fair value hedges of available-for-sale debt securities with carrying amount of HK\$7,579,555,000 (2013: HK\$5,182,952,000) as at 31 December 2014. The purpose is to minimise its exposure to fair value changes of its fixed-rate bonds by swapping these fixed-rate bonds from fixed rates to floating rates. The interest rate swaps and cross-currency interest rate swaps and the corresponding fixed-rate bonds have the same terms. The management of the Group considers that the interest rate swaps and cross-currency interest rate swaps are highly effective hedging instruments. The remaining maturity of these interest rate swaps, cross-currency interest rate swaps and debt securities ranged from 4 months to 9.5 years.

During the years ended 31 December 2014 and 31 December 2013, the above fair value hedges were effective in hedging the fair value exposures to interest rate movements and as a result, both the gains in fair value of the bonds of HK\$127,648,000 (2013: losses of HK\$157,671,000) and losses in fair value of the interest rate swaps of HK\$132,164,000 (2013: gains of HK\$153,490,000) and gains in fair value of cross-currency interest rate swaps of HK\$3,278,000 (2013: gains of HK\$4,150,000) were included in the consolidated income statement.

Fair value hedge of subordinated note issued

The Group designates an interest rate swap as fair value hedge of the interest rate movement of the US\$225 million subordinated note issued (see note 24). The purpose is to minimise its exposure to fair value changes of its fixed-rate note by swapping fixed-rate note from fixed rate to floating rate. The interest rate swap and the hedged subordinated note have the same terms and the management of the Group considers that the interest rate swap is a highly effective hedging instrument.

The hedge was effective in hedging the fair value exposure to interest rate movements and as a result, both the increase in fair value of the note of HK\$46,940,000 (2013: decrease in fair value of HK\$134,842,000) and gains in fair value of the interest rate swap of HK\$47,993,000 (2013: losses of HK\$134,275,000) were included in the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2014

14. INVESTMENTS IN SECURITIES

	Financial assets at fair value through profit or loss		Available- for-sale securities	Held-to- maturity securities	Total
	Held for trading HK\$'000	Designated at fair value HK\$'000	HK\$'000	HK\$'000	HK\$'000
2014					
Equity securities:					
Listed in Hong Kong	287	–	236,193	–	236,480
Listed overseas	–	–	8,573	–	8,573
	<u>287</u>	<u>–</u>	<u>244,766</u>	<u>–</u>	<u>245,053</u>
Unlisted	–	–	36,115	–	36,115
	<u>287</u>	<u>–</u>	<u>280,881</u>	<u>–</u>	<u>281,168</u>
Debt securities:					
Certificates of deposit	–	–	–	1,163,972	1,163,972
Other debt securities					
- Unlisted	–	–	7,594,039	7,499,164	15,093,203
	<u>–</u>	<u>–</u>	<u>7,594,039</u>	<u>8,663,136</u>	<u>16,257,175</u>
Total:					
Listed in Hong Kong	287	–	236,193	–	236,480
Listed overseas	–	–	8,573	–	8,573
Unlisted	–	–	7,630,154	8,663,136	16,293,290
	<u>287</u>	<u>–</u>	<u>7,874,920</u>	<u>8,663,136</u>	<u>16,538,343</u>
Market value of listed securities:					
Listed in Hong Kong	287	–	236,193	–	236,480
Listed overseas	–	–	8,573	–	8,573
	<u>287</u>	<u>–</u>	<u>244,766</u>	<u>–</u>	<u>245,053</u>
As analysed by issuing entities:					
Central governments and central banks	–	–	–	10,629	10,629
Public sector entities	–	–	–	822,649	822,649
Banks and other financial institutions	–	–	376,172	3,154,901	3,531,073
Corporate entities	287	–	7,493,896	4,674,957	12,169,140
Others	–	–	4,852	–	4,852
	<u>287</u>	<u>–</u>	<u>7,874,920</u>	<u>8,663,136</u>	<u>16,538,343</u>

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2014

14. INVESTMENTS IN SECURITIES - continued

	Financial assets at fair value through profit or loss		Available- for-sale securities	Held-to- maturity securities	Total
	Held for trading HK\$'000	Designated at fair value HK\$'000	HK\$'000	HK\$'000	HK\$'000
2013					
Equity securities:					
Listed in Hong Kong	211	–	199,680	–	199,891
Listed overseas	–	–	7,713	–	7,713
	211	–	207,393	–	207,604
Unlisted	–	–	36,525	–	36,525
	211	–	243,918	–	244,129
Debt securities:					
Certificates of deposit	–	–	–	4,675,621	4,675,621
Convertible bonds	–	91,968	–	–	91,968
Other debt securities					
- Unlisted	–	–	5,189,323	3,651,101	8,840,424
	–	91,968	5,189,323	8,326,722	13,608,013
Total:					
Listed in Hong Kong	211	–	199,680	–	199,891
Listed overseas	–	–	7,713	–	7,713
Unlisted	–	91,968	5,225,848	8,326,722	13,644,538
	211	91,968	5,433,241	8,326,722	13,852,142
Market value of listed securities:					
Listed in Hong Kong	211	–	199,680	–	199,891
Listed overseas	–	–	7,713	–	7,713
	211	–	207,393	–	207,604
As analysed by issuing entities:					
Central governments and central banks	–	–	–	7,627	7,627
Public sector entities	–	–	55,029	176,769	231,798
Banks and other financial institutions	43	–	363,505	6,619,205	6,982,753
Corporate entities	168	91,968	5,010,154	1,523,121	6,625,411
Others	–	–	4,553	–	4,553
	211	91,968	5,433,241	8,326,722	13,852,142

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2014

14. INVESTMENTS IN SECURITIES - continued

For the equity securities classified as available-for-sale financial instruments, impairment losses accumulated through the years of HK\$33,109,000 (2013: HK\$44,740,000) has been provided by the Group.

Unlisted equity securities classified as available-for-sale held by the Group amounting to HK\$35,744,000 (2013: HK\$36,454,000) is measured at cost less impairment. No impairment has been recognised for these equity securities.

Certain held-to-maturity certificates of deposit of HK\$17,065,000 (2013: HK\$17,060,000) held by the San Francisco Branch of the Bank have been pledged to the State of California of the United States of America in compliance with the requirements of the California Financial Code.

Debt securities classified as held-to-maturity amounting to HK\$10,629,000 (2013: HK\$7,627,000) were issued by the Government of Hong Kong Special Administrative Region and the PRC.

The debt securities classified as available-for-sale and held-to-maturity held by the Group are mainly guaranteed or issued by corporates and financial institutions from the PRC, Hong Kong and Australia.

The certificates of deposit classified as held-to-maturity securities held by the Group is mainly issued by banks from the PRC, Australia and Hong Kong. Of the above, held-to-maturity certificates of deposit amounting to HK\$246,921,000 (2013: HK\$2,474,632,000) and held-to-maturity debt securities amounting to HK\$1,680,863,000 (2013: HK\$256,467,000) held by the Group are credit exposures to the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

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15. TRANSFER OF FINANCIAL ASSETS

The following were the Group's debt securities classified as held-to-maturity and available-for-sale as at 31 December 2014 and 31 December 2013 that were transferred to an entity with terms to repurchase these debt securities at agreed dates and prices. As the Group has retained substantially on the risks and rewards relating to these debt securities to the entity, the full carrying amount of these debt securities continued to be recognised. The cash received on the transfer was reported as liabilities under "Financial assets sold under repurchase agreements" (see note 21). The transferred debt securities serve as collateral to secure these liabilities. During the covered period, the legal title of the debt securities are transferred to the counterparty entity and there is no restriction for the counterparty entity to sell or repledge the collateral. These debt securities are either measured at amortised cost or carried at fair value in the statements of financial position.

31 December 2014			
	Available -for-sale debt securities HK\$'000	Held-to- maturity debt securities HK\$'000	Total HK\$'000
Carrying amount of transferred assets	3,368,491	2,102,043	5,470,534
Carrying amount of associated liabilities (Note 21)	<u>3,025,130</u>	<u>1,923,634</u>	<u>4,948,764</u>

31 December 2013			
	Available -for-sale debt securities HK\$'000	Held-to- maturity debt securities HK\$'000	Total HK\$'000
Carrying amount of transferred assets	1,287,098	156,463	1,443,561
Carrying amount of associated liabilities (Note 21)	<u>1,115,597</u>	<u>141,060</u>	<u>1,256,657</u>

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

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16. ADVANCES AND OTHER ACCOUNTS

	2014 HK\$'000	2013 HK\$'000
Advances to customers		
Bills receivable	380,029	406,924
Trade bills	7,734,103	2,164,983
Other advances to customers	48,811,288	42,548,307
	<u>56,925,420</u>	<u>45,120,214</u>
Interest receivable	328,381	215,923
Impairment allowances		
- Individually assessed	(19,945)	(14,755)
- Collectively assessed	(238,987)	(189,425)
	<u>56,994,869</u>	<u>45,131,957</u>
Other accounts	1,589,738	627,469
	<u>58,584,607</u>	<u>45,759,426</u>

Included in the “Other Accounts” of the Group is variation margin of HK\$328,666,000 (2013: HK\$20,554,000) deposited in banks for certain interest rate swaps, foreign currency forward contracts and repurchase agreements and an amount of approximately HK\$658,218,000 (2013: HK\$226,892,000) placed as reserve funds with the financial institutions in the PRC by the Shantou Branch of the Bank. Among which, HK\$489,673,000 (2013: HK\$55,791,000) are the mandatory reserve deposits placed with the People’s Bank of China. The mandatory reserve deposits are not available for the Group’s daily operation; HK\$168,545,000 (2013: HK\$171,101,000) are the fixed deposits placed with other financial institutions in the PRC in compliance with the requirements of Regulations Governing Foreign Financial Institutions of the PRC.

The remaining balance of “Other Accounts” of the Group amounting to HK\$602,854,000 (2013: HK\$380,023,000) mainly included account receivables from Hong Kong Securities Clearing Company Limited, Hong Kong Futures Exchange Clearing Corporation Limited and brokerage clients in relation to securities dealing of HK\$365,783,000 (2013: HK\$208,206,000).

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2014

16. ADVANCES AND OTHER ACCOUNTS - continued

Impairment allowances on advances:

	Individual assessment HK\$'000	Collective assessment HK\$'000	Total HK\$'000
Balance 1 January 2014	14,755	189,425	204,180
- Increase in impairment allowances	11,253	49,621	60,874
- Amounts reversed	(93,218)	–	(93,218)
Charge (reversal) of impairment allowances (net)	(81,965)	49,621	(32,344)
Amounts written off	(3,367)	–	(3,367)
Recoveries of advances written off in previous years	90,805	–	90,805
Unwinding effect of discount rate	(283)	–	(283)
Exchange difference	–	(59)	(59)
Balance 31 December 2014	19,945	238,987	258,932
Balance 1 January 2013	24,054	164,506	188,560
- Increase in impairment allowances	20,726	24,800	45,526
- Amounts reversed	(10,289)	–	(10,289)
Charge of impairment allowances (net)	10,437	24,800	35,237
Amounts written off	(20,055)	–	(20,055)
Recoveries of advances written off in previous years	557	–	557
Unwinding effect of discount rate	(238)	–	(238)
Exchange difference	–	119	119
Balance 31 December 2013	14,755	189,425	204,180

Details of the impaired loans are as follows:

	2014 HK\$'000	2013 HK\$'000
Gross impaired loans	23,825	18,734
Less: Impairment allowances under individual assessment	(19,945)	(14,755)
Net impaired loans	3,880	3,979
Gross impaired loans as a percentage of gross advances to customers	0.04%	0.04%
Market value of collateral pledged	14,336	14,081

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2014

17. ASSETS HELD FOR SALE

The carrying amount of assets held for sale comprises:

	2014 HK\$'000	2013 HK\$'000
Leasehold land in Hong Kong		
Held on long-term lease (over 50 years unexpired)	–	82,271
Held on medium-term lease (10-50 years expired)	1,718	–
Leasehold properties (building) in Hong Kong		
Held on long-term lease (over 50 years unexpired)	–	186,997
	<u>1,718</u>	<u>269,268</u>

On 25 October 2013, qualifying shareholders of the Bank received an acquisition offer from Yuexiu Financial Holdings Limited (“Yuexiu Financial”) for a maximum of 326,250,000 shares of the Bank (representing 75% of its shares in issue) at an offer price of HK\$35.69 per share. At the same time, the Bank and Liu Chong Hing Investment Limited (“LCHI”) entered into an agreement in respect of the transfer and the lease of Chong Hing Bank Centre (the “Property”), the Bank’s head office building in Central, pursuant to which the Property would be transferred by the Bank to LCHI at HK\$2,230 million, and the ground floor and 18 other floors of the Property would then be leased by LCHI to the Bank for a term of five years with the option for the Bank to renew the lease for a further term of five years. The Bank would distribute the proceeds of the transfer of the Property less the unaudited carrying value of the Property as at 30 June 2013 (such unaudited carrying value being approximately HK\$264 million) to its shareholders by way of a special interim dividend of HK\$4.5195 per share in cash.

Approval was granted by the Hong Kong Monetary Authority on 8 January 2014 for each of 廣州越秀集團有限公司 (Guangzhou Yue Xiu Holdings Limited) (“Guangzhou Yue Xiu Holdings”), Yue Xiu Enterprises (Holdings) Limited (“Yue Xiu Enterprises”) and Yuexiu Financial (hereinafter collectively referred to as “Yue Xiu”) to become a controlling shareholder of the Bank. Yuexiu Financial is a wholly-owned subsidiary of Yue Xiu Enterprises. Yue Xiu Enterprises is a wholly-owned subsidiary of Guangzhou Yue Xiu Holdings, which is a state-owned limited liability company established in the PRC beneficially wholly-owned by the Guangzhou Municipal People’s Government of the PRC.

The acquisition by Yue Xiu of a controlling shareholding interest in the Bank, amounting to 75% of the Bank’s issued share capital, was completed on 14 February 2014. On 19 February 2014, the sale of the Property was completed, and on 20 February 2014, the special interim dividend was paid. The sale of the property produced net gains of HK\$1,960,732,000 before taxation.

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2014

18. INVESTMENT PROPERTIES

	2014 HK\$'000	2013 HK\$'000
At 1 January	136,575	135,318
Transfer from land and buildings	149,500	–
Net increase in fair value recognised in the income statement	3,100	1,910
Disposals	–	(1,600)
Exchange adjustments	(762)	947
At 31 December	<u>288,413</u>	<u>136,575</u>

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

Net gains on disposal of and fair value adjustments on investment properties:

	2014 HK\$'000	2013 HK\$'000
Net gains on disposal of investment properties	–	2,327
Net gains on fair value adjustments on investment properties	3,100	1,910
	<u>3,100</u>	<u>4,237</u>

Investment properties owned by the Group were revalued at 31 December 2014 by adopting the direct comparison approach and with reference to the recent transactions for similar premises by Vigers Appraisal and Consulting Limited and Savills (Hong Kong) Limited, independent professionally qualified valuers. The fair value is mainly arrived at by reference to comparable market transactions for similar properties.

The fair value of investment properties is estimated based on assumptions that there would be no forced sale situation in any manner for these investment properties and the structure of these investment properties were in a reasonable condition at the end of the reporting period.

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

One of the key inputs used in valuing the investment properties was the unit sale rate taking into account of time, location and individual factors such as size and levels of building, which ranged from HK\$5,700 to HK\$40,000 per square feet. A decrease in the unit sale rate would result in decrease in fair value measurement of the investment properties by the same percentage decrease and vice versa.

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for the year ended 31 December 2014

18. INVESTMENT PROPERTIES - continued

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

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

Investment properties are classified as Level 3 under fair value hierarchy as at 31 December 2014 and 31 December 2013. There were no transfers into or out of Level 3 during the year.

The investment properties are rented out under operating leases or are held for capital appreciation purposes.

The carrying amount of investment properties of the Group comprises:

	2014 HK\$'000	2013 HK\$'000
Leasehold properties		
Held in Hong Kong on long-term lease (over 50 years unexpired)	149,500	–
Held in Hong Kong on medium-term lease (10 - 50 years unexpired)	105,400	102,300
Held outside Hong Kong on medium-term lease (10 - 50 years unexpired)	33,513	34,275
	<u>288,413</u>	<u>136,575</u>

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2014

19. PROPERTY AND EQUIPMENT

	Leasehold land HK\$'000	Buildings HK\$'000	Equipment HK\$'000	Total HK\$'000
COST				
At 1 January 2014	491,963	167,103	565,426	1,224,492
Additions	–	–	33,896	33,896
Disposals	–	–	(22,257)	(22,257)
Reclassified to assets held for sale	(2,913)	–	–	(2,913)
Transfer to investment properties	(2,700)	(1,119)	–	(3,819)
Exchange adjustments	–	86	530	616
At 31 December 2014	486,350	166,070	577,595	1,230,015
ACCUMULATED DEPRECIATION				
At 1 January 2014	111,112	41,878	435,800	588,790
Depreciation	10,828	4,132	32,693	47,653
Eliminated on disposals	–	–	(14,143)	(14,143)
Reclassified to assets held for sale	(1,195)	–	–	(1,195)
Transfer to investment properties	(111)	(855)	–	(966)
Exchange adjustments	–	5	(85)	(80)
At 31 December 2014	120,634	45,160	454,265	620,059
CARRYING AMOUNTS				
At 31 December 2014	365,716	120,910	123,330	609,956
At 1 January 2014	380,851	125,225	129,626	635,702
COST				
At 1 January 2013	575,421	375,285	546,606	1,497,312
Additions	–	6,675	26,467	33,142
Disposals	(419)	(141)	(7,726)	(8,286)
Exchange adjustments	–	406	79	485
Reclassified to assets held for sale	(83,039)	(215,122)	–	(298,161)
At 31 December 2013	491,963	167,103	565,426	1,224,492
ACCUMULATED DEPRECIATION				
At 1 January 2013	101,005	62,214	405,713	568,932
Depreciation	10,974	7,526	36,378	54,878
Eliminated on disposals	(99)	(96)	(6,359)	(6,554)
Exchange adjustments	–	359	68	427
Reclassified to assets held for sale	(768)	(28,125)	–	(28,893)
At 31 December 2013	111,112	41,878	435,800	588,790
CARRYING AMOUNTS				
At 31 December 2013	380,851	125,225	129,626	635,702
At 1 January 2013	474,416	313,071	140,893	928,380

The above items of property and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold land	Over the lease term of the leasehold land ranging from 33 to 929 years
Buildings	Over its estimated useful life of 50 years or the remaining lease period of the land which it is situated ranging from 33 to 929 years, whichever is the shorter
Equipment	10% -20%

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19. PROPERTY AND EQUIPMENT - continued

The carrying amounts of leasehold land shown above comprise:

	2014 HK\$'000	2013 HK\$'000
Leasehold land in Hong Kong:		
Held on long-term lease (over 50 years unexpired)	37,686	40,586
Held on medium-term lease (10 - 50 years unexpired)	327,149	339,355
Leasehold land outside Hong Kong:		
Held on medium-term lease (10 - 50 years unexpired)	881	910
	<u>365,716</u>	<u>380,851</u>

The carrying amounts of buildings shown above comprise:

	2014 HK\$'000	2013 HK\$'000
Leasehold properties (building)		
Held in Hong Kong on long-term lease (over 50 years unexpired)	8,936	9,565
Held in Hong Kong on medium-term lease (10-50 years unexpired)	105,225	108,911
Held outside Hong Kong on medium-term lease (10-50 years unexpired)	6,749	6,749
	<u>120,910</u>	<u>125,225</u>

20. PREPAID LEASE PAYMENTS FOR LAND

The Group's prepaid lease payments for land comprise:

	2014 HK\$'000	2013 HK\$'000
COST		
Outside Hong Kong held on:		
Leases of between 10-50 years	2,850	2,850
Net book value at 1 January	2,403	2,423
Release of prepaid operating lease payments	(66)	(66)
Exchange adjustments	(1)	46
Net book value at 31 December	<u>2,336</u>	<u>2,403</u>
Analysed as:		
Current portion	66	66
Non-current portion	2,270	2,337
Total	<u>2,336</u>	<u>2,403</u>

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

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21. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	2014 HK\$'000	2013 HK\$'000
Analysed by collateral type:		
Debt securities classified as:		
Available-for-sale (<i>Note 15</i>)	3,025,130	1,115,597
Held-to-maturity (<i>Note 15</i>)	1,923,634	141,060
	<u>4,948,764</u>	<u>1,256,657</u>

As at 31 December 2014, debt securities which are classified as available-for-sale and held-to-maturity with carrying amount of HK\$3,368,491,000 (2013: HK\$1,287,098,000) and HK\$2,102,043,000 (2013: HK\$156,463,000) respectively were sold under repurchase agreements with other banks. All repurchase agreements are due within 12 months from the end of the reporting period.

22. DEPOSITS FROM CUSTOMERS

	2014 HK\$'000	2013 HK\$'000
Demand deposits and current accounts	9,657,057	5,891,753
Savings deposits	29,223,905	22,064,051
Time, call and notice deposits	43,252,429	43,209,100
	<u>82,133,391</u>	<u>71,164,904</u>

23. CERTIFICATES OF DEPOSIT

The Group has issued certificates of deposit which are measured at amortised cost with a total carrying amount of HK\$2,108,136,000 as at 31 December 2014 (2013: HK\$563,003,000). Certificates of deposit bear contractual interest rates between 0% to 4% (2013: 1.24585% to 1.65%) per annum and will mature in 2015. All certificates of deposit issued are not secured by any collateral.

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for the year ended 31 December 2014

24. LOAN CAPITAL

	2014 HK\$'000	2013 HK\$'000
US\$225 million fixed rate subordinated note due 2020 under fair value hedge (after adjustment of hedged interest rate risk) (Notes (a) & (b))	<u>1,815,563</u>	<u>1,766,436</u>

Notes:

(a) This represented a subordinated note qualifying as tier 2 capital under Basel II accord with face value of US\$225,000,000 issued on 5 November 2010. The note will mature on 4 November 2020. If at any time on or after 1 January 2013, the note no longer fully qualifies as term subordinated debt for inclusion in Category II - Supplementary Capital of the Bank upon changes to regulatory requirements, the Bank may, at its option and subject to the prior written approval of the HKMA, exercise a change of the status of the note by serving the "Change in Status Notice" to the noteholders. Upon a "Change in Status Notice" becoming effective, the note shall thereafter constitute unsubordinated obligations and the rate of interest on the note shall be reduced from 6% per annum to 5.5% per annum. As "Change in Status Notice" has not been served, the rate of interest on the note remains at 6% per annum.

(b) The subordinated note issued is not secured by any collateral.

25. SHARE CAPITAL AND SHARE PREMIUM

	2014		2013	
	Number of shares (thousands)	HK\$'000	Number of shares (thousands)	HK\$'000
Authorised share capital: (Note (a))				
Ordinary shares of HK\$0.50 each (Note (b))	<u>–</u>	<u>–</u>	<u>600,000</u>	<u>300,000</u>
			Number of shares (thousands)	Share capital HK\$'000
Issued and fully paid share capital:				
As at 1 January 2013, 31 December 2013 and 1 January 2014			435,000	217,500
Transition to no-par value regime on 3 March 2014 (Note (c))			<u>–</u>	<u>1,542,817</u>
As at 31 December 2014			<u>435,000</u>	<u>1,760,317</u>

Notes:

(a) Under the Hong Kong Companies Ordinance (Cap. 622), which commenced operation on 3 March 2014, the concept of authorised share capital no longer exists.

(b) In accordance with section 135 of the Hong Kong Companies Ordinance (Cap. 622), the Bank's shares no longer have a par or nominal value with effect from 3 March 2014. There is no impact on the number of shares in issue or the relative entitlement of any of the members as a result of this transition.

(c) In accordance with the transitional provisions set out in section 37 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622), on 3 March 2014, any amount outstanding to the credit of the share premium account has become part of the Bank's share capital.

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

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26. ADDITIONAL EQUITY INSTRUMENTS

	2014 HK\$'000	2013 HK\$'000
US\$300 million undated non-cumulative subordinated capital securities	<u>2,312,030</u>	<u>–</u>

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

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27. DEFERRED TAXATION

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

	2014 HK\$'000	2013 HK\$'000
Deferred tax assets	4,697	1,501
Deferred tax liabilities	(23,551)	(25,661)
	<u>(18,854)</u>	<u>(24,160)</u>

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

	Accelerated tax depreciation HK\$'000	Collectively assessed impairment allowance HK\$'000	Investment properties HK\$'000	Revaluation of available- for-sale securities HK\$'000	Remeasurement of retirement benefits HK\$'000	Total HK\$'000
At 1 January 2014	(15,575)	29,784	(4,837)	(31,838)	(1,694)	(24,160)
Credit to the income statement for the year (Note 9)	8,731	8,354	–	–	–	17,085
Charge to other comprehensive income for the year	–	–	–	(10,089)	(1,798)	(11,887)
Exchange adjustments	–	–	108	–	–	108
At 31 December 2014	<u>(6,844)</u>	<u>38,138</u>	<u>(4,729)</u>	<u>(41,927)</u>	<u>(3,492)</u>	<u>(18,854)</u>
At 1 January 2013	(11,387)	26,531	(2,909)	(32,613)	(1,694)	(22,072)
(Charge) credit to the income statement for the year (Note 9)	(4,188)	3,253	(1,928)	–	–	(2,863)
Credit to other comprehensive income for the year	–	–	–	775	–	775
At 31 December 2013	<u>(15,575)</u>	<u>29,784</u>	<u>(4,837)</u>	<u>(31,838)</u>	<u>(1,694)</u>	<u>(24,160)</u>

Under the Enterprise Income Tax Law of the PRC, withholding tax is imposed on profits distributed by the Bank's PRC branches from 1 January 2008 onwards. Deferred taxation has not been provided in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC branches amounting to HK\$402,165,000 (2013: HK\$274,804,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for tax-loss carry-forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred tax assets of HK\$18,456,000 (2013: HK\$19,895,000) in respect of losses amounting to HK\$41,693,000 (2013: HK\$45,071,000) and deductible temporary difference of HK\$7,705,000 (2013: HK\$7,746,000) that can be carried forward against future taxable income in accordance with the accounting policy. The tax losses will expire while the deductible temporary differences do not expire under current tax legislation.

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28. GOODWILL

	2014 HK\$'000	2013 HK\$'000
COST		
At 1 January and 31 December	110,606	110,606
IMPAIRMENT		
At 1 January and 31 December	<u>60,000</u>	<u>60,000</u>
CARRYING VALUES		
At 31 December	<u><u>50,606</u></u>	<u><u>50,606</u></u>

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

For the year ended 31 December 2014, management has reviewed goodwill for impairment testing purpose. The review comprised a comparison of the carrying amount and value in use of an acquired subsidiary (the smallest cash-generating unit) to which the goodwill has been allocated. The acquired subsidiary is involved in insurance business.

The value in use calculations primarily use cash flow projections based on four-year financial budgets approved by management of the subsidiary and estimated terminal value at the end of the four year period. There are a number of assumptions and estimates involved for the preparation of cash flow projections for the period covered by the approved budget and the estimated terminal value. Key assumptions include the expected growth in revenues (growth rate at 4% to 29.9%), long term growth rate (3%) and selection of discount rate (12%).

Value in use is derived at by discounting the expected future cash flows.

The management of the Group determines that there is no impairment loss on the goodwill for the year ended 31 December 2014 and 2013.

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2014

29. CONTINGENT LIABILITIES AND COMMITMENTS

	2014 HK\$'000	2013 HK\$'000
Contingent liabilities and commitments		
- contractual amounts		
Direct credit substitutes	1,042,023	1,041,747
Trade-related contingencies	396,545	479,056
Forward asset purchases	12,542	7,049
Undrawn formal standby facilities, credit lines and other commitments:		
Which are unconditionally cancellable without prior notice	6,665,955	6,864,582
With an original maturity of one year and under	9,021,621	8,212,601
With an original maturity of over one year	2,583,848	1,899,267
Lease commitments	338,657	55,424
	<u>20,061,191</u>	<u>18,559,726</u>

The credit risk-weighted amount of contingent liabilities and commitments is HK\$3,494,488,000 (2013: HK\$3,196,283,000).

The credit risk-weighted amount is calculated based on “standardised approach”. The risk-weights used in the computation of credit risk-weighted amounts range from 0% to 100% (2013: 0% to 100%) which is assessed in accordance with the Banking (Capital) Rules.

Direct credit substitutes include financial guarantees given by the Group and the Bank.

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

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

	2014 HK\$'000	2013 HK\$'000
Within one year	95,813	26,614
In the second to fifth years, inclusive	242,844	28,810
	<u>338,657</u>	<u>55,424</u>

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2014

29. CONTINGENT LIABILITIES AND COMMITMENTS - continued

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

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

	2014	2013
	HK\$'000	HK\$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of property and equipment	<u>12,542</u>	<u>7,049</u>

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

	2014	2013
	HK\$'000	HK\$'000
Within one year	3,393	16,077
In the second to fifth years, inclusive	4,184	1,901
After five years	<u>2,514</u>	<u>2,730</u>
	<u>10,091</u>	<u>20,708</u>

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2014

30. RELATED PARTY TRANSACTIONS

The former ultimate holding company and former fellow subsidiaries had been changed since 14 February 2014.

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

	Interest, commission and rental income		Interest, rental and other operating expenses	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Ultimate holding company	<u>608</u>	<u>–</u>	<u>5,471</u>	<u>–</u>
Fellow subsidiaries	<u>16,919</u>	<u>–</u>	<u>1,552</u>	<u>–</u>
Associates	<u>24,754</u>	<u>24,303</u>	<u>3,419</u>	<u>3,262</u>
Key management personnel (<i>Note</i>)	<u>802</u>	<u>6,914</u>	<u>1,880</u>	<u>10,615</u>
Former ultimate holding company	<u>–</u>	<u>2,920</u>	<u>3,201</u>	<u>11,836</u>
Former fellow subsidiaries	<u>204</u>	<u>1,641</u>	<u>–</u>	<u>–</u>

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

	Amounts due from related parties		Amounts due to related parties	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Ultimate holding company / Former ultimate holding company	<u>760,304</u>	<u>–</u>	<u>3,935,992</u>	<u>254,745</u>
Fellow subsidiaries / Former fellow subsidiaries	<u>300,000</u>	<u>36,800</u>	<u>1,625,619</u>	<u>–</u>
Associates	<u>8,669</u>	<u>11,503</u>	<u>100,238</u>	<u>110,166</u>
Key management personnel (<i>Note</i>)	<u>32,559</u>	<u>507,899</u>	<u>156,218</u>	<u>786,463</u>

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

As at 31 December 2014, the Group held available-for-sale debt securities issued by a fellow subsidiary of HK\$227,664,000 (2013: Nil).

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

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

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2014

30. RELATED PARTY TRANSACTIONS - continued

Compensation of key management personnel

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

	2014 HK\$'000	2013 HK\$'000
Short-term benefits	81,200	66,103
Post employment benefits	<u>5,683</u>	<u>4,740</u>
	<u>86,883</u>	<u>70,843</u>

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

31. COMPARATIVE AMOUNTS

Certain comparative figures have been reclassified to conform with the current period's presentation.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2014

1. ADVANCES TO CUSTOMERS - BY INDUSTRY SECTORS

The Group's gross advances to customers (including advances booked in branches outside Hong Kong and subsidiaries) are analysed and reported by industry sectors according to the usage of the loans and / or business activities of the borrowers as follows:

	31 December 2014				
	Gross loans and advances HK\$'000	Collective impairment allowances HK\$'000	Individual impairment allowances HK\$'000	Loans and advances secured by collateral HK\$'000 (Note 1)	Gross impaired advances HK\$'000
Loans for use in Hong Kong					
Industrial, commercial and financial					
- Property development	1,541,084	150	—	595,971	—
- Property investment	7,650,471	6,343	—	7,469,701	—
- Financial concerns	3,408,253	424	22	2,645,985	22
- Stockbrokers	1,461,378	257	—	499,108	—
- Wholesale and retail trade	2,415,957	1,422	5,666	1,967,117	5,666
- Manufacturing	2,019,708	1,129	6,119	1,171,366	6,119
- Transport and transport equipment	866,154	142	—	740,110	—
- Recreational activities	1,182	—	—	1,182	—
- Information technology	6,045	—	—	5,015	—
- Others (Note 2)	8,397,750	8,545	2,268	5,315,798	4,503
Individuals					
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	461,551	—	—	461,551	—
- Loans for the purchase of other residential properties	7,362,470	—	—	7,361,733	—
- Credit card advances	101,630	—	863	—	989
- Others (Note 3)	2,105,175	287	663	1,613,943	663
	<u>37,798,808</u>	<u>18,699</u>	<u>15,601</u>	<u>29,848,580</u>	<u>17,962</u>
Trade finance	8,767,283	220,240	3,555	516,394	3,555
Loans for use outside Hong Kong	<u>10,359,329</u>	<u>48</u>	<u>789</u>	<u>3,558,586</u>	<u>2,308</u>
	<u><u>56,925,420</u></u>	<u><u>238,987</u></u>	<u><u>19,945</u></u>	<u><u>33,923,560</u></u>	<u><u>23,825</u></u>

Notes: 1. Loans and advances secured by collateral are determined as the lower of the market value of collateral or outstanding loan principal.

2. Major items included in "Others" are for electricity and gas, hotels, catering, margin lending and other business purposes.

3. Major items mainly included loans to professionals and other individuals for various private purposes.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2014

1. ADVANCES TO CUSTOMERS - BY INDUSTRY SECTORS - continued

	31 December 2013				
	Gross loans and advances HK\$'000	Collective impairment allowances HK\$'000	Individual impairment allowances HK\$'000	Loans and advances secured by collateral HK\$'000 (Note 1)	Gross impaired advances HK\$'000
Loans for use in Hong Kong					
Industrial, commercial and financial					
- Property development	1,479,980	2	—	642,248	—
- Property investment	8,307,110	—	2	8,272,041	2
- Financial concerns	2,407,128	—	—	1,853,502	—
- Stockbrokers	773,195	10	—	609,550	—
- Wholesale and retail trade	1,934,329	5,616	5,158	1,581,434	5,158
- Manufacturing	1,923,830	—	—	1,172,244	—
- Transport and transport equipment	755,028	—	—	654,770	—
- Recreational activities	1,296	1	—	1,297	—
- Information technology	21,067	29	—	17,231	—
- Others (Note 2)	7,770,364	6,055	4,448	4,555,683	6,684
Individuals					
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	469,597	—	—	469,597	—
- Loans for the purchase of other residential properties	7,058,570	287	—	7,057,313	—
- Credit card advances	109,166	9,136	484	—	516
- Others (Note 3)	2,082,372	—	283	1,510,997	474
	35,093,032	21,136	10,375	28,397,907	12,834
Trade finance	3,287,545	60,643	3,592	610,909	3,592
Loans for use outside Hong Kong	6,739,637	107,646	788	2,926,781	2,308
	<u>45,120,214</u>	<u>189,425</u>	<u>14,755</u>	<u>31,935,597</u>	<u>18,734</u>

Notes: 1. Loans and advances secured by collateral are determined as the lower of the market value of collateral or outstanding loan principal.

2. Major items included in "Others" are for electricity and gas, hotels, catering, margin lending and other business purposes.

3. Major items mainly included loans to professionals and other individuals for various private purposes.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2014

1. ADVANCES TO CUSTOMERS - BY INDUSTRY SECTORS - continued

The Group's advances to customers overdue for over three months, and new impairment allowances and advances written off during the year ended 31 December 2014 and 2013 in respect of industry sectors which constitute not less than 10 per cent of gross advances to customers are analysed as follows:

	2014		
	Advances overdue for over three months as at 31 December HK\$'000	New impairment allowances during the year HK\$'000	Advances written-off during the year HK\$'000
Loans for use in Hong Kong			
Industrial, commercial and financial			
- Property investment	458	—	—
- Others	4,753	363	211
Individuals			
- Loans for the purchase of other residential properties	419	—	—
Trade finance	3,555	—	—
Loans for use outside Hong Kong	<u>27,808</u>	<u>131</u>	<u>—</u>
	2013		
	Advances overdue for over three months as at 31 December HK\$'000	New impairment allowances during the year HK\$'000	Advances written-off during the year HK\$'000
Loans for use in Hong Kong			
Industrial, commercial and financial			
- Property investment	626	2	—
- Others	5,419	3,533	330
Individuals			
- Loans for the purchase of other residential properties	1,571	—	—
Loans for use outside Hong Kong	<u>77,715</u>	<u>121</u>	<u>—</u>

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2014

2. ADVANCES TO CUSTOMERS - BY GEOGRAPHICAL AREAS

The Group's gross advances to customers by countries or geographical areas after taking into account any risk transfers are as follows:

	2014				
	Total advances HK\$'000	Advances overdue for over three months HK\$'000	Impaired advances HK\$'000	Individual impairment allowance HK\$'000	Collective impairment allowance HK\$'000
Hong Kong	50,478,066	44,259	21,517	19,157	217,013
People's Republic of China	3,369,537	2,308	2,308	788	4,247
Macau	1,151,073	—	—	—	11,522
America	653,707	—	—	—	6,205
Others	1,273,037	—	—	—	—
	<u>56,925,420</u>	<u>46,567</u>	<u>23,825</u>	<u>19,945</u>	<u>238,987</u>

	2013				
	Total advances HK\$'000	Advances overdue for over three months HK\$'000	Impaired advances HK\$'000	Individual impairment allowance HK\$'000	Collective impairment allowance HK\$'000
Hong Kong	42,346,053	92,487	16,426	13,967	172,533
People's Republic of China	649,113	2,308	2,308	788	4,321
Macau	636,156	—	—	—	6,367
America	612,875	—	—	—	6,204
Others	876,017	—	—	—	—
	<u>45,120,214</u>	<u>94,795</u>	<u>18,734</u>	<u>14,755</u>	<u>189,425</u>

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2014

3. CROSS-BORDER CLAIMS

The Group's cross-border claims by countries or geographical areas which constitute 10% or more of the relevant disclosure items after taking into account any risk transfers are as follows:

	31 December 2014			
	Banks and other financial institutions HK\$'000	Public sector entities HK\$'000	Others HK\$'000	Total HK\$'000
Asia Pacific excluding Hong Kong	34,040,753	81,901	5,353,837	39,476,491
- of which - China	<u>26,736,049</u>	<u>25,210</u>	<u>3,802,399</u>	<u>30,563,658</u>
	31 December 2013			
	Banks and other financial institutions HK\$'000	Public sector entities HK\$'000	Others HK\$'000	Total HK\$'000
Asia Pacific excluding Hong Kong	22,321,106	87,701	1,303,616	23,712,423
- of which - China	<u>15,824,927</u>	<u>30,027</u>	<u>597,953</u>	<u>16,452,907</u>

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2014

4. CURRENCY RISK

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

	2014	
	RMB	Total
Equivalent in thousand of HK\$		
Spot assets	32,406,789	32,406,789
Spot liabilities	(25,970,201)	(25,970,201)
Forward purchases	2,447,685	2,447,685
Forward sales	(8,543,416)	(8,543,416)
Net long position	340,857	340,857
	MOP	RMB
Net structural position	48,545	351,377
	2013	Total
	RMB	
Equivalent in thousand of HK\$		
Spot assets	9,344,291	9,344,291
Spot liabilities	(8,779,126)	(8,779,126)
Forward purchases	33,704	33,704
Forward sales	(394,541)	(394,541)
Net long position	204,328	204,328
	MOP	RMB
Net structural position	48,545	351,377

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2014

5. OVERDUE AND RESCHEDULED ASSETS

	2014	
	Gross amount of advances HK\$'000	Percentage to total advances %
Advances overdue for		
- 6 months or less but over 3 months	1,048	0.0
- 1 year or less but over 6 months	30,705	0.1
- Over 1 year	14,814	0.0
Total overdue advances	<u>46,567</u>	<u>0.1</u>
Rescheduled advances	<u>7,615</u>	<u>0.0</u>
Individual impairment allowances made in respect of overdue loans and advances	<u>14,891</u>	

	2013	
	Gross amount of advances HK\$'000	Percentage to total advances %
Advances overdue for		
- 6 months or less but over 3 months	1,545	0.0
- 1 year or less but over 6 months	2,728	0.0
- Over 1 year	90,522	0.2
Total overdue advances	<u>94,795</u>	<u>0.2</u>
Rescheduled advances	<u>263,085</u>	<u>0.6</u>
Individual impairment allowances made in respect of overdue loans and advances	<u>11,996</u>	

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

	2014 HK\$'000	2013 HK\$'000
Covered portion of overdue loans and advances	32,338	83,564
Uncovered portion of overdue loans and advances	<u>14,229</u>	<u>11,231</u>
	<u>46,567</u>	<u>94,795</u>
Market value of collateral held against covered portion of overdue loans and advances	<u>157,472</u>	<u>1,533,567</u>

There were no advances to banks and other financial institutions or other assets which were overdue for over three months as at 31 December 2014 and 31 December 2013, nor were there any rescheduled advances to banks and other financial institutions.

Reposessed assets held by the Group as at 31 December 2014 amounted to HK\$14,800,000 (2013: HK\$16,040,000).

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2014

6. NON-BANK MAINLAND EXPOSURES

	31 December 2014			
	On-balance sheet exposure HK\$'000	Off-balance sheet exposure HK\$'000	Total HK\$'000	Individual impairment allowance HK\$'000
Types of counterparties				
Mainland entities	11,493,440	2,383,639	13,877,079	–
Companies and individuals outside Mainland where the credit is granted for use in Mainland	6,092,095	806,731	6,898,826	6,907
Other counterparties the exposures to whom are considered to be non-bank Mainland exposures	<u>143,678</u>	<u>2,596</u>	<u>146,274</u>	<u>–</u>
	<u>17,729,213</u>	<u>3,192,966</u>	<u>20,922,179</u>	<u>6,907</u>
	31 December 2013			
	On-balance sheet exposure HK\$'000	Off-balance sheet exposure HK\$'000	Total HK\$'000	Individual impairment allowance HK\$'000
Types of counterparties				
Mainland entities	3,166,256	606,437	3,772,693	–
Companies and individuals outside Mainland where the credit is granted for use in Mainland	6,275,281	989,231	7,264,512	788
Other counterparties the exposures to whom are considered to be non-bank Mainland exposures	<u>100,593</u>	<u>–</u>	<u>100,593</u>	<u>–</u>
	<u>9,542,130</u>	<u>1,595,668</u>	<u>11,137,798</u>	<u>788</u>

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2014

7. LIQUIDITY RATIO

	2014 %	2013 %
Average liquidity ratio for the year	<u>40.38</u>	<u>41.70</u>

The average liquidity ratio is calculated as the ratio, expressed as a percentage, of the average of each calendar month's average ratio, as specified in the Fourth Schedule of the Hong Kong Banking Ordinance, with reference to the financial information of the Bank, Chong Hing Finance Limited, Right Way Investments Limited and Gallbraith Limited.

8. CAPITAL MANAGEMENT

	2014 %	2013 %
Total capital ratio	15.94	14.57
Tier 1 capital ratio	12.77	10.82
Common Equity Tier 1 ("CET 1") capital ratio	9.60	10.82

Capital adequacy ratios are compiled in accordance with the Banking (Capital) Rules under Hong Kong Banking Ordinance for the implementation of the "Basel III" capital accord, which became effective on 1 January 2013. In accordance with the Banking (Capital) Rules, the Bank has adopted the "standardised approach" for the calculation of the risk-weighted assets for credit risk, "standardised (market risk) approach" for the calculation of market risk and "basic indicator approach" for the calculation of operational risk. The capital adequacy ratio is consolidated, under the Banking (Capital) Rules, with reference to the financial information of the Bank, Chong Hing Finance Limited, Right Way Investments Limited, Gallbraith Limited, Chong Hing Information Technology Limited, Card Alliance Company Limited, Top Benefit Enterprise Limited and Hero Marker Limited.

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for the year ended 31 December 2014

8. CAPITAL MANAGEMENT - continued

The Bank has set up a “Regulatory Disclosure” section on its website to house all of information relating to the disclosure of regulatory capital to comply with Banking (Disclosure) Rules. In accordance with section 45 of Banking (Disclosure) Rules, the “Regulatory Disclosure” section includes the following information:

- A detailed breakdown of the Common Equity Tier 1 capital, Additional Tier 1 capital, Tier 2 capital and regulatory deductions to the capital base by using the standard disclosure templates as specified by the HKMA;
- A full reconciliation of the Common Equity Tier 1 capital items, Additional Tier 1 capital items, Tier 2 capital items and regulatory deductions to the capital base and the balance sheet in the published financial statements; and
- The full terms and conditions of all capital instruments.

The above information will be available on the Bank’s website: www.chbank.com in the “Regulatory Disclosure” section in accordance with the Banking (Disclosure) Rules.

9. BASIS OF CONSOLIDATION

The consolidated financial statements cover the consolidated financial information of the Bank and all its subsidiaries and included the attributable share of interest in the Group’s associates.

In preparing the capital adequacy ratio and liquidity ratio of the Group, they are prepared according to the basis of consolidation determined by the Hong Kong Monetary Authority for regulatory purposes. The main difference between the consolidation basis for accounting and regulatory purposes is that the former includes the Bank, all its subsidiaries and the attributable share of interests in the Group’s associates whereas the latter includes the Bank and only some of the Group’s subsidiaries which mainly conduct banking business or other business incidental to banking business.

Subsidiaries that are included within the accounting scope of consolidation but are not included within the regulatory scope of consolidation are as follows:

Name of company	Principal activities	Total assets		Total equity	
		2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Chong Hing (Nominees) Limited	Provision of nominee services	100	100	100	100
Chong Hing Securities Limited	Stockbroking	757,185	797,614	428,659	581,905
Chong Hing Commodities and Futures Limited	Investment holding and commodities and futures broking	65,693	66,074	61,701	60,149
Chong Hing Insurance Company Limited	Insurance underwriting	323,356	294,619	198,070	186,530
Chong Hing (Management) Limited	Provision of management services	379	720	100	100

STATEMENT OF COMPLIANCE

In preparing the consolidated financial statements for 2014, the Bank has fully complied with the Banking (Disclosure) Rules of the Hong Kong Banking Ordinance.

FINAL DIVIDEND

The directors will recommend at the forthcoming annual general meeting of the shareholders to be held on Friday, 15 May 2015 the payment of the final cash dividend for 2014 of HK\$0.41 per share. This final cash dividend, if approved, will be paid on Wednesday, 3 June 2015 to shareholders whose names are listed on the register of members of the Bank on Friday, 29 May 2015.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Bank will be closed from Monday, 11 May 2015 to Thursday, 14 May 2015 (both days inclusive), for the purpose of ascertaining the Shareholders who are entitled to attend and vote at the 2015 annual general meeting of the shareholders, during which period no transfer of shares can be registered. In order to qualify for attending and voting at the 2015 annual general meeting of the shareholders, all transfer documents, along with the relevant share certificates, must be lodged for registration with the Bank's share registrar and transfer office, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 pm on Friday, 8 May 2015.

In addition, the register of members of the Bank will be closed from Tuesday, 26 May 2015 to Friday, 29 May 2015 (both days inclusive), for the purpose of ascertaining the Shareholders who are qualified to receive the final cash dividend, during which period no transfer of shares can be registered. In order to qualify for receiving the final cash dividend in question, all transfer documents, along with the relevant share certificates, must be lodged for registration with the Bank's share registrar and transfer office, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 pm on Friday, 22 May 2015.

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

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

CORPORATE GOVERNANCE

The directors confirm that, for the financial year ended 31 December 2014, the Bank has complied with the code provisions as set forth in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) except:

1. Under the Bank’s Articles of Association, one-third (or, if the quotient resulting from the division of the number of directors by three is not a whole number, the number nearest one-third) of the directors for the time being, who have been longest in office since their last election, shall be subject to retirement by rotation and re-election at each annual general meeting of the shareholders. As between persons who became directors on the same day, those to retire shall (unless they otherwise agree between themselves) be determined by drawing lots. And as to those persons additionally appointed as directors or appointed as directors to fill casual vacancies by the board of directors, they shall hold office only until the next following annual general meeting of the shareholders and shall then be eligible for re-election (but not to be taken into account in determining the directors or the number of directors who are to retire by rotation) at that annual general meeting of the shareholders. The directors consider such practices to be appropriate alternatives to those recommended under Code Provisions A.4.1 and A.4.2.
2. During 1 January 2014 and 13 February 2014, as to the nomination of candidates for appointment to the board, instead of having a nomination committee in place under Code Provision A.5.1, any director was entitled to recommend for the consideration and, if thought fit, approval of the board, as well as other relevant supervisory and regulatory bodies, suitable candidates who can contribute to the Bank, and discharge their responsibilities in the interests of the Bank and its shareholders as a whole. The directors considered such a practice to be an appropriate alternative to that recommended under Code Provision A.5.1.

The board established a board committee on 14 February 2014 known as Nomination Committee whose duties and responsibilities include the review of the diversity of the board, and the identification of individuals suitably qualified to become directors and the selection or the making of recommendations to the board on the selection of individuals nominated for directorships.

3. As set forth in the Bank’s Policy Statement on Corporate Governance, the directors should bear in mind that despite their respective directorial classifications (as the case may be, as executive directors, non-executive directors or independent non-executive directors), each of them shall exercise his own judgement when matters are submitted to the board for the individual directors’ collective review, decision and approval. The directors shall guard against any conflict of interest and act in good faith in the interests of the Bank as a whole at all times. They shall exercise due care, diligence and skill when performing their duties and shall use their powers for proper corporate purposes only.

In line with the Bank’s Policy Statement on Corporate Governance, the Chairman has encouraged his fellow directors (be they executive directors, non-executive directors or independent non-executive directors) to freely express their views and has allowed sufficient time for discussion of issues at full board meetings. If, for example, the non-executive directors (including the independent non-executive directors) hold views contrary to those of the executive directors in respect of any matter discussed at a full board meeting, the minutes will have this reflected clearly. In the light of such an established practice, the directors are of the view that such open and free discussions at full board meetings among all the directors are more productive and, as such, there is no further need for the non-executive directors (including the independent non-executive directors) to hold meetings, under Code Provision A.2.7, without the presence of the executive directors.

Furthermore, the Bank has adopted a code for securities transactions by directors with terms no less exacting than those set out in the Model Code for Securities Transactions by Directors of Listed Issuers under Appendix 10 to the Listing Rules (the “Model Securities Transactions Code”). After specific enquiry by the Bank, all of the directors confirmed that, for the financial year ended 31 December 2014, they had complied with the required standards as set out in both the Model Securities Transactions Code and the Bank’s own code in question.

PUBLICATION OF RESULTS ON THE WEBSITES OF THE STOCK EXCHANGE OF HONG KONG LIMITED AND THE BANK

The Bank’s Annual Report 2014, containing the relevant information required by the Listing Rules, will be published on the websites of The Stock Exchange of Hong Kong Limited and the Bank and dispatched to shareholders in due course.

CHAIRMAN'S STATEMENT

In 2014, with the moderately reviving economy across the globe, major economies of Europe, the United States and Japan were recovering at different paces. In the US, a number of economic indicators reported growth and the stock market flourished. With accelerating economic recovery and a strong greenback, this created a mature condition for initiating a rate hike. As to the Eurozone, the market growth was near zero with stock markets falling in general. The European Central Bank announced at the last rate-fixing meeting that the interest rate would remain unchanged and announced on 22 January this year to expand the asset purchase programme with the size of approximately 1.1 trillion Euro for the entire quantitative easing programme, which went beyond market expectations. Its neighbouring country Russia was expelled from Group of Eight due to the annexation of Crimea. This evolved into a new cold war era and triggered a wave of capital outflow which significantly battered the Russian stock market and its currency, Ruble. In Asia, Yen dropped sharply, giving a boost to Japan's export. The stock market rose on the back of surging corporate profits, giving momentum to its weak economy. However, its economic data remained unsatisfactory, putting Japan in recession.

Against the uncertainties over the global economy, China maintained steady growth in 2014. China is now moving to a new economic status of "new normal", the economic growth is switching from high speed to medium-to-high speed, despite China's growth rate is still outpacing those of the world's major economies. With optimising economic structure in China, consumer demand is gradually becoming a major growth driver, adding diversity to growth momentum. Economic growth is now mainly driven by innovation instead of input and investment. This enhances the quality of the overall economic growth. On entering 2015, central banks around the globe launched quantitative easing programmes sequentially. The People's Bank of China announced to lower the reserve requirement ratio ("RRR") by 0.5% in February, marking the first time of comprehensive RRR adjustment in 3 years. It demonstrated that the Central Government has further implemented easing monetary policy.

It gives me great pleasure to report our results for the financial year of 2014, the Bank's core business lines and overall financial health were strong and sound, asset quality remained good and profitability enhanced. The Bank's net operating profit before impairment was HK\$864 million and showed an improvement of 31% year-on-year. Profit attributable to equity owners excluding the profit from the disposal of Chong Hing Bank Centre amounted to HK\$793 million and showed an improvement of 42% compared with that in 2013, translating into earnings of HK\$1.82 per share. Total assets increased by 27% to HK\$108,046 million and net asset value per share (excluding additional equity instruments and before the payment of the final dividend for 2014) was HK\$19.48. The board of directors has recommended payment of the final dividend of HK\$0.41 per share for the year. Together with the interim dividend of HK\$0.19 per share, the payout ratio is 34.68% after taking into consideration the coupon of the additional equity instruments relevant for the period.

The major financial ratios for 2014 are as follows, and the return on shareholders' equity is calculated after excluding the profit from the sale of Chong Hing Bank Centre and taken into consideration the coupon of the additional equity investments relevant for the period:

- Return on shareholders' equity: 9.35%
- Average liquidity ratio: 40.38%
- Total capital ratio: 15.94%
- Tier 1 capital ratio: 12.77%
- Loan to deposit ratio: 60.27%

In 2014, the Central Government launched and implemented a series of Renminbi development measures. Capitalising on such opportunities, the Bank actively extended its Renminbi-related products and optimised its cross-border services to further expand the Mainland market. Shanghai-Hong Kong Stock Connect, a programme that enabled mutual access of Shanghai and Hong Kong stock markets, was officially rolled out in November 2014, extending the usage of Renminbi from trade to stock and increasing the transaction volume of Renminbi in Hong Kong. In addition, 2014 was the fifth consecutive year that the Ministry of Finance of the Central Government had announced the issuance of Renminbi sovereign bonds in Hong Kong. The issuances totalled RMB28 billion and took place in May and November respectively, which fully demonstrated the support from the Central Government to consolidate Hong Kong's position as an international financial centre and offshore Renminbi business centre. Leveraging on the Shanghai-Hong Kong Stock Connect and the removal of the Renminbi conversion limit for Hong Kong residents, the Bank will continue to expand the Renminbi deposit base, launch diversified Renminbi-denominated investment products and strengthen the cross-border trade financing and Renminbi loan business; and expand the Renminbi fund size through flexibly utilising the Renminbi Qualified Foreign Institutional Investor investment quota.

Marking an important milestone of the Renminbi internationalisation, the trade between Hong Kong and the Mainland continued to develop swiftly under the Mainland and Hong Kong Closer Economic Partnership Arrangement ("CEPA") and a close partnership was secured thereon. The year 2014 marked the tenth anniversary of CEPA and over the years, the Central Government has implemented a number of policies in favour of Hong Kong's financial development. On 12 December 2014, the State Council approved the establishment of Guangdong's free trade zone. Functionally speaking, it focuses on cooperation among Guangdong, Hong Kong and Macau, and actively opens up the service sector to Hong Kong, providing sound conditions for implementing the CEPA framework and exploring a new era of modern and innovative financial services. Furthermore, the Ministry of Commerce and the Hong Kong Government entered into a new agreement under the CEPA framework, the Agreement between the Mainland and Hong Kong on Achieving Basic Liberalisation of Trade in Services in Guangdong, on 19 December 2014, pursuant to which with effect from March 2015, Guangdong will open up more than 95% of the service sector to Hong Kong, including the banking sector, so that the Hong Kong service sector can enjoy national treatment when engaging in economic and trade activities in Guangdong Province with the aim of building closer trade relationship between the Mainland and Hong Kong.

Chong Hing Bank has been a member of Yue Xiu Group since 14 February 2014. The acquisition of Chong Hing Bank represented the first acquisition by a Mainland state-owned enterprise of an offshore bank in China, and also the largest acquisition since the reform and opening up of Guangzhou. This is of special significance to the development of Yue Xiu Group. Currently, Yue Xiu Group operates three core businesses (namely, real estate, finance and transport infrastructure) with total assets exceeding RMB300 billion. Moving forward, banking industry will be a main focus of Yue Xiu Group's development strategies and Chong Hing Bank will be an important basis for Yue Xiu Group's operation. Strong business backing and solid financial strengths of Yue Xiu Group provide capital support for Chong Hing Bank's robust development. By fully capitalising on the opportunities arising from the CEPA framework and seizing the financial services opportunities in the Pearl River Delta Region and the abundant resources in Guangdong and Hong Kong, it is expected that the Bank will rapidly expand into the Mainland market on the back of its sound services. In only a few months after the acquisition, the Bank opened the Guangzhou Sub-branch and the Foshan Sub-branch. The expansion of business network well positioned the Bank for the opportunities arising from the free trade zone in Guangdong. The Bank will continue to accelerate the setup of the Mainland business network and comprehensively enhance the cross-border integrated financial services with the aim of transforming itself into a competitive financial institution based in Hong Kong with service coverage radiating to Guangzhou and other parts of the Mainland, as well as the Asia-Pacific region.

On behalf of the board of directors of the Bank, I would like to express my sincerest appreciation to my fellow directors for their valuable insight over the past year when discharging their duties. At the same time, I would like to thank the management and our staff members for their best efforts, passion and outstanding performance in delivering remarkable results for the Bank. Last but not least, on behalf of Chong Hing Bank, I would like to express my heartfelt gratitude to our shareholders, customers and business partners for their longstanding support. Looking ahead, Chong Hing Bank will continue to seize the opportunities arising from the integrated development between the Mainland and Hong Kong and the strong support of Yue Xiu Group to fully excel itself in adherence to the core values of Yue Xiu Group, "Excellence without Limits", with a view to achieving better returns for shareholders.

MANAGING DIRECTOR'S STATEMENT

Global Economy

In 2014, the global economy experienced constant changes. Monetary policies of major central banks around the world remained eased amid continuing low interest rate environment. However, economic growth across the globe was uneven with mixed monetary policies of different major economies. As the economy of the United States improved significantly, the Federal Reserve Board ("FRB") decided to end the bond purchase programme entirely in October. Despite the FRB announced at the rate-fixing meeting in December to keep the target range for the federal funds rate at 0% to 0.25%, the commitment to persist with low-interest rates for a long time has been removed in the announcement. The steady recovery of the US economy has provided the basis for interest rate hike. In the announcement of January 2015, the FRB decided to maintain the official federal funds rate unchanged at 0% to 0.25%, and will consider macroeconomic factors when determining its rate policy for the first time in two years. Contrarily, economic growth in the Eurozone and Japan was weak and likely to face deflation. The European Central Bank implemented a negative deposit rate for the first time in June and further reduced the deposit rate to -0.2% in September, whereas the Japanese Central Bank further expanded its quantitative and qualitative easing scale in October. Yen went down by 13.8% for the year.

Against such complicated and ever-changing international environment, economic growth in the Mainland slowed down. Along with optimising and innovation-driven economic structure, China's economy is heading towards an economic development of "new normal". In June 2014, the State Council expanded the policy to targetedly lower the required reserve ratio to support the economy. To further boost the economy, the People's Bank of China ("PBoC") also announced in November to cut the interest rates unevenly by reducing the one-year deposit and lending benchmark rates by 25 basis points and 40 basis points respectively. In addition, it raised the upper limit for the floating range of deposit rates; PBoC reduced the reserve requirement ratio from 20% to 19.5% for big banks in February 2015 and stated that it would continue to implement prudent monetary policy to maintain an appropriate level of tightness to promote stable economic growth.

Amid unstable external environment, economic performance in Hong Kong was relatively volatile in 2014. Gross domestic product in the third quarter continued to grow moderately by 2.7% in real terms compared with that of the same period in 2013. The labour market was also fairly steady with the unemployment rate of 3.3% recorded for the fourth quarter, close to full employment. The property market was booming. Driven by the factors of fine-tuning of the double stamp duty measure, active rolling out of new supply by developers and strong demand for property purchase, the property market picked up and recorded significant growth in both volume and amount of overall property registration for the year, among which private housing registration in the primary market rose by approximately 70% year-on-year. On the stock market front, the Hang Seng Index zigzagged by more than 4,200 points for the year. Boosted by the news of Shanghai-Hong Kong Stock Connect, the Hang Seng Index set its record high over the past six years in September and closed at around 23,600 on the last trading day, up by only 1.28% throughout the year.

Results Announcement and Profit Analysis

The results for the financial year of 2014 of the Bank, on a consolidated basis, are summarised below as the results included net gains on disposal of assets held for sale, wherever appropriate figures excluding the profit from the sale of Chong Hing Bank Centre (“excluding profit from CHBC”) are shown to reflect the performance of the core business lines:

Key Financial Data	2014 HK\$'000 (unless otherwise specified)	2013 HK\$'000 (unless otherwise specified)	Variance %
1. Net operating profit before impairment	864,024	660,430	+30.83
2. Profit attributable to equity owners excluding profit from CHBC	792,522	557,418	+42.18
3. Return on shareholders' equity excluding profit from CHBC	9.35%	7.40%	+26.35
4. Earnings per share excluding profit from CHBC	HK\$1.82	HK\$1.28	+42.18
5. Net interest income	1,371,747	1,014,205	+35.25
6. Net interest margin	1.58%	1.26%	+25.40
7. Net fee and commission income	224,771	209,933	+7.07
8. Net trading income	99,123	82,532	+20.10
9. Other operating income	134,114	135,335	-0.90
10. Operating expenses	965,731	781,575	+23.56
11. Cost-to-income ratio	52.78%	54.20%	-2.62
12. Impairment allowances on loans and advances - net amounts reversed (allowances)	32,344	(35,237)	-191.79
13. Total loans and advances to customers	56,925,420	45,120,214	+26.16
14. Impaired loan ratio	0.04%	0.04%	-
15. Provision coverage of impaired loans and advances	1,086.76%	1,089.83%	-0.28
16. Rescheduled loan ratio	0.01%	0.58%	-98.28
17. Total customer deposits	82,133,391	71,164,904	+15.41
18. Loan-to-deposit ratio	60.27%	57.25%	+5.28
19. Total assets	108,045,762	85,188,087	+26.83
20. Net asset value per share (excluding additional equity instruments and before the final dividend)	HK\$19.48	HK\$17.77	+9.62
21. Total capital ratio	15.94%	14.57%	+9.40
22. Tier 1 capital ratio	12.77%	10.82%	+18.02
23. Common Equity Tier 1 capital ratio	9.60%	10.82%	-11.28
24. Average liquidity ratio	40.38%	41.70%	-3.17

Analysis of Key Financial Data

For the financial year of 2014, on a consolidated basis, net operating profit before impairment amounted to HK\$864 million and showed an improvement of 31% year on year. Net interest income at HK\$1,372 million was 35% higher than last year as net interest margin widened 32 basis points year on year to 1.58% and total assets grew by 27% with advances to customers increasing by 26%, short-term funds and placements with banks increasing by 31% and investments in securities increasing by 19%. Net interest margin increased from 1.52% in the first half of 2014 to 1.64% in the second half of 2014. The increase in net interest margin was attributable to the growth in advances to customers and investments in debt securities.

Net fee and commission income rose 7% to HK\$225 million mainly because of the improvements in commission income arising from agency services in selling life insurance and wealth management products and fees from corporate lending and other banking services. Net trading income improved by 20% to HK\$99 million due to strong growth in foreign exchange income.

On the other fronts, operating expenses rose by 24% from last year partly due to the lease payment for Chong Hing Bank Centre, which was sold on 19 February 2014. Both staff costs and other operating expenses increased by around 20% from last year as the Bank is building the foundation for future growth and developing its business network in the Mainland. Net impairment allowances on loans and advances were net reversal of HK\$32 million this year, as compared to a net charge of HK\$35 million last year, after a total of HK\$93 million of impairment allowances was reversed after recoveries from various customers, and the increase in impairment allowances was mainly in collectively assessed impairment allowances.

Profit attributable to equity owners amounted to HK\$2,742 million and after excluding the profit from CHBC, amounted to HK\$793 million, an increase of 42% over that for the year before, translating into earnings of HK\$1.82 per share and return on shareholders' equity of 9.35%. Return on shareholders' equity took into consideration the coupon of the additional equity investments relevant for the period.

Total loans and advances to customers increased by 26% to HK\$56,925 million, and some of such growth was attributable to growth in cross border businesses in trade finance and corporate lending. The growth in trade finance was mainly related to more bills rediscounting made under letters of credit issued by credit strong counterparties in the Mainland. Advances to customers in the Mainland had increased but were still only 6% of total advances in December 2014 whereas 89% of total advances was made to customers in Hong Kong. With careful management on the exposure to credit risk, asset quality of loans and advances continued to be good with impaired loan ratio at 0.04%, provision coverage of impaired loans and advances at 1,086.76%, and rescheduled loan ratio at 0.01%. Total customer deposits increased by 15% to HK\$82,133 million. As loan growth exceeded deposit growth, loan-to-deposit ratio increased from 57.25% in December 2013 to 60.27% in December 2014.

Investments in debt securities issued by corporate entities rose by 84% year on year to HK\$12,169 million and such investments were mainly in senior debt securities guaranteed or issued by large corporate entities which have investment grade credit ratings or are very large corporations listed on the Stock Exchange of Hong Kong. Non-bank Mainland on-balance sheet exposures increased by 86% from last year through investments in debt securities and advances to customers in the Mainland and Hong Kong.

Total capital ratio increased by 9% from 14.57% in December 2013 to 15.94% in December 2014 after the issuance of additional tier 1 capital securities, the Tier 1 capital ratio was at 12.77% and the Common Equity Tier 1 capital ratio was at 9.60%.

Overall, the Bank's core business lines and financial health are strong and sound, asset quality good, impaired loan ratio low, provision coverage high, and capital adequacy and liquidity ratios well above the relevant statutory requirements.

Dividend

The board has considered that it is prudent to preserve the Bank's capital so as to better satisfy the new requirements under "Basel III". As such, the board has recommended paying the final cash dividend of HK\$0.41 per share for the financial year of 2014 (2013 final cash dividend: HK\$0.33 per share) to shareholders whose names appear in the Register of Members at the close of business on Friday, 29 May 2015. Total dividends for the financial year of 2014, including the interim cash dividend of HK\$0.19 per share paid on 26 September 2014 (2013 interim cash dividend: HK\$0.14 per share), amounted to HK\$0.60 per share (2013 total dividend: HK\$0.47 per share).

Issuance of Additional Tier 1 Capital Securities

To raise funds for additional tier 1 capital, the Bank settled and closed a US\$300 million additional tier 1 capital securities offering on 25 September 2014. These capital securities have no fixed maturity date but a fixed distribution rate of 6.5% per annum payable semi-annually for the first five years. The offering was well-received and drew a total orderbook of US\$4.8 billion, representing an oversubscription of 16 times. The Bank achieved an issue size of up to US\$300 million, which is the largest public capital market offering ever by the Bank. In line with the Bank's prudent and stable development approach, the proceeds from the offering will be used for its working capital and general corporate purposes. The capital securities have been listed on the Hong Kong Stock Exchange under Stock Code of 05804 on 26 September 2014.

Business Review

Corporate and Retail Banking

Loan and Deposit Business

In view of the market growth trends, the Bank aimed to expand the Renminbi deposit business and continued to broaden client base. With the roll out of the Shanghai-Hong Kong Stock Connect and the removal of the Renminbi conversion limit by Hong Kong residents, Renminbi deposits recorded tremendous growth with total balance significantly higher compared with that of the same period in 2013. On the deposit business front, benefiting from the slight increase in both the volume and price of property transaction, the Bank maintained steady growth in mortgage loan balance in 2014 as compared with that of the same period in 2013. In spite of the challenging operating environment and fierce competition for the retail loan business, the Bank continued to record growth in interest income through launching appropriate product promotion to attract new customers.

In respect of corporate loan business, the Bank provided financing for enterprises in Hong Kong and the Mainland by offering proactive and diversified banking services (including the provision of multi-currency deposit and loan financing programmes for enterprise customers). Coupled with the continued strategic adjustment of interest rates, the Bank aimed to expand its clientele and enhance profitability. In 2014, the Bank registered a steady increase in terms of total volume, total income and interest income of corporate loans, and net interest margin compared with those of the same period in 2013. Further to supporting the Hong Kong Government's Loan Guarantee Scheme for the small and medium-sized enterprises ("SME"), the Bank also actively participated in the "SME Financing Guarantee Scheme" of the Hong Kong Mortgage Corporation Limited to enlarge its SME client base.

The Bank will continue to allocate resources in a move to expand its SME clientele and strengthen its cross-border trade and capital expenditure financing business, while actively promoting wealth management services. In addition to providing assistance to the Mainland enterprises in expanding their business in Hong Kong, the Bank will also fully support its clients to expand their business in China. Maintaining a prudent lending approach and the proactive strategy to source quality customers locally, the Bank endeavours to generate better returns for its shareholders.

Card Business

In 2014, the Bank's credit card business recorded growth in the number of credit cards issued and merchant-billed turnover compared with those of the same period in 2013. Overall merchant-billed turnover registered an increase of approximately 20% on a year-on-year basis. In particular, the turnover for UnionPay cards alone attained a remarkable growth of more than 50% as compared with that in the same period in 2013.

In the first quarter of 2014, the Bank rolled out its well-received "Dual Card Program". Under the programme, customers were rewarded with fabulous treats upon successful application for UnionPay Dual Currency Credit Card together with any other Chong Hing credit card.

To maintain its strong business growth, the Bank will continue to develop its credit card and merchant acquiring businesses.

Wealth Management Business

On the investment business front, as the global economy gradually recovered with stronger investment appetite, the Bank recorded solid fund sales growth. In 2014, demand for equity fund increased. At the same time, income fund continued to be favoured in light of the continued low interest rate environment. The official roll out of the Shanghai-Hong Kong Stock Connect and the removal of the Renminbi conversion limit for Hong Kong residents further facilitated market development. It is expected that customers' demand for Renminbi related products will increase. The Bank will actively launch various Renminbi-denominated products to cater for the market needs. Moving forward, the investment business will be one of the key growth businesses of the Bank. By introducing more business partners, diversifying investment product mix and optimising the sales tools to enhance customer experience, coupled with a range of promotion campaigns to expand client base, the Bank's retail investment business and private banking business will grow steadily.

Asset Management Business

In line with the development of the Bank's Renminbi business, the investment quota amounting to RMB1 billion approved for Renminbi Qualified Foreign Institutional Investor ("RQFII") in January 2014 has been fully utilised as the Bank's equity fund for investing in Renminbi bond assets to improve interest rate spread. Furthermore, the Bank applied for and was approved of an additional investment quota of RMB300 million in September 2014, which was the last investment quota approved prior to the announcement of the total quota for RQFII in 2014.

While actively capturing the RQFII investment quota, the Bank also expanded into markets that are allowed to participate in dealing. In January 2015, the Bank was approved by PBoC to enter the inter-bank bond market. In addition to further improving the liquidity and increasing the rate of return on treasury portion, it also facilitated the development of the Bank's Renminbi business. Moreover, the mechanism for RQFII special accounts has also been established. Looking ahead, the quota will be utilised flexibly between equity fund and clients' fund according to demand. However, the Bank has to continue its focus on expanding the scale of equity fund in the near term.

Mainland Operations

In a short period of time, the Bank has expanded its business network in China. Its Guangzhou Sub-branch of the Shantou Branch was opened on 30 October 2014 and has gained support from various parties since its opening with very promising deposit figures; whereas its Foshan Sub-branch was also officially opened on 28 January 2015.

On the Mainland operations front, the Bank was approved an additional RQFII quota in 2014 and will continue to strengthen the synergies from the Shanghai-Hong Kong Stock Connect investment. On the cross-border Renminbi business front, as a key business in 2015, the Bank will actively work with its banking peers, cater for its customers' needs for cross-border loans and roll out more cross-border business related products.

Treasury Activities

Treasury activities mainly comprised money market operations, foreign exchange services, investments in debt securities and the other interbank market or capital market business. Meanwhile, it managed the funding and liquidity positions of the Bank, and the market risks associated with banking business. Since October 2014, the Bank has been designated as a contributing bank of the Hong Kong Interbank Offered Rate.

Revenue from foreign currency business mainly came from the foreign exchange trading and forward foreign exchange contract transactions provided to customers. The off-balance sheet derivatives can only be used to hedge against the positions of the customers and the Bank. However, the Bank planned to prudently expand its treasury business in order to enhance the rate of return on total asset portfolio. Currently, the Bank has set up a special trading platform targeting at corporate clients and enhanced its systems to provide quality and diversified services. At the same time, the Bank increased its headcount for such staff as dealers and other professionals to manage the excess liquidity and develop structured products respectively.

In the area of Renminbi business, the Bank continued to offer a comprehensive range of treasury products and services in Renminbi, covering both personal and corporate banking businesses.

Securities Business

In 2014, the global investment market was volatile. Hong Kong stocks were corrected despite a number of uncertainties. Benefiting from the official roll out of the Shanghai-Hong Kong Stock Connect in November 2014 and the subsequent relaxation of the measures of monetary base in China, trading in the Hong Kong stock market also gradually became active. Chong Hing Securities Limited (“Chong Hing Securities”), a wholly-owned subsidiary of the Bank, continued to enhance its operating efficiency and quality of service and its overall business grew steadily. Compared with the same period in 2013, the volume and the amount of transaction completed via mobile securities trading service grew satisfactorily by more than 15% and 10% respectively. The results were encouraging. In addition, Chong Hing Securities is one of the first local securities firms that have passed the system testing and provided the A share trading service via the Shanghai Stock Exchange Securities on the day of rolling out of the Shanghai-Hong Kong Stock Connect on 17 November 2014. Looking forward, as Hong Kong further integrates with the Mainland market, it is expected that the turnover of the Hong Kong stock market will continue to increase. The Bank is prudently optimistic about the prospects of its securities business.

Insurance Business

Chong Hing Insurance Company Limited (“Chong Hing Insurance”), a wholly-owned subsidiary of the Bank, recorded substantial growth in profit before tax in 2014 compared with that of the same period in 2013. Leveraging on the strong business network of the Group, Chong Hing Insurance will seek further growth by actively expanding its insurance business and offering a more comprehensive range of quality services to customers.

Integration with Yue Xiu Group

The Bank has been a member of Yue Xiu Group since 14 February 2014. Guangzhou Yue Xiu Holdings Limited (“Yue Xiu Group”), a wholly state-owned enterprise under the supervision of the State-owned Assets Supervision and Administration Commission of the Guangzhou Municipal People’s Government, is the largest state-owned enterprise group in Guangzhou in terms of asset size with leading performance in overall economic efficiency. In this connection, with the support from Yue Xiu Group as the majority shareholder controller of the Bank and leveraging on the powerful strengths and abundant resources of the Guangzhou Municipal People’s Government and the Yue Xiu Group, the Bank actively seized the opportunities arising from Yue Xiu Group and extended its potential to explore growth in the Mainland business in 2014. On 29 May, government officials of Guangdong Province visited the Bank to look into the development between Yue Xiu Group and the Bank. The delegation stressed that the Bank should actively learn from the successful experiences of its peers and fully capitalise on its position as the bridge connecting Hong Kong and the Mainland, which is conducive to facilitating the financial cooperation between Hong Kong and Guangdong. From 20 June to 22 June, the Bank together with a number of Yue Xiu Group’s other financial subsidiaries participated in the 3rd China (Guangzhou) International Finance Expo held in Guangzhou. While displaying the Bank’s well-diversified cross-border banking services, the Bank made use of this opportunity to interact with other financial institutions and the public at large in creating business development opportunities. Furthermore, the Guangzhou Sub-branch of the Shantou Branch was officially opened at Guangzhou International Finance Center on 30 October. As the first business entity since its accession to Yue Xiu Group, the opening of the Guangzhou Sub-branch marked the beginning of the Bank’s journey from Guangzhou, where the headquarters of Yue Xiu Group are situated, and the brand new page of its Mainland business. At the same time, the “Chong Hing” Forum on Financial Cooperation between Guangdong, Hong Kong and Macau was jointly held by the Bank on the same day to exchange views on the financial cooperation between Guangdong and Hong Kong from a multi-angle and multi-level perspective with the leaders from regulatory authorities and guests from different sectors. On 28 January 2015, the Foshan Sub-branch was also officially opened, which further realised the Bank’s business network expansion in Guangdong Province and the vision of accelerating its growth.

Looking ahead, as a longstanding bank in Hong Kong, an international financial centre, the Bank will, leveraging on its superior management culture and extensive experience, continue to implement pilot programmes and seize the opportunities for financial cooperation between Guangdong and Hong Kong. Coupled with the inherit strengths of Yue Xiu Group, it will take off from a new starting point, Guangzhou, and vigorously expand into the Mainland market by fully capitalising on the geographical advantage, shareholders’ backing and professional services with the aim of accelerating the business expansion and business network in China.

New Logo Implementation

To reflect the new ownership structure of the Bank, the new logo  創興銀行 Chong Hing Bank, which incorporates the Yue Xiu Group logo (), has been fully launched by the Bank on 29 December 2014. The implementation of the new logo represents a new milestone after the Bank's accession to Yue Xiu Group since 14 February 2014.

The Yue Xiu logo consists of the initial “Y” representing Yue Xiu Group and the initial “E” representing the word “Excellent”, tactfully morphed into a roc soaring into the sky. The “Wings of the Roc” are composed of three velocity lines to strengthen the dynamics and rhythm of the logo which showcases the values of Yue Xiu Group “Excellence Without Limits”. The Bank's new logo aligns and extends the theme of the Yue Xiu brand in stressing both transcendence and pragmatism, while maintaining the brand value of the Bank established for more than six decades. The Bank will continue to provide quality and convenient banking services to its customers.

All branch business network, website, Internet banking, mobile banking, various promotional materials and all corporate items, etc. across the Bank have been changed with the new logo since 29 December 2014. The Bank has launched an advertisement featuring the corporate image of “New Logo • New Power”. With the full strong backing from Yue Xiu Group, Chong Hing Bank will continue to inherit its longstanding quality brand and comprehensively enhance its cross-border integrated financial services to provide customers with professional financial service solutions.

Sincere Acknowledgements

2014 was a challenging year. The Bank, upon its accession to Yue Xiu Group, has gained strong support therefrom and become an integral part of the growth strategies of Yue Xiu Group. Taking valuable insight from my fellow directors to execute Yue Xiu Group's business strategies, the Bank's principle of achieving sound corporate governance continued to be followed through and all lines of business were ensured to operate under effective risk management. I would like to express my sincerest appreciation to my fellow directors for their relentless support. Last but not least, I strongly understand the important role our management and staff members take in the course of driving the Bank's development and their concerted efforts and united strength in achieving the Bank's objective of sustainable development and provision of quality financial services. On behalf of the board of directors, I would like to express my heartfelt gratitude to each of our staff members for their contributions to the Bank, and also to our shareholders, customers and business partners for their continued trust and support to the Bank.

REVIEW OF FINANCIAL REPORT

This financial report has been reviewed by the Bank's Audit Committee.

By Order of the Board

Zhang Zhaoxing

Chairman

26 February 2015

As of the date of this announcement:

- the three Executive Directors of the Bank are Mrs Leung Ko May Yee Margaret (Deputy Chairman and Managing Director), Mr Lau Wai Man (Chief Executive Officer) and Mr Liu Tit Shing Don (Deputy Chief Executive Officer);
- the five Non-executive Directors are Mr Zhang Zhaoxing (Chairman), Mr Zhu Chunxiu, Mr Wang Shuhui, Mr Li Feng and Mr Chow Cheuk Yu Alfred; and
- the four Independent Non-executive Directors are Mr Chiranakhorn Wanchai, Mr Cheng Yuk Wo, Mr Ma Chiu Cheung Andrew and Mr Lee Ka Lun.